

Second Quarter 2013 Equity Trading Accountability Report

General Comments

**Canadian investors lost money on both the domestic stock market and bond market so far in 2013.** The trend towards investment in developed countries around the world, particularly in the United States, has accelerated. Investors needing safety in their portfolio face significant challenges: interest rates at low levels that are below inflation; and potential short-term losses as bond prices fall when interest rates rise.

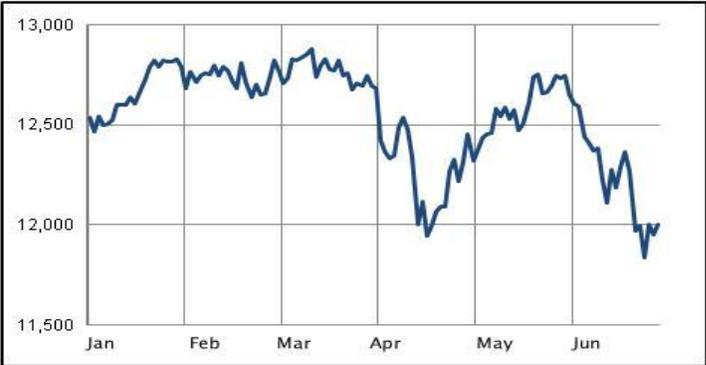
**The solution of taking more risk through corporate bonds and global equities seems uncertain.** Examination of the market indexes during April and June of the past quarter in particular show significant moves one direction followed by quick movements in the other direction. Nearly every correction since 2008 has had investors worried about another massive drop coming out of nowhere.



Can investors adapt to lower interest rates by moving to geographies and sectors that are making money for them? Will they develop better risk management to help avoid significant crashes or can this even be done? Or will they be satisfied with a risk-free return of nothing?

The Equity Markets

S&P/TSX Index (Canada)



Source: Thomson ONE

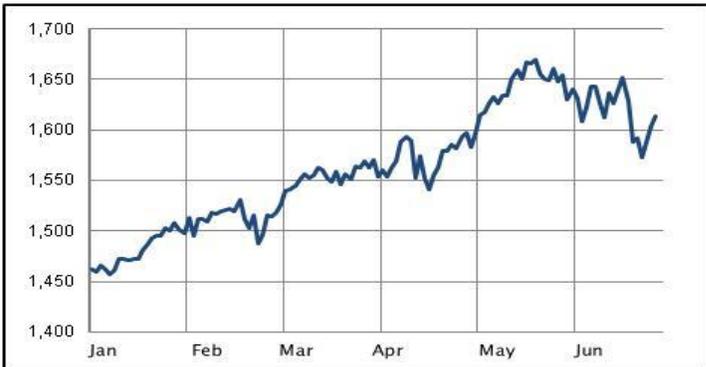
**Canadian results display a vague resemblance to movements in the U.S. market,** but seem to magnify downward losses while barely participating in periods of growth.

**This may be a global shift** from the building of infrastructure we experienced over the last decade requiring raw materials, to a focus on the global consumer this decade.

The U.S. offers several advantages to global investors right now:

- Its economy is primarily internal, with less reliance on imports and exports.
- There is large representation of global health and consumer stocks in the U.S. index, which are the best performing sectors.
- The U.S. capital markets are the largest and most developed in the world, now with less competition from an uncertain European situation.

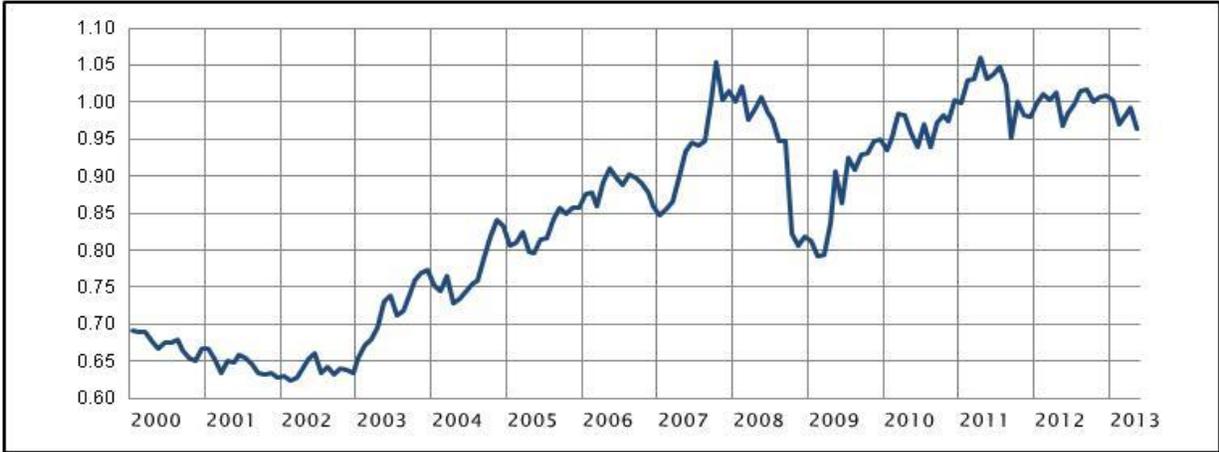
S&P 500 (United States)



Source: Thomson ONE

Currency

Canadian Dollar / U.S. Dollar Exchange Rate

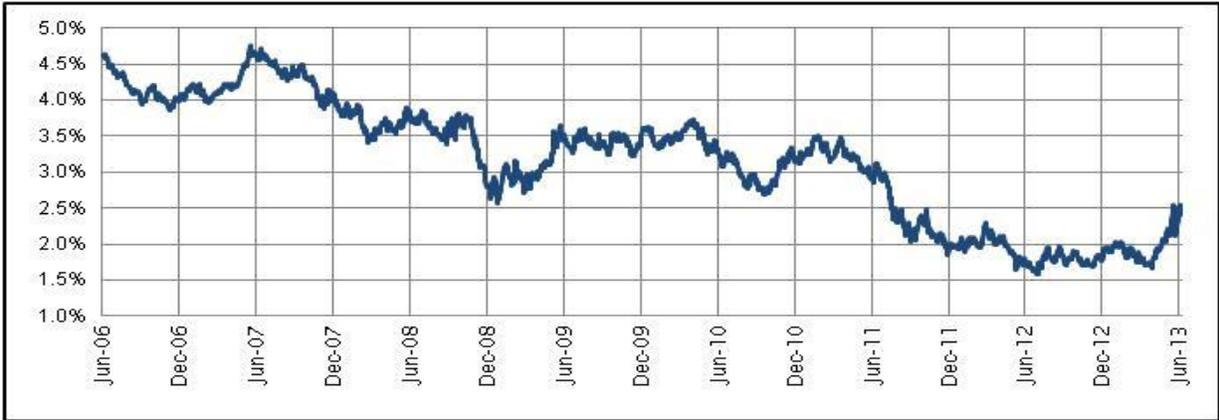


Source: Thomson ONE

Canadians have enjoyed a gain in their currency of over 80% compared to the U.S. dollar from 2002 to 2008. This strength ended with the collapse of Lehman Brothers and the subsequent demand for safety. The Canadian dollar did make its way back to par with the U.S. dollar between 2008 and 2011, but the trend to sell Canadian dollars in favour of U.S. dollars is in the beginning stages of being established. Canadians seem to be selling Canadian dollars to buy goods, vacations, and real estate in the United States. This is another reason to increase exposure to global securities.

Challenges Investing in Fixed Income

Canadian 10-Year Government Bond Yield



Source: Thomson ONE

Taking no credit risk by owning government bonds and insured products has paid investors less than inflation for almost two years. But because interest rates still declined, investors received small additional capital gains. The increase in yields during May of 2013 have produced a fixed income loss for Canadian bond indexes. This may be a foreshadowing of what may happen to fixed income investments over the next few years. One solution to this problem is to own corporate bonds which are less sensitive to interest rate movements and more sensitive to improvements in the economy. Another solution is to reduce fixed income levels in favour of greater exposure to equities. Unfortunately, both of these strategies involve some risks. Investors can also shorten the average term to maturity of their fixed income portfolios while interest rates rise. This may preserve capital, but may not beat inflation.

Summary of First Quarter 2013 Equity Trading Activity

Security	Curr	3/31/2013 Value	Buy Date	Buy Price	Sell Date	Sell Price	6/30/2013 Value	2nd Quarter Dividends	Total Return
<b>Best Core Holdings</b>									
Green Mountain Coffee Roaster	U	56.76	4/11/2013	58.16			75.22		31%
Priceline.com	U	688.16					826.67		20%
Open Text		60.04					71.90	0.300	20%
Buckle	U	46.65					52.02	0.200	12%
Valeant Pharmaceuticals		76.26	6/7/2013	87.80			90.68		11%
Mylan	U	28.96	4/12/2013	28.79			31.03		7%
Black Diamond Group		21.05					22.35	0.210	7%
<b>Positive Trades</b>									
Federated Investors	U	23.67			6/24/2013	26.00		0.240	10%
Focus Media	U		4/29/2013	27.28	5/29/2013	27.45			1%
<b>Market Direction Trades</b>									
Horizons S&P/TSX60 Bear ETF			6/5/2013	8.07	6/13/2013	8.27			2%
Horizons S&P 500 Bull ETF		17.97			4/12/2013	18.28			2%
Horizons Volatility S&P500 ETF			6/20/2013	9.62			7.85		-14%
			6/28/2013	7.85					
<b>Average Core Holdings</b>									
Shaw Communications		25.16	5/22/2013	23.99			25.24	0.255	4%
Tim Hortons		55.21	5/14/2013	56.10			56.88	0.260	3%
Ross Stores	U	60.62	5/28/2013	66.22			64.81	0.435	3%
North West Co		23.19					23.50	0.280	3%
St Jude Med Inc	U		5/14/2013	46.07			45.63	0.250	2%
			6/7/2013	43.80					
TJX Company	U	46.75	5/14/2013	51.53			50.06	0.101	2%
Celgene	U	115.91	4/30/2013	117.75			116.98		1%
Ishares MSCI Germany Index	U	24.47					24.70		1%
Walton Westphalia		5.00					5.00		0%
Waddell & Reed Financial	U	43.78					43.50	0.280	0%
Bombardier Inc Cl B			5/28/2013	4.74			4.68		-1%
Ishares MSCI Belgium Index	U	14.18					13.62		-4%
Ishares MSCI Japan Index	U		5/14/2013	11.98			11.22		-4%
			6/18/2013	11.38					
Saputo		51.58	5/3/2013	51.87			48.34	0.210	-6%
<b>Stocks on Watch List</b>									
Apple	U		4/30/2013	443.65	6/20/2013	420.11	396.53	3.050	-7%
Labrador Iron Ore Royalty		33.93					29.54	0.375	-12%
<b>Affected by Telecom Competition</b>									
BCE		47.46	4/29/2013	46.75			43.12	0.583	-7%
Rogers Communications			5/14/2013	49.90			41.20	0.435	-14%
			6/18/2013	46.49					
<b>Still Acquiring Shares</b>									
Platinum Group Metals			5/22/2013	1.07			0.92		-14%
<b>Sold on Discipline Violation</b>									
Novo Nordisk ADR	U	161.50			6/21/2013	154.57			-4%
Parkland Fuel		17.10			4/24/2013	16.00		0.087	-6%
Alamos Gold		13.95			4/10/2013	12.63			-9%
Ishares Dow US Home Cnstr Idx	U	23.89			4/18/2013	21.8045		0.004	-9%
Chorus Aviation		3.93			5/14/2013	2.37			-40%

Source: Richardson GMP as at June 30, 2013

## Managed Account Equity Analysis

### Analysis of Quarterly Trading

1. **Five of thirty-six positions owned over the quarter made more than ten percent.** Four of these positions are among the largest six positions owned – Green Mountain Coffee Roaster, Priceline.com, Open Text, and Valeant Pharmaceuticals. Several of these positions were also top performers in the prior quarter as well. Buying more of winning positions is rewarding.
2. **Four of five “trading positions” resulted in profit.** Two of these were directional exchange traded funds, one capturing a little more of the market gain and the other protecting a bit from a market decline. The other two were short-term stock trades. The loss is discussed in point 6.
3. **Many positions resulted in a +/- 4% return for the quarter.** A portfolio should be diversified in order to reduce the level of fluctuation in the portfolio. Two of the positions are among the top holdings and were top performers last quarter – Tim Hortons and Celgene. More of both was acquired in the quarter as the pause in stock performance was seen as an opportunity.
4. **Five securities were sold on discipline violation.** This means their rank on my quantitative model deteriorated and/or the stock broke a significant support level on its price chart. The five stocks listed are exactly the five stocks that were on the watch list last quarter. One of them, Chorus Aviation had a significant downward price gap which caused a large loss. There was no opportunity to sell the security at a small loss because its price simply opened significantly lower after the company announced they would be cutting their distribution.

**I am happy that the number of securities sold at a loss was reduced from the prior quarter.**

Could I improve results by anticipating stock violation? When I look at the best performers, there were times that they became close to discipline violation as well and fortunately were not sold. When examining the sold securities further, I did protect from a further drop in the short term, but many have rebounded above the selling price. This provides the opposite conclusion – perhaps to be a little more tolerant of volatility. During the first quarter of 2013 and earlier, sales of Barrick Gold and all other gold positions saved portfolios from disastrous second quarter performance.

**There will always be losing trades in a portfolio.** Selling a security I thought was going to make money that doesn't, is hard. But it is even harder to keep losing money when fundamentals or trading behaviour becomes poor. I have found it better to be less tolerant of losing positions. The mark of an investment professional is being able sell losers and move forward.

5. **Two positions were affected by the news of wireless competition entering Canada from Verizon: BCE and Rogers Communications.** I have concluded that I will continue to hold these securities. The result of new competition is unclear. This is not the first time additional competition has moved into the wireless space. Several years ago, when Wind Mobile was introduced, telecom stocks immediately tumbled 15% or so. Four months later they started to recover and Wind never made any meaningful negative impact on the incumbents. BCE and Rogers are in great financial positions and pay large dividends. They are still indicated to be held by my quantitative model.
6. **S&P 500 Volatility notes were acquired after Bernanke's speech in June regarding the process for the government reducing bond purchases caused a decisive downward break in the previous upward trend.** These were not acquired at a good price – I chased them while panic continued to push markets down while hoping to get them at a better price. These notes provide a gain when the market falls – an effective hedge against disaster without having to sell core positions. After a clear and unmistakable trend break to the downside on June 21, the markets started to recover days later. This position resulted in a loss and was closed out in early July. I may have been too worried about a significant market correction. I have determined that I need to consult with each client as to their desire for me to hedge the portfolio when I believe downside risk occurs. Protecting from losses when markets rise unfortunately reduces participation in that rise.

## Market Results

**Investors in the Canadian stock market lost money so far in 2013** and may have lost a significant sum if they were focused on the Canadian junior or resource markets.

**U.S. indexes continued their dominance** from the prior year, and were boosted an extra 6% or so from currency appreciation relative to the Canadian Dollar.

**Global markets** are starting to be a much more important part to a Canadian investor's portfolio.

Index	Country	First 6 Months	
		2013	2012
S&P/TSX Composite Total Return Index	Canada	-0.9%	7.2%
S&P/TSX Venture Composite Index	Canada	-27.8%	-17.7%
S&P 500 Total Return Index	U.S.	19.5%	13.0%
Nasdaq Composite Index	U.S.	18.4%	12.9%
Euro Stoxx 50 Index	Europe	3.1%	12.6%
Nikkei 225 Index	Japan	23.8%	6.9%
MSCI Emerging Markets Index	E.M.	-5.2%	12.2%
MSCI World Index	World	12.8%	10.2%
Canadian DEX Bond Universe	Canada	-1.7%	3.6%
Canadian 3-Month T-Bill	Canada	1.0%	0.5%

*Source: Richardson GMP. All returns are in Canadian dollars as of June 30, 2013.*

**Japan was the best performer so far in 2013, even after stalling in May.** Emerging Markets countries performed similarly to Canada, losing money for investors.

**The most stunning result is the loss for bond investors so far in 2013.** Canadian fixed income is typically thought of by investors as safe money that provides an income. This loss may be a taste of what is to come over the next several years if the Federal Reserve reduces its bond purchases and economic strength continues to push interest rates upward.

**The accounts I manage are not put into any kind of pool.** Clients own each security in their account and I apply different equity models in different proportions to each client. There may be unique positions as well as some differences in portfolios due to the timing of their transition to the securities I manage. There is therefore variation of client results based on the application of their own situation and needs, even though there is a commonality of the overall trading decisions. All of the models are represented in the trading results shown on page 3, except for the international model which holds exchange-traded funds in Japan, Germany, and Belgium.

## Find Out if My Approach Is Right for You

I would be honoured for the opportunity to assess your situation, find your dream, and help you improve your investment results. **Please contact my team to set up a complimentary meeting.**

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