DECEMBER 2014 NEWSLETTER


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Market Review

2014 was a very divergent year for world markets, with some being extraordinarily positive, and others not performing well at all. The S&P/TSX was up 7.4%, and the S&P 500 was up 11.4%.

	Dec 31/13 Close	Sept 30/14 Close	Dec 31/14 Close	90-Day % Change	1-Year % Gain
S&P 500	1,848	1,974	2,059	4.3%	11.4%
S&P/TSX Composite	13,621	14,960	14,632	-2.2%	7.4%

The US market was by far the strongest major market in the world, out-performing Europe, the Emerging markets, and Canada. Resource based economies were hit very hard with the price of oil falling from $107.50 in June to $53.27 at year end.

World Indexes	2014 Total Returns
S&P/TSX Composite	**10.55%**
S&P 500	**24.00%**
MSCI World	**15.07%**
MSCI Europe	**2.87%**
MSCI Emerging Markets	**7.09%**
MSCI Japan	**5.01%**
MSCI Pacific ex. Japan	**8.70%**

**Performance in Canadian Dollars*

Published for the friends and clients of Financial Advisor
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2014 Results of our Largest 30 Positions

Position	Investment	Dec 31/13 Close	Dec 31/14 Close	Income	Performance
12	Brookfield Asset Management Inc.	$41.22	$58.22	$0.74	43.05%
9	Brookfield Renewable Energy LP	$27.86	$35.90	$1.80	35.33%
5	Wells Fargo & Company*	$45.40	$54.82	$1.40	35.01%
22	Fortis Inc.	$30.45	$38.96	$1.36	32.41%
8	Johnson & Johnson*	$91.59	$104.57	$2.80	27.78%
15	WSP Global Inc.	$31.54	$34.86	$4.29	24.12%
24	Brookfield Infrastructure	$41.65	$48.65	$2.23	22.17%
19	Raymond James Financial Inc.*	$52.19	$57.29	$0.72	21.39%
27	BCE Inc. (BELL)	$46.00	$53.28	$2.47	21.20%
21	Bank of Montreal	$70.81	$82.18	$3.20	20.58%
28	Telus Corporation	$36.56	$41.89	$1.60	18.96%
1	Royal Bank of Canada	$71.41	$80.24	$3.00	16.57%
7	Toronto Dominion Bank	$50.06	$55.04	$1.88	13.70%
14	Riocan REIT	$24.77	$26.43	$1.41	12.39%
11	Manulife Financial Corporation	$20.96	$22.18	$0.62	8.78%
16	Riocan REIT Preferred C	$25.00	$25.89	$1.18	8.26%
17	Fairfax Financial Preferred I	$21.95	$22.50	$1.25	8.20%
4	H&R REIT	$21.40	$21.73	$1.35	7.85%
30	Fairfax Financial 7.5% 19AUG19	$14.36	$15.50	6.5%	6.68%
23	Russel Metals 6% 19APR22	$101.38	$101.25	5.9%	5.72%
6	Power Financial Corporation	$36.00	$36.18	$1.40	4.39%
20	TD Capital 7.243% 31DEC18	$118.64	$117.40	6.2%	4.16%
29	RBC Capital 6.821% 30JUN18	$115.85	$114.45	6.0%	3.93%
18	Vermillion Energy 6.5% 10FEB16	$102.50	$99.50	6.5%	3.44%
13	Bank of Nova Scotia	$66.43	$65.65	$2.64	2.80%
25	Shaw Communications 6.15% 09MAY16	$108.99	$105.55	5.8%	2.19%
26	Suncor Energy Inc.	$37.24	$36.90	$1.12	2.09%
3	Home Trust High Interest Savings	$1.00	$1.00	1.4%	1.40%
2	Manulife Premium Savings Account	$10.00	$ 10.00	1.35%	1.35%
10	Baytex Energy 6.625% 19JUL22	$104.25	$96.00	6.9%	-1.29%

**Performance in Canadian dollars Dec 31/13 $0.9413, Dec 31/14 $0.8604*

If we had the benefit of hindsight we would have been 100% invested in US equities and Canadian Utilities last year, with 0% in Canadian oil and gas companies. Fortunately we only had one resource company (Trinidad Drilling) among our top 25 positions at the end of 2013, and our largest new purchases in 2014, Fortis and Johnson & Johnson did very well. Fortis and Brookfield Renewable Energy, both utilities, far exceeded my expectations as interest rates fell making their income streams more attractive.

Our bond positions underperformed this year after outperforming last year. Due to the lower interest rates we have been investing in short term, higher yielding corporate bonds. During 2014 interest rates fell sharply, making long term government bonds the best place to be.

Benchmarks for Comparison	2014 Total Return
DEX Universe Bond Index	**8.79%**
Canadian Short Term Bond Index	**3.06%**
Canadian Mid Term Bond Index	**9.16%**
Canadian Long Term Index	**17.48%**
S&P/TSX Preferred Share Index	**6.82%**

Canadian T-Bills and Bonds Yields

	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014
90 day	**0.93%**	**0.91%**	**0.91%**
180 day	**0.96%**	**0.93%**	**0.93%**
1 year	**1.00%**	**1.00%**	**0.99%**
2 year	**1.10%**	**1.13%**	**1.01%**
5 year	**1.53%**	**1.63%**	**1.33%**
10 year	**2.24%**	**2.15%**	**1.78%**
30 year	**2.78%**	**2.67%**	**2.33%**

U.S. T-Bills and Bonds Yields

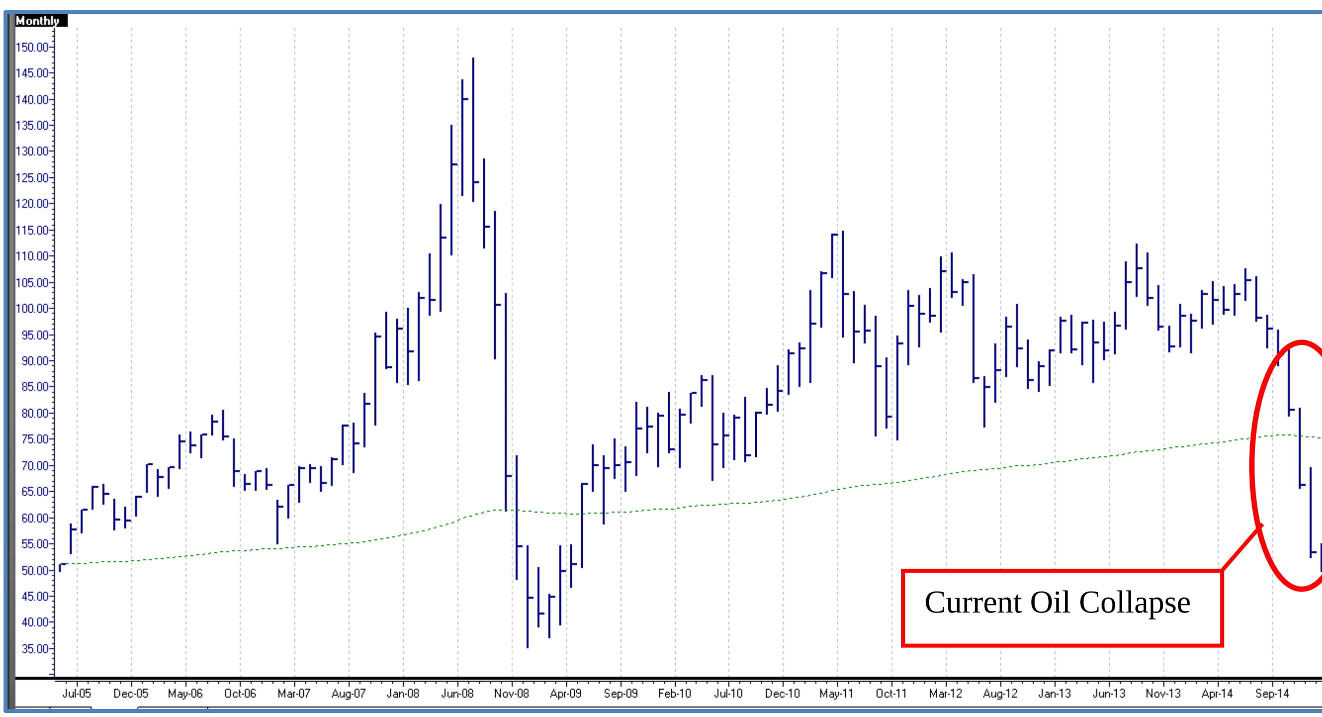
	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014
90 day	**0.03%**	**0.02%**	**0.01%**
180 day	**0.07%**	**0.04%**	**0.04%**
1 year	**0.11%**	**0.10%**	**0.21%**
2 year	**0.47%**	**0.59%**	**0.66%**
5 year	**1.63%**	**1.78%**	**1.65%**
10 year	**2.52%**	**2.51%**	**2.17%**
30 year	**3.35%**	**3.21%**	**2.75%**

International 10 Year Bond Yields

	June 30, 2014	Sept. 30, 2014	Dec. 31, 2014
Japan	0.56%	0.52%	0.31%
U.S.	2.52%	2.51%	2.17%
Germany	1.24%	0.95%	0.54%
Canada	2.24%	2.15%	1.78%
U.K.	2.67%	2.42%	1.75%
France	1.70%	1.28%	0.78%
Spain	2.65%	2.13%	1.54%
Italy	2.84%	2.33%	1.82%
Portugal	3.62%	3.14%	2.62%
India	8.72%	8.51%	7.85%

There is a possibility that Canadian government bond holders could make attractive short term returns if our bond yields fall to German or Japanese levels. However with Canadian 10 year government bonds earning 1.78% before fees, I don't believe that the return justifies the risk for most investors.

Crude Oil



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The big story for Canadian investors in 2014 was the collapse in the price of oil. Oil peaked in June at $107.50 when investors feared that ISIS would interfere with Iraqi oil production. Once it became apparent that this would not happen, prices started to fall sharply to the current level of $53.27.

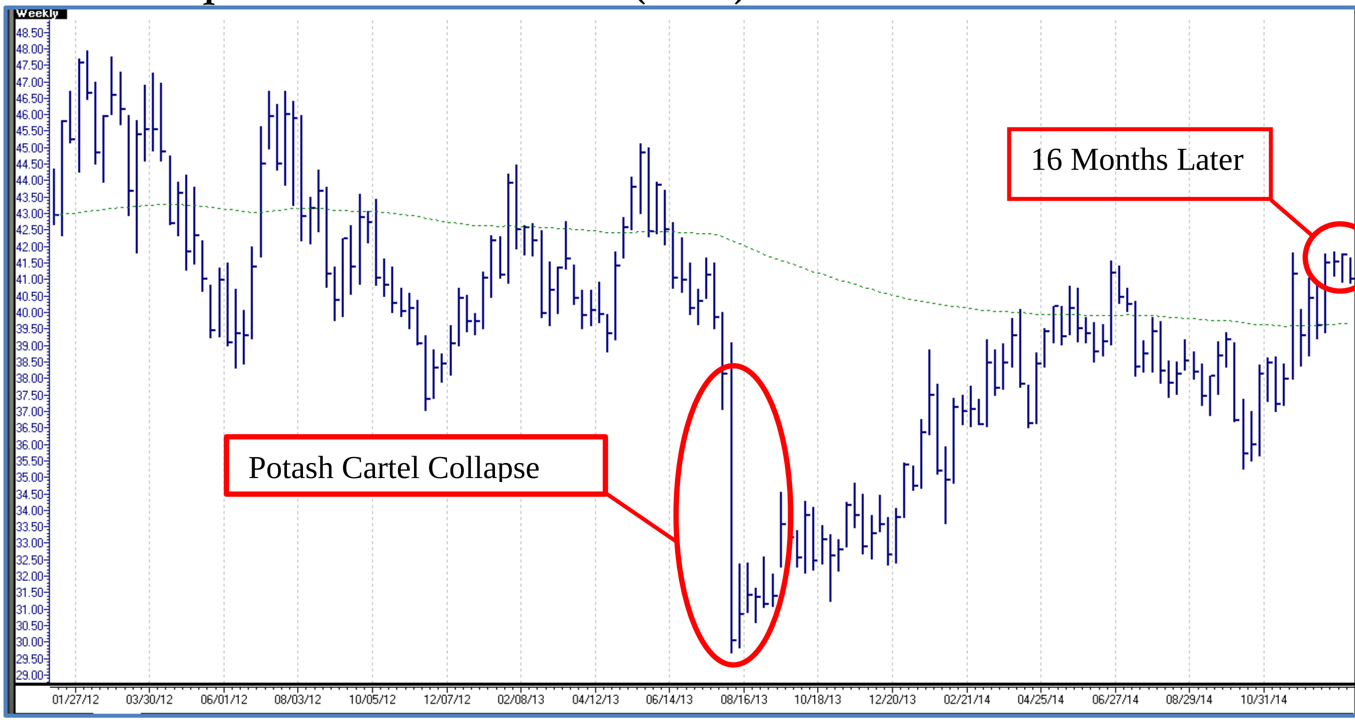
While there are many legitimate theories that the overproduction of oil has political motives, my own view is that it is driven by economic self-interest. Since 2008 US oil production has increased by 90% as technology has improved to make drilling economic at the $80 to $100 prices at that time. With US producers expanding at these rates, the only rational option that Saudi Arabia has is to refrain from cutting back production to let the oil price fall. The cash flow shortfall will cause North American producers to reduce their exploration and development budgets. This is happening already with almost all of the North American producers cutting their budgets, many by 20 to 40%. Over time the supply will be reduced and the oil price will find a new equilibrium, likely higher than today's prices.

Additional uncertainty is put in the mix as many oil producing countries are poor, corrupt and mismanaged, or under sanctions. Social and political upheaval is not out of the question as their populations get poorer. This could lead to sharp price increases if there are supply disruptions from a major producer.

What should we do?

I believe that the price of oil is currently below equilibrium as most North American producers are unprofitable at current prices and OPEC producers need at least $100 per barrel to balance their state budgets. For this reason it makes sense for some investors to add an oil position during the next few months. Oil and gas companies are more volatile than most of our holdings so this is not a "bet the farm" moment. Investors who wish to establish an oil position should focus on companies with the lowest debt and cost of production.

Potash Corp of Saskatchewan Inc. (POT)



During the summer of 2013 the potash cartel fell apart and Potash Corp dropped in price from $45 to $30. Today the price is $41.07, providing an attractive return for investors who purchased when the outlook was bleak.

I expect that in a year or two the current oil crisis will look like a buying opportunity, but there is no guarantee that the recovery will be as fast or strong as the potash recovery.

Winners and Losers

Stocks we wished we had more of

Equity	Dec. 31, 2013 Close	Dec. 31, 2014 Close	% Gain
Brookfield Asset Management	**$41.22**	**$58.22**	**41.2%**
Vanguard S&P 500 ETF	**$34.78**	**$42.46**	**22.1%**
Apple Inc.*	**$80.15**	**$110.38**	**50.6%**
Spyder Technology ETF*	**$35.74**	**$41.32**	**26.5%**
Costco Wholesale Corp.*	**$119.02**	**$141.75**	**30.3%**
Western Forest Products	**$1.92**	**$2.70**	**40.6%**

**performance in Canadian dollars*

2014's winners were companies that participated in the US economic recovery.

Some of 2014's losing equities

Equity	Dec. 31, 2013 Close	Dec. 31, 2014 Close	% Gain (Loss)
Barrick Gold Corp.	**$18.71**	**$12.52**	**-33.1%**
Teck Resources	**$27.65**	**$15.88**	**-42.6%**
iShares S&P/TSX Capped Energy Index ETF	**$17.16**	**$14.03**	**-18.2%**
iShares Russia ETF*	**$21.90**	**$11.47**	**-42.7%**
iShares Germany ETF*	**$31.76**	**$27.36**	**-5.75%**
iShares Emerging Markets Eastern Europe ETF*	**$26.16**	**$15.79**	**-34.0%**
iShares Poland ETF*	**$29.68**	**$24.07**	**-11.3%**
iShares France ETF*	**$28.45**	**$24.61**	**-5.37%**

**performance in Canadian dollars*

Clearly there were plenty of places not to invest in 2014. Unlike 2008/2009 when markets reacted in unison, we have seen a very large divergence between winning and losing sectors and markets.

Outlook for 2015

My expectation for 2015 is for more volatility and uncertainty in the markets. Our alternatives include fixed income at record low interest rates, US stocks with terrific momentum but often trading at record highs, or beaten down oil and gas shares which may be trading at 2005 prices, but are un-economic or marginally profitable at today's oil prices.

In addition we have the potential of country defaults in oil producing developing nations and political unrest as the populations become more impoverished.

In this environment, predicting an exact outcome for stock prices or interest rates is not realistic. What we can do is the following:

1) Keep cash reserves aside for opportunities.

2) Make small investments in the highest quality oil and gas shares to take advantage of the current crisis.

3) Rebalance portfolios where market performance or cash withdrawals have reduced diversification.

4) Ensure that new purchases are of well capitalized industry leaders.

5) Purchase companies with reliable dividend income.

6) Look for opportunities as they arise, within the risk tolerance of each investor.

Activities for first quarter 2015

During the next few months we plan to contact everyone to do TFSA contributions and RRSP contributions if required. The RRSP contribution deadline is Monday, March 2nd, 2015. T5 and Summary of Investment Income should be mailed to you by February 28th, and T3 and T5013 should be mailed by March 31st.

Please note, all T5 and T3 tax receipts for Mutual Fund investment income are issued directly by the fund companies (not by Raymond James Ltd.).

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 2015!

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Senior Vice President Financial Advisor	Associate Financial Advisor	Administrative Assistant	Administrative Assistant

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