JUNE 2015 NEWSLETTER


Ian Douglas

Market Review

The second quarter of 2015 has been challenging for investors as we experienced the default of Greece, and the new government in Alberta has brought a new perspective towards the oil and gas sector. The S&P/TSX was down -2.34%, and the S&P 500 was down -0.19%.


Mark Duncan

	Jun 30/14 Close	Mar 31/15 Close	Jun 30/15 Close	90-Day % Change	1-Year % Change
S&P 500	1,960	2,067	2,063	-0.19%	5.26%
S&P/TSX Composite	15,146	14,902	14,553	-2.34%	-3.92%

Source: Thomson One


Meaghan Douglas

European and Japanese markets have been the stars year-to-date, up 11.37% and 17.60% respectively.

World Indexes	YTD
S&P/TSX Composite	**-0.54%**
S&P 500	**0.90%**
DJIA	**-0.37%**
NASDAQ	**5.85%**
MSCI Emerging Markets	**1.63%**
MSCI Japan	**17.60%**
DJ Stoxx 50	**11.37%**

**Performance in Canadian dollars*
Source: Raymond James


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Interest Rates – The Wolf Shows Up

I have been crying wolf on the risk of long term government bonds for a few years, as I didn't feel that the rates justified the risks. During this quarter, world interest rates rose, causing losses on bonds. The price of the iShares 20+ Year U.S. Treasury Bond ETF fell from its peak of $138.50 on January 30th to the level of $117.46 June 30th, a 15.2% drop. While this is not that egregious compared to a stock gone bad, it represents close to 6 years of interest on the bond. U.S. rates have increased more than Canadian rates, due to their stronger economy.

Canadian T-Bills and Bonds Yields

	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015
90 day	**0.91%**	**0.54%**	**0.59%**
180 day	**0.93%**	**0.56%**	**0.60%**
1 year	**0.99%**	**0.57%**	**0.59%**
2 year	**1.01%**	**0.507%**	**0.482%**
5 year	**1.33%**	**0.775%**	**0.808%**
10 year	**1.78%**	**1.365%**	**1.681%**
30 year	**2.33%**	**1.989%**	**2.303%**

U.S. T-Bills and Bonds Yields

	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015
90 day	**0.01%**	**0.03%**	**0.02%**
180 day	**0.04%**	**0.135%**	**0.110%**
1 year	**0.21%**	**0.225%**	**0.260%**
2 year	**0.66%**	**0.567%**	**0.633%**
5 year	**1.65%**	**1.380%**	**1.643%**
10 year	**2.17%**	**1.934%**	**2.356%**
30 year	**2.75%**	**2.546%**	**3.124%**

International 10-Year Bond Yields

	Dec. 31, 2014	Mar. 31, 2015	Jun. 30, 2015
Japan	**0.31%**	**0.39%**	**0.45%**
U.S.	**2.17%**	**1.93%**	**2.36%**
Germany	**0.54%**	**0.18%**	**0.76%**
Canada	**1.78%**	**1.37%**	**1.68%**

U.K.	**1.75%**	**1.58%**	**2.02%**
France	**0.78%**	**0.47%**	**1.19%**
Spain	**1.54%**	**1.20%**	**2.29%**
Italy	**1.82%**	**1.24%**	**2.33%**
Portugal	**2.62%**	**1.67%**	**2.96%**
India	**7.85%**	**7.74%**	**7.85%**

Source: Bloomberg.com

Deja-Vu all over again

Prior to the recent market pullback the performance of the TSX has been led by very few companies in Canada. Valeant Pharmaceuticals is up 105.3% over the last year, growing rapidly by acquisition. While it pays no dividend and lost money in 2012 and 2013, the market capitalization is larger than 3 of Canada's big 5 banks.

In the U.S. market many of the 'winners' including Starbucks, Nike, Facebook, Netflix, and Amazon, have terrific business models but very optimistic valuations.

This reminds me of 1999 when U.S. large cap and technology companies had extraordinary performance, only to correct very sharply in the second quarter of 2000. In 2000 the leadership changed, with banks, REIT's, and other more modestly priced companies providing the best performance.

We will continue to look for companies with attractive growth prospects but reasonable valuations. The current stock market correction is making this easier.

Oil and Gas

In our last newsletter we accurately predicted further U.S. rig count declines, falling U.S. inventories, and a rising oil price. West Texas Intermediate crude has risen from $47.70 per barrel on March 31, 2015 to $59.05, a 23.8% increase.

Unfortunately we didn't factor a change of government in Alberta. Since the May 5th election corporate taxes have increased 20%, the carbon tax has doubled, and the industry is holding its breath for the results of the current royalty review.

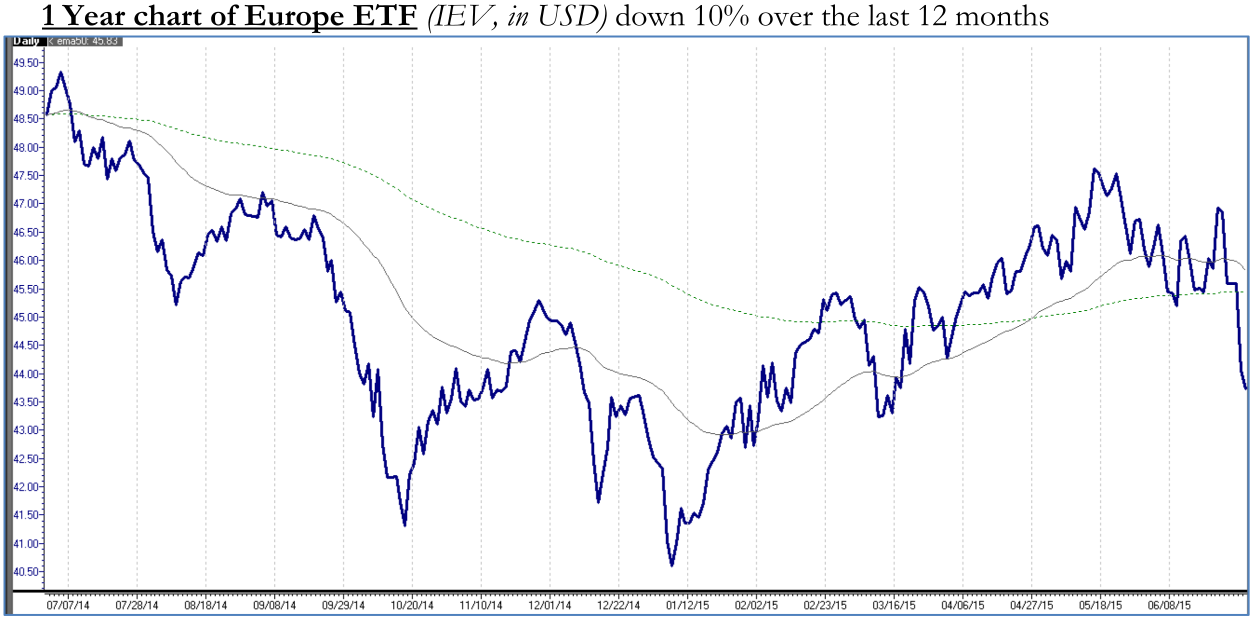
We will likely make opportunistic purchases in this sector, but will be more cautious as the government has been 'bold and ambitious' to date, and we can't yet quantify the new royalty levels.

Greece

We will try to avoid editorializing the Greek crisis, but it is safe to say that a Greek default and Euro exit would be a disaster for Greece. Even if the EU forgives the entire Greek debt, Greece still spends more than it takes in. Greece requires budget adjustments and structural reforms in the absence of a willing party to subsidize their country on an ongoing basis. The Greek economy is 2% of Europe and 0.5% of the global economy, so the European financial institutions should be able to weather any fallout. My suspicion is that the Greek voters are more cautious than their leaders and on July 5th will likely vote to stay in the Euro, agreeing to the terms offered.

1 Year chart of Greece ETF *(GREK, in USD)* down 55% over the last 12 months

1 Year chart of Europe ETF *(IEV, in USD)* down 10% over the last 12 months



Source: Thomson One

Reduction to RRIF Minimum Withdrawals

The most recent Canadian federal budget reduced the required minimum RRIF withdrawal rate for taxpayers 71 and older to reflect the longer life spans of Canadians and existing investment return rates. Raymond James will automatically implement the new rules in 2016, but investors are able to have the changes made on a request basis for this tax year.

Team Update

Meaghan and Mark have been studying advanced money management, investment and insurance strategies in order to provide clients with the best possible advice and service. Mark now holds his Insurance License of BC and can advise on insurance while Meaghan holds the Chartered Investment Manager (CIM) designation. Both Meaghan and Mark will begin their studies for their Certified Financial Planner (CFP) designation in the fall.

Outlook for 2015

While summer is usually a quiet time in the markets, world events have dictated otherwise. The silver lining for ourselves is that most of us have more cash on the sidelines than we would like, and the broad-based market declines should give us opportunities to fill gaps in our portfolios at attractive prices.

Ian Douglas	**Mark Duncan**	**Meaghan Douglas**	**Lisa Cajolet**
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