JUNE NEWSLETTER

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Market Review

The second quarter of 2014 has been positive for equities, with the TSX up 5.7%. On June 24th the TSX passed the previous all-time high, achieved in May of 2008.

	June 30/13 Close	March 31/14 Close	June 30/14 Close	90-Day % Change	1-Year % Change
S&P 500	1,606	1,872	1,960	4.7%	22.0%
S&P/TSX Composite	12,129	14,335	15,146	5.7%	24.9%

World Indices	*YTD**
S&P/TSX Composite	10.81%
S&P 500	6.09%
DJ Stoxx 50	3.30%
MSCI Emerging Markets	4.34%
MSCI Japan	-6.93%
MSCI Hong Kong	-0.50%

**YTD: Year to date figures as of June 30, 2014*

Most world markets have been quite resilient, shrugging off instability in Ukraine, Syria and Iraq. While these are humanitarian tragedies, they have not reversed global growth.

Fixed Income

Interest rates have fallen further from the end of March, leaving investors with the continued inability to earn acceptable rates of return from high quality bonds and GICs.

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Canadian T-Bills and Bonds

	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014
90 day	**0.91%**	**0.89%**	0.93%
180 day	**0.96%**	**0.91%**	0.96%
1 year	**0.99%**	**0.95%**	1.00%
2 year	**1.14%**	**1.07%**	1.10%
5 year	**1.95%**	**1.73%**	1.53%
10 year	**2.77%**	**2.47%**	2.24%
30 year	**3.23%**	**2.96%**	2.78%

U.S. T-Bills and Bonds

	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014
90 Day	**0.07%**	**0.04%**	0.03%
180 Day	**0.09%**	**0.05%**	0.07%
1 year	**0.12%**	**0.11%**	0.11%
2 year	**0.39%**	**0.45%**	0.47%
5 year	**1.75%**	**1.76%**	1.63%
10 year	**3.03%**	**2.74%**	2.52%
30 year	**3.97%**	**3.57%**	3.35%

International 10 Year Bond Yields

	Dec. 31, 2013	Mar. 31, 2014	June 30, 2014
Japan	**0.66%**	**0.63%**	0.56%
U.S.	**2.63%**	**2.74%**	2.52%
Germany	**1.78%**	**1.56%**	1.24%
Canada	**2.56%**	**2.47%**	2.24%
U.K.	**2.71%**	**2.73%**	2.67%
France	**2.32%**	**2.08%**	1.70%
Spain	**4.29%**	**3.22%**	2.65%
Italy	**4.57%**	**3.29%**	2.84%
Portugal	**6.53%**	**4.04%**	3.62%
India	**8.76%**	**8.80%**	8.72%

On August 12th of 2011 Portugese 10 year bonds had a 10.39% yield and now have a 3.62% yield. Similar yield declines have occurred in Spain, Italy, and other peripheral European countries as confidence has improved.

With Canadian and U.S. interest rates falling in 2014, they have reached levels where the potential for further reductions are limited. The U.S. jobless rate is down to 6.1% which is close to full employment, and 288,000 new jobs were added in June. Under these circumstances some wage inflation will likely start to appear and the U.S. Fed will at one point be less willing to hold interest rates at artificially low levels.

For this reason we continue to use daily interest accounts for much of our new fixed income investments.

Equities

S&P/TSX Composite Index 20 Year Chart

S&P 500 20 Year Chart

Power Financial Corp $33.21 *(close June 30th)*

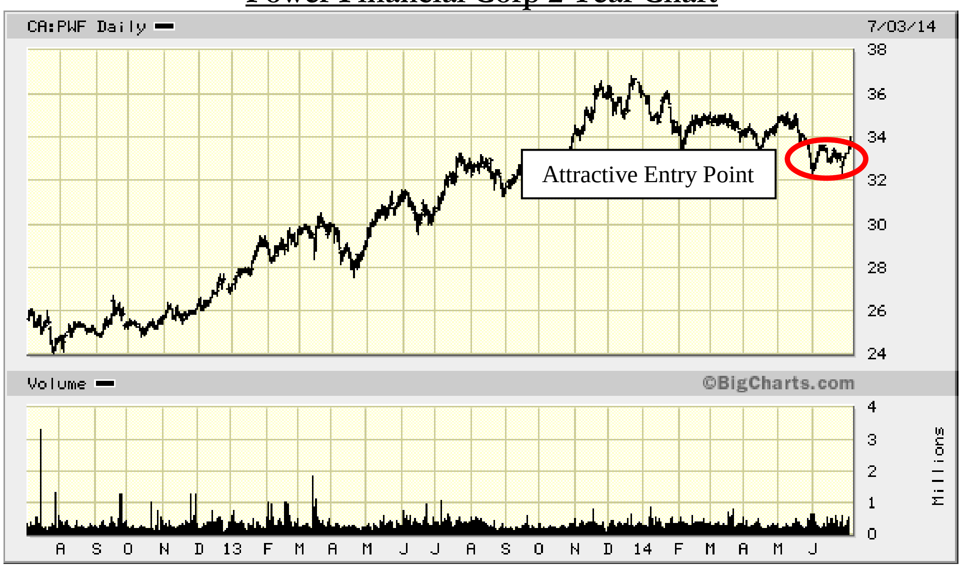
Power Financial is already one of our larger positions and it has pulled back recently creating an attractive entry point.

Power Financial is a diversified company with holdings including Great West Life, London Life, Canada Life, Irish Life, Putnam Investments and Investors Group.

As of June 30th the Price/Earnings ratio was 11.94 times and the dividend yield was 4.2%, a very reasonable valuation.

Insurance companies benefit from rising rates and I feel that there is capital gain potential over the next few years in addition to the very attractive yield.

Power Financial Corp 2 Year Chart



Johnson & Johnson $104.62 *(close June 30th)*

JNJ was highlighted in our March 31st newsletter at $98.23 and closed the second quarter at $104.62, a 6.5% gain, outperforming the S&P 500. The dividend was increased during the quarter from $2.64 to $2.80 per year, a 6% increase. We continue to feel that JNJ is well positioned for the increase in demand for health care services from Baby-Boomers.

Johnson & Johnson 2 Year Chart

Public Pension Plans

Recently I was e-mailed the 2013 report to members for BC Municipal Pension Plan. I was interested in the plan as it illustrates how an institutional portfolio of over $35 billion manages assets for the benefit of its over 290,000 members. I believe it is a well-run plan and it has beaten its benchmarks over the last 5 years. As of Dec 31, 2013 the asset allocation was as follows:

Asset Class	*Weighting*
Fixed Income	21.5%
Public Equity	52.9%
Real Estate	15.1%
Private Placements	4.8%
Infrastructure & Renewable	5.7%
	100%

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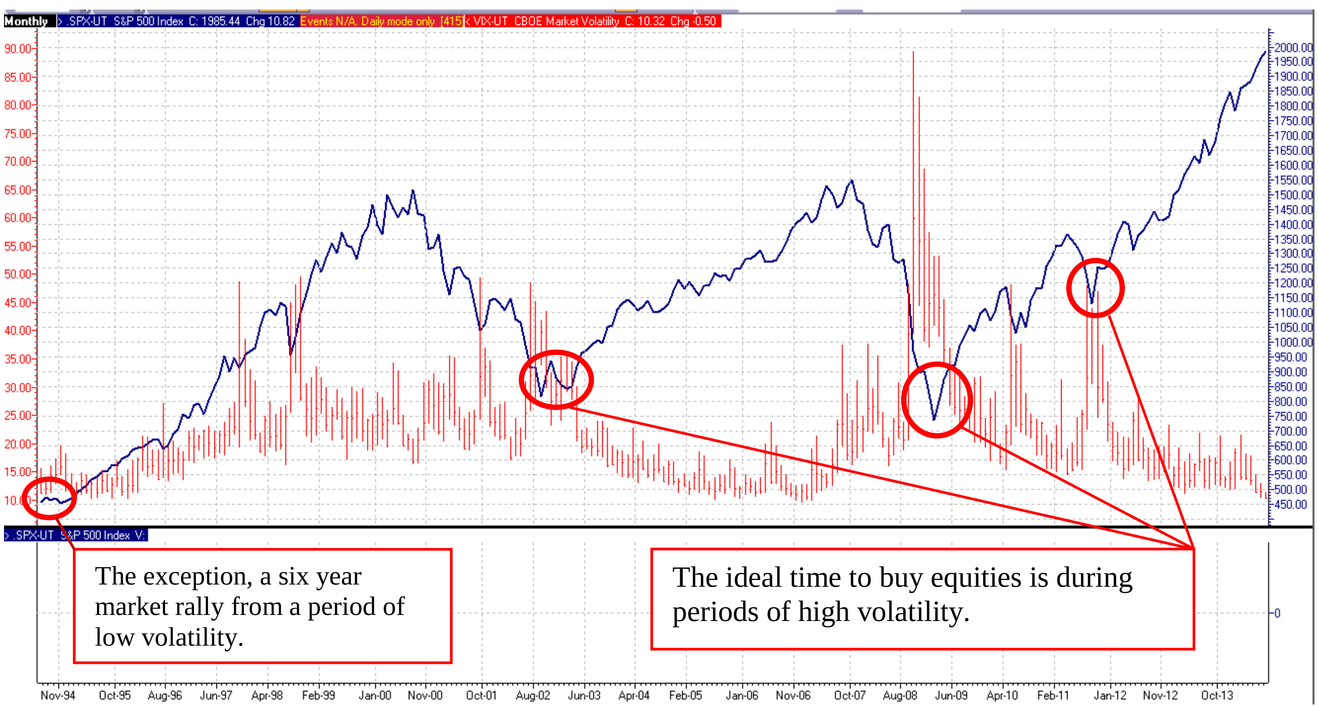
Like our portfolios, it has a real estate component and infrastructure investments. I don't use Private Placements because while they may be efficient for institutional investors, they tend to be expensive and risky for retail investors.

What is most telling to me is that only 21.5% is fixed income, much less than the historical fixed income suggestion of 40% to 60%. My conclusion is that these institutional money managers have decided to invest in equities, with non-guaranteed but expected reasonable returns, rather than make guaranteed returns that will not fund the requirements of their members.

Volatility Index and S&P 500 Index



The above Chart overlays the S&P 500 index (in blue) with the VIX (market volatility) index (in red). While the market rose from a low volatility level from 1994 to 1999, low volatility usually coincides with market tops. The ideal time to buy is of course when investor fear is high and stock prices are low. One of the risks today is that investors aren't fearful enough and a change in sentiment could bring the markets down.

Outlook for 2014

With most of the world's equity markets hitting new highs, it is easy to predict a market correction that may erase some of the recent gains. However, most equities are still inexpensive when compared with bonds, so in the absence of a significant increase in rates, the equity market will likely continue to be the best option to achieve your income and growth goals. We will continue to strive for the right balance so we can participate in the market growth without creating portfolios that are too volatile for your risk tolerance. If you have any questions about your portfolio, please call.

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