DECEMBER 2013 NEWSLETTER

Ian Douglas

Mark Duncan

Meaghan Douglas

Lisa Cajolet

Market Review

2013 was a great year for most equity investors with the S&P 500 up 29.6% and the S&P/TSX Composite up 9.6%.

	Dec 31/12 Close	Sept 30/13 Close	Dec 31/13 Close	90-Day % Change	1-Year % Gain
S&P 500	1,426	1,681	1,848	9.9%	29.6%
S&P/TSX Composite	12,433	12,787	13,621	6.52%	9.6%

Canada continues to underperform most major markets in the world due to our resource sector but the rising tide lifted most markets in 2013.

World Indexes	2013 Total Returns
S&P/TSX Composite	**12.99%**
S&P 500	**41.53%**
MSCI World	**36.16%**
MSCI Europe	**34.65%**
MSCI Emerging Markets	**4.48%**
MSCI Japan	**36.14%**
MSCI Pacific ex. Japan	**12.91%**

**Performance in Canadian Dollars*

Published for the friends and clients of Financial Advisor

Ian Douglas | Senior VP, Private Client Group

Raymond James Ltd.
#1 - 5767 Turner Road
Nanaimo, BC V9T 6L8
Telephone: (250) 729-2830
Toll free: 1-866-729-2830
www.raymondjames.ca/iandouglas

RAYMOND JAMES

2013 results of our largest 25 positions

2013 was a year when a lot of investors had bragging rights, and we were no exception. Our financial stocks continued to outperform after good 2012 results, and those clients who chose to participate in the U.S. market had a great year.

Our worst performers were interest sensitive shares such as REITs, utilities, and preferred shares, which corrected in May when the U.S. Fed indicated that rates were likely to rise.

The universal challenge for all diversified investors is that short term bonds and daily interest accounts pay very small returns, while longer term bonds and bond-like equities (REITS, utilities and pipelines) are vulnerable to rising rates. While we over weighted U.S. and Canadian banks and insurers, diversified income oriented portfolios lagged the more volatile economically sensitive sectors.

Rank by Size of Holding	Investment	Dec. 31/12 Close	Dec. 31/13 Close	Income	Total Return
13	Genivar Inc.	$ 19.80	$ 31.54	$ 1.50	66.87%
10	Manulife Financial Corp	$ 13.51	$ 20.96	$ 0.52	58.99%
15	Raymond James Financial*	$ 38.53	$ 52.19	$ 0.64	46.65%
8	Trinidad Drilling Ltd	$ 6.88	$ 9.85	$ 0.20	46.08%
6	Wells Fargo & Company*	$ 34.18	$ 45.40	$ 1.20	45.70%
4	Power Financial	$ 27.24	$ 36.00	$ 1.40	37.30%
2	Royal Bank	$ 59.88	$ 71.41	$ 2.68	23.73%
5	Toronto Dominion Bank	$ 83.75	$ 100.11	$ 3.44	23.64%
12	Bank of Montreal	$ 60.86	$ 70.81	$ 3.04	21.34%
7	Bank of Nova Scotia	$ 57.46	$ 66.43	$ 2.48	19.93%
14	Brookfield Asset Management	$ 35.27	$ 41.22	$ 0.80	19.14%
24	Bombardier 7.35% 22DEC26	$ 104.50	$ 105.00	$ 7.03	7.21%
25	Russel Metals 6% 19APR22	$ 102.75	$ 101.38	$ 5.84	4.35%
19	Baytex Energy 6.625% 19JUL22	$ 106.50	$ 104.25	$ 6.23	3.73%
21	Vermillion Energy 6.5% 10FEB16	$ 105.25	$ 102.50	$ 6.18	3.25%
23	Shaw Communications 6.15% 09MAY16	$ 111.12	$ 108.99	$ 5.53	3.06%
1	Manulife Premium Savings Account	$ 10.00	$ 10.00	$ 1.35	1.35%
18	B2B High Interest Investment	$ 1.00	$ 1.00	$ 1.30	1.30%
17	RBC Investment Savings Account	$ 10.00	$ 10.00	$ 1.25	1.25%
20	TD Cap Trust 7.243% 31DEC18	$ 124.13	$ 118.64	$ 5.83	0.27%
9	Brookfield Renewable Energy	$ 29.38	$ 27.86	$ 1.54	0.06%
22	Sherritt International Corp 8% 15NOV18	$ 105.75	$ 97.00	$ 7.57	-1.12%
11	Riocan REIT	$ 27.56	$ 24.77	$ 1.41	-5.01%
3	H&R REIT	$ 24.10	$ 21.40	$ 1.35	-5.60%
16	Fairfax Financial Preferred I	$ 25.00	$ 21.95	$ 1.25	-7.20%
	Average Return				**16.65%**

It is likely that most of you earned less than 16.65% last year. While the table above is accurate to the best of our ability, the best performing stock Genivar is our 13th largest position while our worst performing stock H&R REIT is our 3rd largest position. Our largest position by a wide margin is the Manulife Premium Savings Account. While it outperformed the bond index and the preferred share index, 1.35% is not a chest beating return.

That being said I am delighted that our 14 largest stock positions earned an average total return of 28.49% significantly outperforming the TSX return of 12.99%. The reason was that we are overweight financial shares, underweight oil and gas, and have not had any recommendations in mining shares, precious metals or emerging markets.

Our 11 largest fixed income positions earned a much more modest average return of 1.59%, but beat the bond and preferred share indices, both of which were negative. The reason for our fixed income outperformance is that many of our bonds are high-yielding corporates that benefit from the improving economy.

Benchmarks for Comparison	Total Return
TSX Composite	**12.99%**
TSX 60	**13.26%**
S&P 500 (in CDN$)	**41.53%**
DEX Universe Bond Index	**-1.19%**
Government of Canada 5 Year Bond	**0.47%**
Government of Canada 10 Year Bond	**-4.39%**
Government of Canada 17 Year Bond	**-6.65%**
S&P Preferred Share Index	**-2.64%**

Canadian T-Bills and Bonds

	Jun. 28, 2013	Sept. 30, 2013	Dec. 31, 2013
90 day	**1.01%**	**0.98%**	0.91%
180 day	**1.04%**	**1.00%**	0.96%
1 year	**1.11%**	**1.06%**	0.99%
2 year	**1.20%**	**1.20%**	1.14%
5 year	**1.25%**	**1.88%**	1.95%
10 year	**2.44%**	**2.56%**	2.77%
30 year	**2.91%**	**3.09%**	3.23%

U.S. T-Bills and Bonds

	Jun. 28, 2013	Sept. 30, 2013	Dec. 31, 2013
90 Day	**0.03%**	**0.02%**	0.07%
180 Day	**0.09%**	**0.04%**	0.09%
1 year	**0.14%**	**0.09%**	0.12%
2 year	**0.36%**	**0.32%**	0.39%
5 year	**1.39%**	**1.40%**	1.75%
10 year	**2.49%**	**2.63%**	3.03%
30 year	**3.50%**	**3.70%**	3.97%

International 10 Year Bond Yields

	Jun. 28, 2013	Sept. 30, 2013	Dec. 31, 2013
Japan	**0.84%**	**0.66%**	0.73%
U.S.	**2.49%**	**2.63%**	3.01%
Germany	**1.73%**	**1.78%**	1.96%
Canada	**2.43%**	**2.56%**	2.78%
U.K.	**2.44%**	**2.71%**	3.03%
France	**2.34%**	**2.32%**	2.58%
Spain	**4.75%**	**4.29%**	4.12%
Italy	**4.54%**	**4.57%**	4.08%
Ireland	**4.01%**	**3.89%**	3.47%
Portugal	**6.32%**	**6.53%**	5.97%
Greece	**10.62%**	**8.88%**	8.20%

U.S. Federal Reserve Quantitative Easing

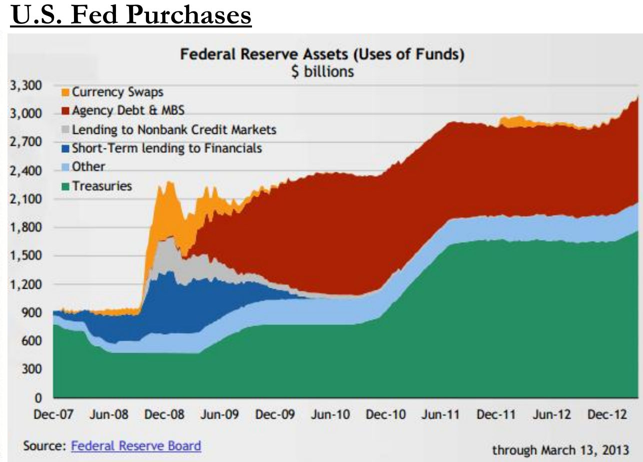
During the 2008/09 financial crisis, the U.S. Fed pumped money into the system to prevent a catastrophe, as the failure of one large U.S. financial institution could have caused a domino effect. They did this by borrowing money at the U.S. Fed funds rate (close to zero) and buying U.S. government bonds and mortgage-backed securities with the goal of artificially lowering interest rates. This was a very successful short term strategy as the financial system has recovered and recapitalized.

However, in the attempt to stimulate the economy further, the Fed has until recently been purchasing $85 billion per month of assets. The results have been the very low interest rates of today. This benefits borrowers and holders of assets (stocks, bonds, real estate, art, vintage cars, etc.) but hurts savers trying to get a return on their capital, particularly GIC investors and new bond purchasers.

The challenge for the U.S. Fed in the future is how to reduce their borrowing to buy these assets (now $75 billion per month) and how to eventually reduce their leveraged bond portfolio (now approximately $3.7 trillion).

I believe that this has to happen eventually and will lead to higher interest rates. In this scenario you want to own daily interest accounts, short term bonds and companies that benefit from rising rates (banks and insurance companies).

U.S. Fed Purchases



RAYMOND JAMES

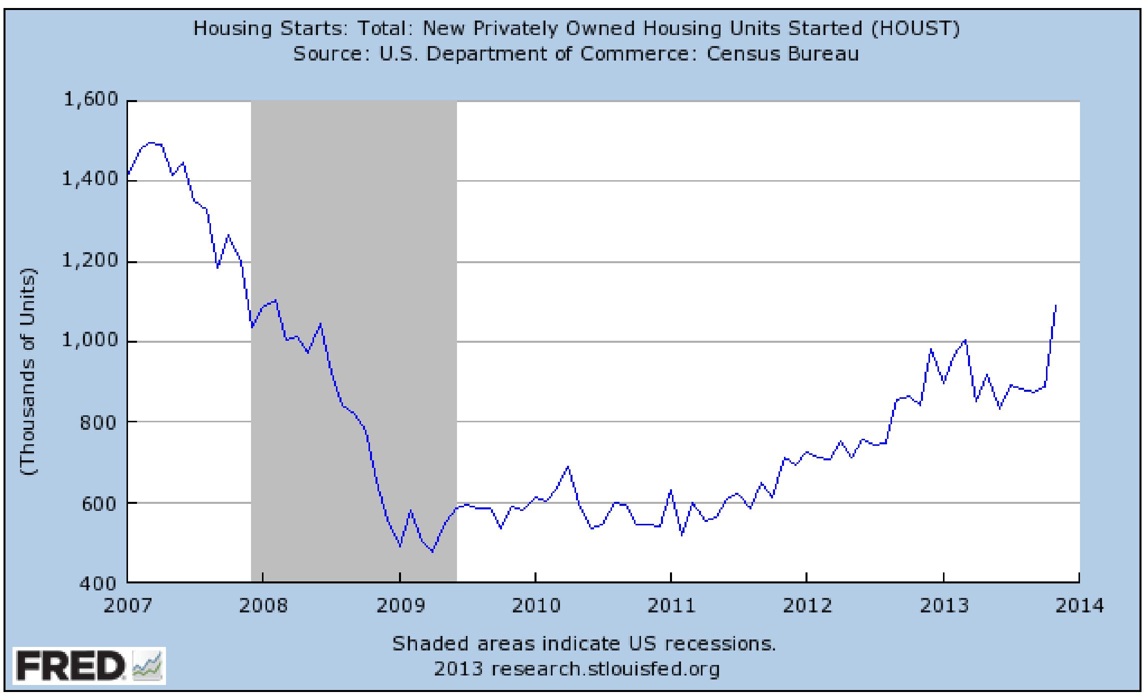
Winners and Losers

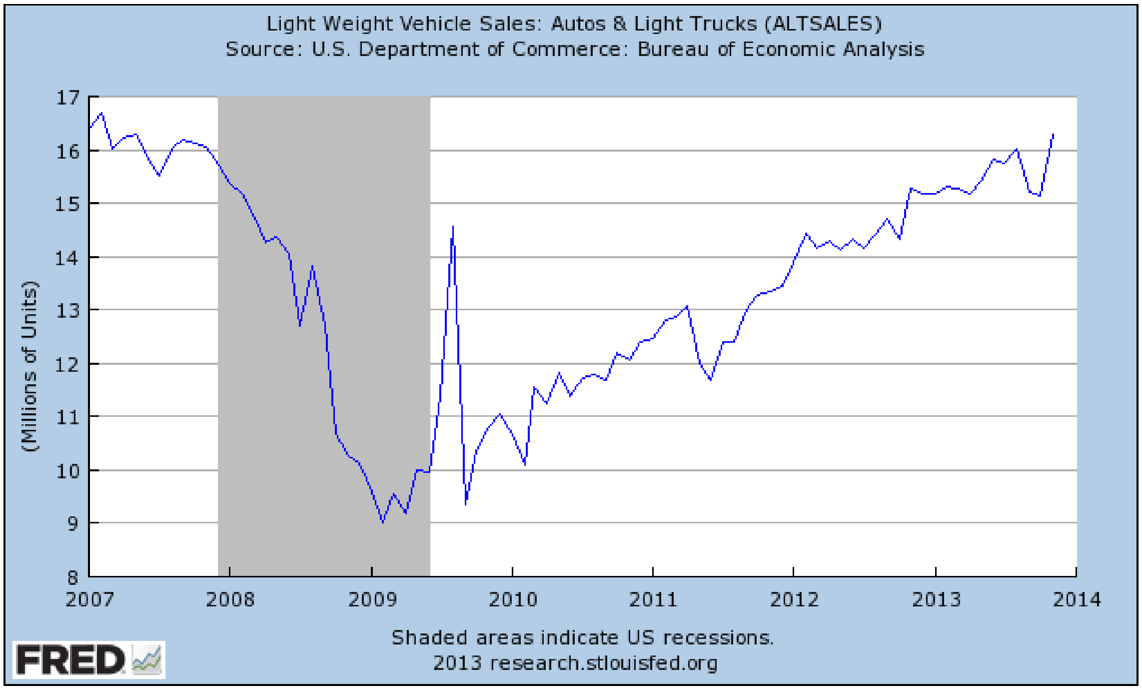
Stocks we wished we owned last year

Equity	Dec. 31, 2012 Close	Dec. 31, 2013 Close	% Gain
Western Forest Products	**$1.31**	**$1.92**	**46.5%**
Brookfield Residential Properties	**$17.69**	**$25.72**	**45.4%**
Vanguard S&P 500 ETF (in CDN$)	**$25.08**	**$34.78**	**38.7%**
Spyder S&P Homebuilders ETF*	**$26.60**	**$33.30**	**33.0%**
Facebook*	**$26.62**	**$54.65**	**118.0%**

**Performance in Canadian Dollars*

What 2013's big winners have in common is participation in the U.S. economic recovery, either through housing, forestry shares, or social media.





Stocks we are grateful we didn't own

Equity	Dec. 31, 2012 Close	Dec. 31, 2013 Close	% Gain
Blackberry	$11.80	$7.90	-33.0%
Barrick Gold	$34.82	$18.71	-46.3%
Teck Resources	$36.15	$27.65	-23.5%
iShares Silver bullion ETF (SVR)	$17.62	$11.22	-47.7%
S&P/TSX Venture Composite	$1221.30	$931.97	-23.7%

With the exception of Blackberry which has been left behind in the smartphone market, most of 2013's losers are resource-based, particularly precious metals and speculative shares. Investors betting on these sectors missed 2013 gains and took significant losses.

Outlook for 2014

My expectation for 2014 is for continued improvement in the economies of the developed world and continued gradual increases in interest rates. This environment will continue to reward banks and insurers that benefit from rising rates, and economically sensitive companies that benefit from the improving economy.

Rising interest rates will make it difficult for REITs and utilities to outperform, and we will continue to be challenged to strike the balance between daily interest accounts paying 1.35%

and medium term corporate bonds and preferred shares with higher yields but the potential to discount as rates rise.

While I expect equities to continue to outperform GIC's and fixed income, a 5 to 10% correction could happen at any time, perhaps due to higher interest rates or for some man-made crisis that surprises the markets. In this environment I would recommend keeping an average equity weighting for your risk tolerance, and use corrections to add to economically sensitive companies. While most of us own some interest sensitive shares (H&R REIT, Brookfield Renewable Energy, Riocan REIT, Enbridge, etc.) I believe that these are good sources of secure income as long as they are not overweight in your portfolio.

Activities for first quarter 2014

During the next few months, we plan to contact everyone to do TFSA contributions and RRSP contributions, if required. T-5's should be mailed to you by February 28th and T-3's and T-5013's should be mailed by March 31st. For those of you with online access, copies will be available under "my documents." Feel free to give us a call for anything else you might need.

All the best for 2014!

Ian Douglas	**Mark Duncan**	**Meaghan Douglas**	**Lisa Cajolet**
Senior Vice President	Associate	Administrative	Administrative
Financial Advisor	Financial Advisor	Assistant	Assistant

RAYMOND JAMES®