

Fourth Quarter 2013 Equity Trading Accountability Report

General Comments

Returns in the fourth quarter of 2013 were fantastic. However, many investors are feeling anxiety about last year's stock market gains, and are still concerned about the risks.

Four ways of looking at the market are economically, underlying earnings, valuation, and trends. The economic situation looks very good, with an inflection point reached in the last year or two. World economies are growing, economic surprises are positive and leading indicators are suggesting strength. Earnings growth exists, but is not particularly strong. Valuation is reasonable, but stocks are much more expensive than they were in the last few years. The trend or flow of money is probably the strongest indicator that investors are actively increasing exposure to global stock markets.

Will the trend of stock growth continue or are prices are too stretched, and is a pullback around the corner?



Stocks vs. Bonds

Equities are outperforming fixed income, and investing outside of Canada has had the most success. The U.S. market has been very strong and has been accelerating its upward trajectory. The Canadian market was very flat between 2011 and 2013, but late last year finally showed the beginnings of strength. Fixed income prices peaked in the spring and are generally stable, but weak. Economic strength, reasonable earnings growth, and very low interest rates are likely to keep the current trend of stock market growth in place. Although valuations are stretched and investor sentiment for equities is extremely positive, there does not seem to be a sufficient catalyst in place to reverse the existing positive trend ... yet. Equities should be owned in larger proportion while fixed income levels owned should remain low.

Developed vs. Emerging Markets

Returns between investing in developed markets compared to emerging markets have decoupled. Investors in developed countries made close to 15% last year, while emerging market investors averaged a loss close to 10%. Economic indicators show improvement in developed countries while they tend to suggest mild weakness in emerging ones. Monetary policy is very stimulative with a steep yield curve in most developed nations while emerging countries tend to have a flatter yield curve and have been more focused on slowing inflation than growing. Own developed markets rather than emerging ones.

Commodities and Canadian Currency Falling

The prices for most commodities have weakened over the last three years. This trend does not appear to be changing, but rather currencies for countries that are large exporters of commodities seem to also be weakening. Portfolios should have less commodity exposure than typical and invest more in countries and currencies that are not commodity based.

Leadership in Health and Technology Stocks

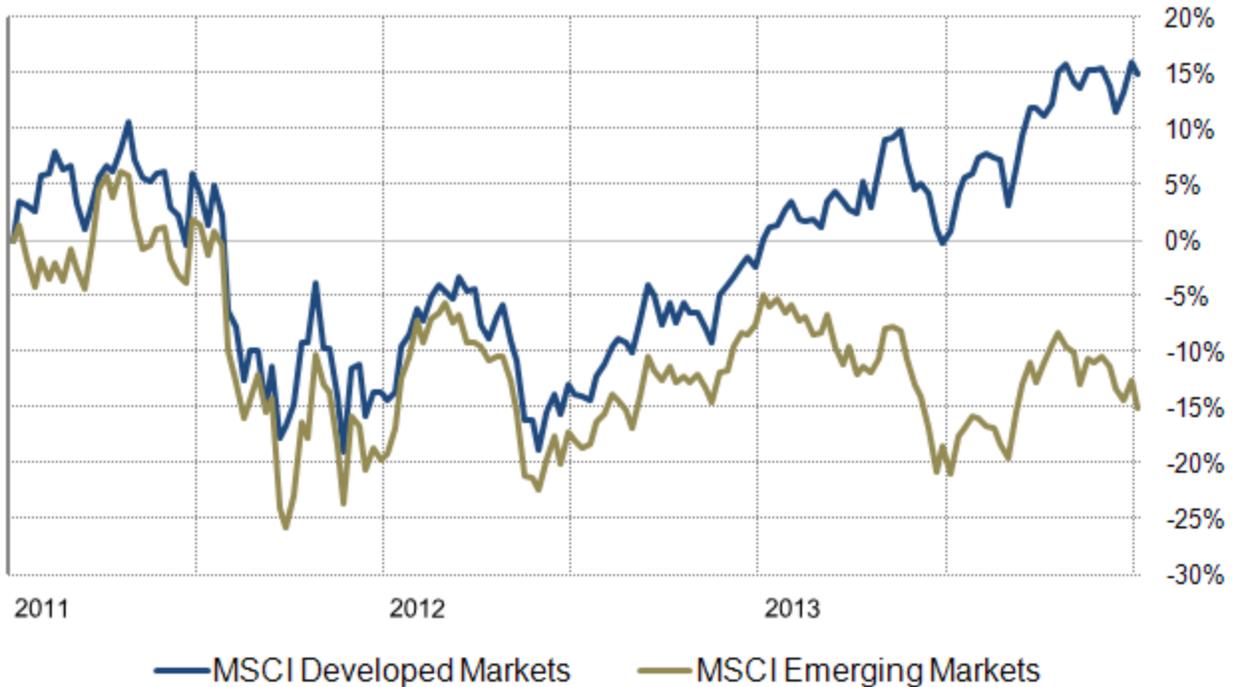
Health Care and Consumer Discretionary stocks have been the best performers over the last three years. Utility, Energy and Materials sectors have been the weakest. Leadership in the consumer sector may be finally giving way to strength in technology and industrial stocks. This would be consistent with moving forward in the business cycle from early recovery stocks to more economically sensitive ones. Because of weak flows to both very defensive and very aggressive sectors, it seems that the economy is still in the middle of a growth cycle.

Stocks vs Bonds



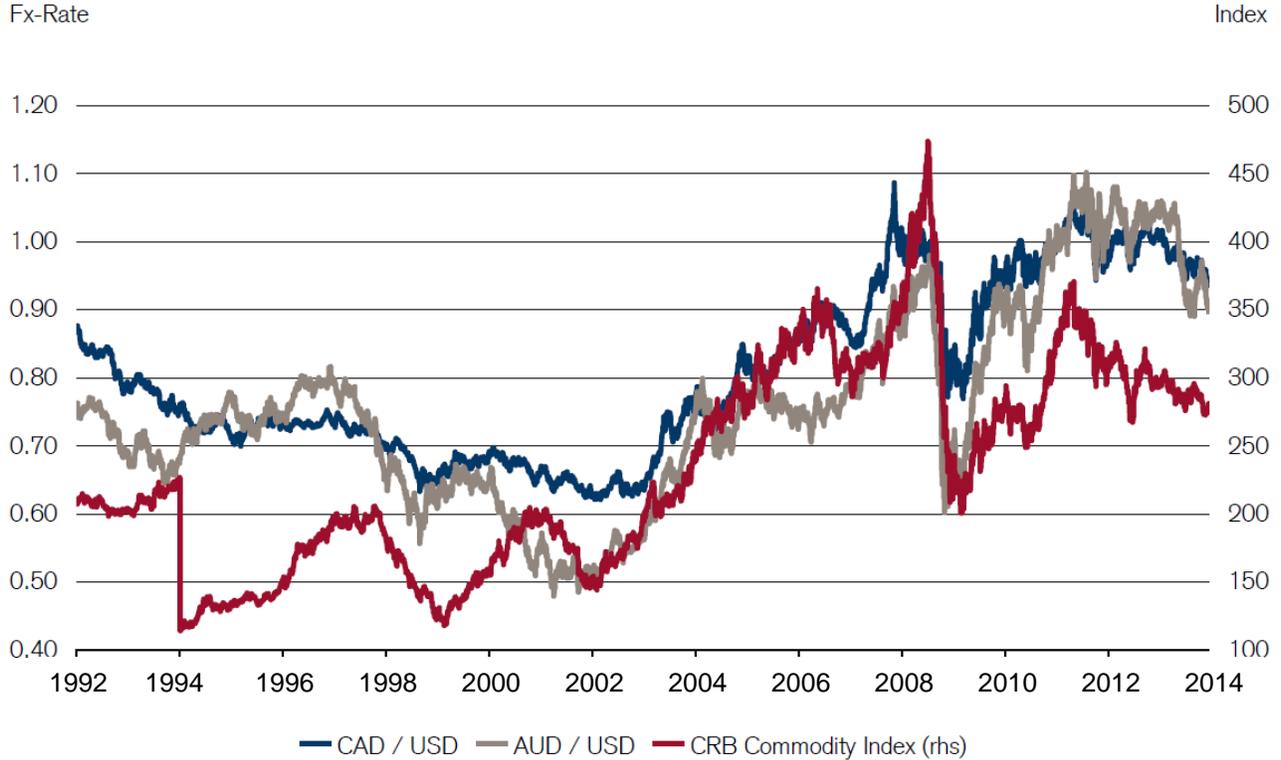
Source: Thomson One

Developed vs Emerging Markets



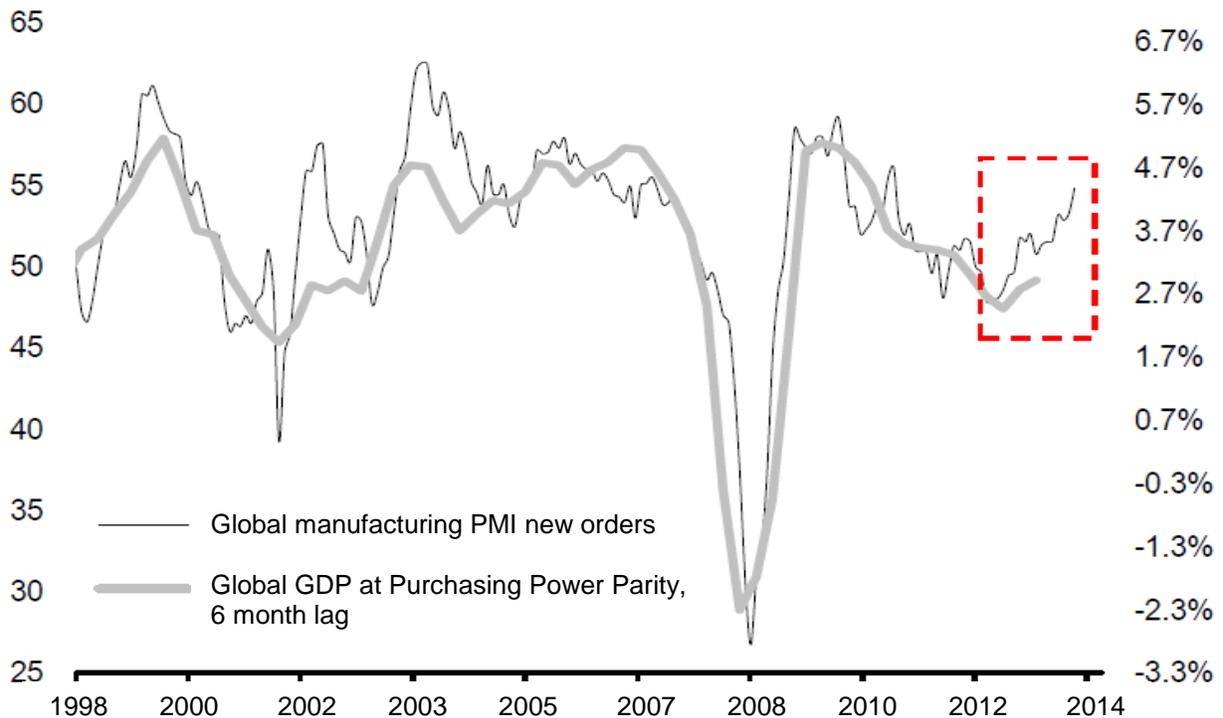
Source: Thomson One

Canadian and Australian Dollar vs. US Dollar and CRB Commodity Index



Source: Thomson Reuters, Credit Suisse Research

Global GDP Accelerating



Source: Thomson Reuters, Credit Suisse Research

Summary of Fourth Quarter 2013 Equity Trading Activity

Security		9/30/2013	Buys		Sells		12/31/2013	4th Quarter	Total
	Curr	Value	Date	Price	Date	Price	Value	Dividends	Return
Top Performers									
Open Text Corp		76.97	11/1/2013	76.25			97.71	0.300	27%
Waddell & Reed Fncl Inc Cl A	U	51.48					65.12	0.280	27%
Black Diamond Grp Ltd		24.62					30.00	0.215	23%
Constellation Sftwr Inc		181.61	10/23/2013	192.00			224.99	1.000	21%
Valeant Pharmaceuticals		107.40					124.62		16%
St Jude Med Inc	U	53.64					61.95	0.250	16%
Biogen Idec Inc	U	240.76	10/17/2013	245.00			279.57		16%
			11/14/2013	240.20					
Apple Inc	U	476.75	10/30/2013	527.50			561.02	3.050	15%
			12/18/2013	550.00					
Platinum Group Metals Ltd		1.04			10/22/2013	1.20			15%
Priceline.Com Inc		1,010.95					1,162.40		15%
Core Holdings									
Ishares MSCI Germany ETF	U	27.81					31.79		14%
Mylan Inc	U	38.17					43.40		14%
TJX Co		56.64					63.73	0.145	13%
Colgate Palmolive Co	U	59.30					65.21	0.340	11%
North West Co Inc		23.57					25.74	0.280	10%
Gentex Corp	U		11/15/2013	30.00			32.98		10%
Celgene Corp	U	154.14					168.97		10%
Rogers Communications B		44.29					48.07	0.435	10%
Ishares MSCI Belgium ETF	U	15.39					16.39	0.384	9%
Shaw Communications B		23.98					25.85	0.255	9%
Great West Lifeco Inc		30.01	12/6/2013	32.36			32.75	0.308	8%
Bankers Petroleum			10/10/2013	4.08			4.37		7%
Labrador Iron Ore Royalty		31.11			10/21/2013	30.03	34.36	1.000	7%
BCE Inc		44.02	10/10/2013	44.83			46.00	0.583	5%
National Bank of Canada		85.07	12/31/2013	88.18			88.39	0.920	5%
Tim Hortons		59.74					61.99	0.260	4%
Royal Bank			10/21/2013	69.80			71.41		3%
			12/6/2013	69.19					
Ross Stores Inc	U	72.80					74.93	0.170	3%
Ishares MSCI Japan ETF	U	11.92					12.13	0.088	2%
Walton Westphalia		5.00					5.00		0%
Saputo Inc		48.87	10/10/2013	50.90			48.39	0.230	-1%
Buckle Inc	U	54.05					52.56	0.200	-2%
Bombardier Inc Cl B		4.79					4.61	0.025	-3%
Losing Positions									
Corrections Corp of America	U		10/17/2013	37.25			32.07	0.480	-10%
			11/11/2013	35.47					
Green Mountain Coffee Roaster	U	75.33			10/9/2013	67.65			-13%
					10/17/2013	63.15			
TAG Oil			11/7/2013	4.40	11/29/2013	3.44			-22%

Source: Richardson GMP as at December 31, 2013

Managed Account Equity Analysis

Analysis of Fourth Quarter Trading Activity

1. **It was another great quarter for stock picking.** The average gain was just over 8%, beating the Canadian market, but less than the average U.S. market gains if currency is also considered. One-quarter of positions made more than 15% in the quarter.
2. **Another positive was that profits were not cut short by selling.** Buying transactions occurred five times as often as selling. In mid-December, U.S. bond purchase tapering was authorized which previously seemed to be something investors were cautious about. Even that event was met with optimism.
3. **The three losses were disappointing. Here's what I learned:**
 - a. **Green Mountain Coffee Roaster was one of the largest positions** in portfolios for much of 2013, having gained 50% from initial purchase in January. The stock became heavily shorted prior to 3rd quarter earnings release. With an emerging trend of declining margins and coffee prices, investors were increasingly betting that the company would have a bad quarter. The stock price fell below stop loss levels and was eliminated. Subsequently, Green Mountain Coffee did beat earnings estimates and the stock rebounded, but remains suspiciously well below its highs. My quantitative models reduced the ranking of the stock, and so it is no longer owned.

I would have been better off holding it rather than selling. It is important to set stop loss levels and unfortunately this stock fell through them. This is a trade I am willing to make again in order to protect profits when it appears trends are changing. **I need to continue to refine determining when leadership is ending. This is essential in helping determine the end of the bull market.**
 - b. **Corrections Corp is a company that operates prisons in the United States,** with an attractive 5.8% dividend. The stock did not break my stop loss levels and continues to be ranked very highly on my U.S. Income Model. I am still cautious, but am holding for now.
 - c. **TAG Oil was disappointing because it was acquired as an oversubscribed new issue that I expected the shares to jump after the deal settled.** Unfortunately during the marketing period, they downgraded production volumes and earnings estimates, knocking the stock down. This is not how you raise money. We exited at a loss.
4. **The large unrealized gains and the larger stop loss space on most stocks are my biggest worries.** One of the keys to success last year was not selling stocks during short-term dips, but instead continuing to accumulate leaders and letting profits run. At current levels, many stocks are trading well above their trend line, and can fall a fair amount without actually breaking their current upward trend. **The challenge is going to be reducing the effect of potentially larger corrections while not exiting leading companies.**

Market Quilt

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TSX Composite	13%	-3%	30%	6%	-14%	-14%	24%	12%	22%	15%	7%	-35%	31%	14%	-11%	4%	10%
S&P 500	31%	27%	20%	-10%	-13%	-23%	26%	9%	3%	14%	4%	-38%	23%	13%	0%	13%	30%
NASDAQ	22%	40%	86%	-39%	-21%	-32%	50%	9%	1%	10%	10%	-41%	44%	17%	-2%	16%	38%
US Small Cap	21%	-3%	20%	-4%	1%	-22%	45%	17%	3%	17%	-3%	-35%	25%	25%	-5%	15%	37%
Europe	37%	32%	47%	-3%	-20%	-37%	16%	7%	21%	15%	7%	-44%	21%	-6%	-17%	14%	18%
Japan	-21%	-9%	37%	-27%	-24%	-19%	24%	8%	40%	7%	-11%	-42%	19%	-3%	-17%	23%	57%
EAFE	0%	18%	25%	-15%	-23%	-18%	35%	18%	11%	23%	9%	-45%	28%	5%	-15%	14%	19%
Emerging	-13%	-28%	64%	-32%	-5%	-8%	52%	22%	30%	29%	36%	-54%	74%	16%	-20%	15%	-5%
Canadian Short Bonds	4%	6%	4%	7%	9%	4%	4%	4%	2%	4%	5%	8%	2%	2%	3%	1%	1%
Canadian Long Bonds	19%	12%	-6%	13%	5%	11%	8%	10%	15%	3%	5%	12%	-5%	12%	20%	5%	-9%
US Short Bonds	7%	7%	3%	8%	8%	6%	2%	1%	2%	4%	7%	7%	1%	2%	2%	0%	0%
US Long Bonds	15%	14%	-9%	20%	4%	17%	2%	8%	6%	2%	10%	25%	-13%	10%	29%	4%	-13%
Gold	-21%	0%	0%	-5%	2%	25%	19%	6%	18%	23%	31%	6%	24%	30%	10%	7%	-28%

Source: Richardson GMP. All returns are in local currency as of December 31, 2013.

Happy New Year

We would like to thank clients for the trust they have demonstrated in allowing us to be involved in understanding their personal and financial goals. We appreciate the ability to work with them in developing their financial plan, and are grateful for the discretion to make timely decisions with their investments in order to achieve the goals in the financial plan.

I hope you have a successful, rewarding, and fun 2014.

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