

MARCH NEWSLETTER



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Published for the friends and clients of
Financial Advisor

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Market Review

2014 has had a reasonable start for equity investors. The S&P 500 is up 1.3% year to date and the S&P/TSX Composite is up 5.2%, with resource sectors bouncing back from the tax loss selling in 2013.

| | <u>March</u> <u>29/13</u> <u>Close</u> | <u>Dec</u> <u>31/13</u> <u>Close</u> | <u>March</u> <u>31/14</u> <u>Close</u> | <u>90-Day</u> <u>%</u> <u>Change</u> | <u>1-Year</u> <u>%</u> <u>Change</u> |
|----------------------------------|--|--|--|--|--|
| S&P 500 | 1,569 | 1,848 | 1,872 | 1.3% | 19.3% |
| S&P/TSX Composite | 12,750 | 13,621 | 14,335 | 5.2% | 12.4% |

| <u>World Indices</u> | <u>YTD</u> |
|------------------------|------------|
| S&P/TSX Composite | 5.2% |
| S&P 500 | 5.3% |
| MSCI World | 4.7% |
| MSCI Europe | 5.5% |
| MSCI Emerging Markets | 3.1% |
| MSCI Japan | -2.7% |
| MSCI Pacific ex. Japan | 6.0% |

**Performance in Canadian Dollars, YTD as of March 31, 2014*

The emerging markets have bounced back from the March 13th low, when the market had to digest the turmoil in the Ukraine. Ukrainian Government 2017 Eurobonds (U.S. \$ denominated) currently yield 9.26%. We have not been buyers.

Fixed Income

Bond yields decreased in most developed countries this quarter, as funds left emerging markets for the relative safe havens of the developed markets. GICs and the highest quality bonds have very low and often negative rates of return after inflation and taxes.

With the recent market volatility we have had the opportunity to purchase medium risk income investments such as Riocan REIT 2017 reset preferred securities with a 4.7% yield to June 30, 2017. As fixed income investments like these become attractive we will contact you to help increase your cash flow where appropriate.

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Canadian T-Bills and Bonds

| | <u>Sept. 30,</u> <u>2013</u> | <u>Dec. 31,</u> <u>2013</u> | <u>Mar. 31,</u> <u>2014</u> |
|---------|---------------------------------|--------------------------------|--------------------------------|
| 90 day | 0.98% | 0.91% | 0.89% |
| 180 day | 1.00% | 0.96% | 0.91% |
| 1 year | 1.06% | 0.99% | 0.95% |
| 2 year | 1.20% | 1.14% | 1.07% |
| 5 year | 1.88% | 1.95% | 1.73% |
| 10 year | 2.56% | 2.77% | 2.47% |
| 30 year | 3.09% | 3.23% | 2.96% |

U.S. T-Bills and Bonds

| | <u>Sept. 30,</u> <u>2013</u> | <u>Dec. 31,</u> <u>2013</u> | <u>Mar. 31,</u> <u>2014</u> |
|---------|---------------------------------|--------------------------------|--------------------------------|
| 90 Day | 0.02% | 0.07% | 0.04% |
| 180 Day | 0.04% | 0.09% | 0.05% |
| 1 year | 0.09% | 0.12% | 0.11% |
| 2 year | 0.32% | 0.39% | 0.45% |
| 5 year | 1.40% | 1.75% | 1.76% |
| 10 year | 2.63% | 3.03% | 2.74% |
| 30 year | 3.70% | 3.97% | 3.57% |

International 10 Year Bond Yields

| | <u>Sept. 30,</u> <u>2013</u> | <u>Dec. 31,</u> <u>2013</u> | <u>Mar. 31,</u> <u>2014</u> |
|----------|---------------------------------|--------------------------------|--------------------------------|
| Japan | 0.84% | 0.66% | 0.63% |
| U.S. | 2.49% | 2.63% | 2.74% |
| Germany | 1.73% | 1.78% | 1.56% |
| Canada | 2.43% | 2.56% | 2.47% |
| U.K. | 2.44% | 2.71% | 2.73% |
| France | 2.34% | 2.32% | 2.08% |
| Spain | 4.75% | 4.29% | 3.22% |
| Italy | 4.54% | 4.57% | 3.29% |
| Portugal | 6.32% | 6.53% | 4.04% |
| India | 7.46% | 8.76% | 8.80% |

Dividends of our Largest 25 Stock Positions

In a perfect world we would be able to buy investments with secure income that increases with inflation. While we will never live in a perfect investment world, high quality dividend paying shares have a good historic record of providing investors with income that increases over time.

Of our largest 25 stock positions, we had zero stocks that lowered their distributions, 8 stocks with no change, and 17 stocks that increased their distributions. This is based on the actual dividends paid in 2013 compared with the annualized, announced dividends as of today. The average increase was 6.9%, and the average yield of the 25 common shares is 3.2%.

| <u>Stock</u> | <u>2013 Dividend</u> | <u>Today's Dividend</u> | <u>Dividend Growth</u> | <u>Yield</u> |
|-----------------------------|--------------------------|-----------------------------|----------------------------|--------------|
| Suncor Energy | \$0.73 | \$0.92 | 26.0% | 2.4% |
| Wells Fargo & Company | \$1.20 | \$1.40 | 16.7% | 2.8% |
| CN Rail | \$0.86 | \$1.00 | 16.3% | 1.6% |
| TD | \$1.62 | \$1.88 | 16.0% | 3.7% |
| Raymond James Financial | \$0.56 | \$0.64 | 14.3% | 1.2% |
| RBC | \$2.53 | \$2.84 | 12.3% | 3.9% |
| Brookfield Infrastructure | \$1.72 | \$1.92 | 11.6% | 4.4% |
| S&P 500 Trust | \$3.18 | \$3.48 | 9.4% | 1.9% |
| Telus | \$1.32 | \$1.44 | 9.1% | 3.6% |
| National Bank | \$1.70 | \$1.84 | 8.2% | 4.2% |
| Bank of Nova Scotia | \$2.39 | \$2.56 | 7.1% | 4.0% |
| Brookfield Renewable Energy | \$1.45 | \$1.55 | 6.9% | 4.8% |
| BCE (Bell) | \$2.32 | \$2.47 | 6.7% | 5.2% |
| Bank of Montreal | \$2.94 | \$3.04 | 3.4% | 4.1% |
| Fortis | \$1.24 | \$1.28 | 3.2% | 4.1% |
| CIBC | \$3.80 | \$3.92 | 3.2% | 4.1% |
| Johnson & Johnson | \$2.59 | \$2.64 | 1.9% | 2.7% |
| WSP Global (Genivar) | \$1.50 | \$1.50 | 0% | 4.3% |
| Westshore Terminals | \$1.32 | \$1.32 | 0% | 4.0% |
| Trinidad Drilling | \$0.20 | \$0.20 | 0% | 1.7% |
| Riocan REIT | \$1.41 | \$1.41 | 0% | 5.3% |
| Power Financial | \$1.40 | \$1.40 | 0% | 4.1% |
| Manulife Financial | \$0.52 | \$0.52 | 0% | 2.5% |
| H&R REIT | \$1.35 | \$1.35 | 0% | 5.9% |
| Brookfield Asset Management | \$0.60 | \$0.60 | 0% | 1.3% |

Johnson and Johnson \$98.23 (close March 31st)

Recently we have started accumulating positions in JNJ. My thesis is that I expect that the use of healthcare services and products will continue to increase with the aging population. Many of JNJ's products are necessities or staples, so their sales should be somewhat resilient to economic volatility. JNJ is a very large diversified healthcare company with an AAA credit rating and a very successful history.

Highlights are:

- ❖ 30 consecutive years of adjusted earnings increases*
- ❖ 51 consecutive years of dividend increases
- ❖ 70% of sales from #1 or #2 global market share positions
- ❖ 25% of sales from new products introduced in the past 5 years

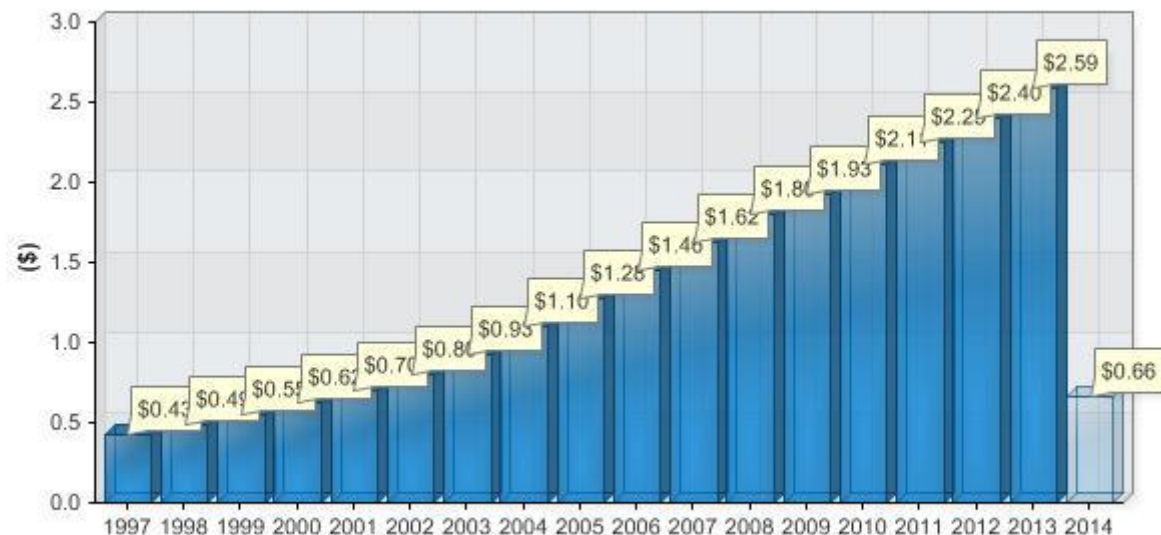
**excludes special items*

JNJ's sales are made up of:

- ❖ 21% consumer products – Band-aids, Johnson's baby shampoo, Tylenol, Listerine, Neosporin, Benedryl, Motrin
- ❖ 40% medical devices – artificial knees, hips, endoscopic surgery tools, spine products
- ❖ 39% prescription drugs – cancer, diabetes, arthritis, hepatitis, HIV

Over the last 10 years JNJ has outperformed the S&P 500 by 1.5% per year, with approximately 1/2 of the volatility. JNJ has a 2.68% dividend yield and I believe that this should be a core position for investors who would like growth and income over the medium to long-term. With an expected forward P/E of 16.86 times it is not cheap, but is reasonably priced for the growth and financial strength.

Johnson & Johnson Dividend History



Wells Fargo

We first highlighted WFC in our September 2012 newsletter at \$34.57 with a 2.54% yield. Today it trades at \$49.74, up 44% in U.S. dollars (50% in Canadian dollars) but due to a number of dividend increases it now yields 2.81%, more than it did at \$34.57. Currently trading at only 12.79 times earnings we believe that it continues to be a good value, and an effective way to participate in the revival of the U.S. economy.

Warren Buffett has over 20% of his portfolio in Wells Fargo, and has been adding to the position.



Estate Tax on U.S. Stocks

If you have a cost of over \$100,000 CDN in U.S. stocks your accountant has to file a single declaration, form T1135, when you have your taxes prepared. We will assist your accountant if they need any information.

If you have a net worth in excess of \$5.3 million and pass away with over \$60,000 U.S. in U.S. stocks, you will likely owe U.S. estate tax, subject to a tax credit. If you are in this category, please let us know and we can do the calculation to estimate the potential tax liability.

In most cases we can restructure portfolios so you can continue to benefit from the strong U.S. market while avoiding or minimizing the potential U.S. estate tax liability.

Tax Receipts

T3 and RL16 receipts were mailed March 24th and posted online March 25th. T5013 and RL15 partnership statements were posted online and mailed March 31st. If you have any questions regarding capital gain/loss reports or need other tax information, please contact Lisa.

Meaghan

Meaghan has completed her courses to become an associate financial advisor. This allows all members of our team to process buy and sell orders.

Client Appreciation Event / Open House

On Thursday, June 12th, we are hosting a Client Appreciation Event at the Westwood Tennis Club in Nanaimo from 4:00 pm to 7:00 pm. This tennis club is on a very beautiful property on Westwood Lake. A buffet dinner will be provided, and you can watch tennis while being serenaded by a very talented guitarist. This will be a good opportunity to meet our Branch Manager, Sybil Verch and Terry Hetherington, Executive Vice President and Head of the Private Client Group of Raymond James. You will receive a printed invitation in mid-April, please mark your calendars!

Outlook for 2014

We continue to live in an environment where daily interest accounts, GICs and the highest quality bonds pay very low returns. Many dividend paying shares are mathematically better value than bonds and GICs when retained earnings and dividends are considered. The universal challenge for investors continues to be trying to earn an acceptable rate of return without being overweight in equities for their risk tolerance. If you have any questions regarding your portfolio, please call.



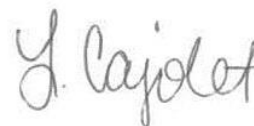
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