



DECEMBER 2015 NEWSLETTER

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Market Review

2015 was a tough year for world markets, with Canada having some of the worst market results among the developed countries. The S&P/TSX was down 11.1%, and the S&P 500 was down 0.78%. The Canadian preferred share market was even worse, with the iShares Canadian Preferred Share Index ETF down 14.95% for the year.

	<u>Dec</u> <u>31/14</u> <u>Close</u>	<u>Sept</u> <u>30/15</u> <u>Close</u>	<u>Dec</u> <u>31/15</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	2,059	1,920	2,043	6.41%	-0.78%
S&P/TSX Composite	14,632	13,306	13,010	-2.22%	-11.1%

Source: Thomson One

The US market was led by the strong returns of a rather limited number of companies such as Facebook, Amazon, Netflix and Google. On the S&P 500, 219 companies were up for the year and 281 down. Of the TSX 60, 18 companies were up and 42 were down. Most of our gains this year came from the currency gains on our US holdings.

<u>World Markets</u>	<u>YTD</u>
S&P/TSX Composite	-11.1%
S&P 500	-0.78%
iShares MSCI China ETF	-11.2%
S&P/TSX Preferred Index	-14.95%
DJ Stoxx 50	0.69%
MSCI Emerging Markets	-16.95%
MSCI Japan	5.73%

As of December 31, 2015

Source: Raymond James Ltd.

2015 Results for our Largest 30 Positions

<u>Position</u>	<u>Investment</u>	<u>Dec 31/14 Close</u>	<u>Dec 31/15 Close</u>	<u>Income</u>	<u>Performance</u>
13	WSP Global Inc.	\$34.86	\$42.51	\$1.50	26.20%
12	Raymond James Financial Inc.*	\$66.59	\$80.28	\$1.11	22.20%
3	Wells Fargo & Company*	\$63.71	\$75.28	\$2.08	21.40%
28	S&P 500 Trust ETF*	\$238.88	\$282.32	\$5.82	20.60%
5	Johnson & Johnson*	\$121.54	\$142.25	\$4.15	20.50%
10	Brookfield Asset Management Inc.	\$38.81	\$43.65	\$0.67	14.20%
23	Brookfield Infrastructure	\$48.65	\$52.38	\$2.94	13.70%
9	Brookfield Renewable Energy LP	\$35.90	\$36.27	\$2.30	7.44%
15	Vermillion Energy 6.5% 10FEB16	\$99.50	\$100.00	6.50%	7.00%
26	BCE Inc. (BELL)	\$53.28	\$53.46	\$2.60	5.22%
30	Fairfax Financial 7.5% 19AUG19	\$115.50	\$113.70	6.60%	5.04%
21	TD Capital 7.243% 31DEC18	\$117.40	\$114.02	6.35%	3.47%
29	Shaw Communications 6.15% 09MAY16	\$105.55	\$101.55	6.06%	2.27%
4	Toronto Dominion Bank	\$55.04	\$54.24	\$2.04	2.25%
24	Russel Metals 6% 19APR22	\$101.25	\$97.00	6.19%	1.99%
8	Home Trust High Interest Savings	\$1.00	\$1.00	1.30%	1.30%
1	Manulife Premium Savings Account	\$10.00	\$10.00	1.00%	1.00%
22	B2B Bank High Interest Savings	\$1.00	\$1.00	0.80%	0.80%
17	Suncor Energy Inc.	\$36.90	\$35.72	\$1.16	-0.05%
19	Fortis Inc.	\$38.96	\$37.41	\$1.50	-0.13%
20	Bank of Montreal	\$82.18	\$78.08	\$3.36	-0.90%
6	H&R REIT	\$21.73	\$20.05	\$1.35	-1.52%

<u>Position</u>	<u>Investment</u>	<u>Dec 31/14 Close</u>	<u>Dec 31/15 Close</u>	<u>Income</u>	<u>Performance</u>
2	Royal Bank of Canada	\$80.24	\$74.15	\$3.16	-3.65%
27	Telus Corporation	\$41.89	\$38.26	\$1.76	-4.46%
18	Riocan REIT	\$26.43	\$23.69	\$1.41	-5.03%
7	Power Financial Corporation	\$36.18	\$31.81	\$1.49	-7.96%
16	Riocan REIT Preferred C	\$25.89	\$22.50	\$1.18	-8.54%
14	Bank of Nova Scotia	\$65.65	\$55.97	\$2.80	-10.50%
25	Fairfax Financial Preferred I	\$22.50	\$17.26	\$1.25	-17.70%

*Performance in Canadian dollars Dec 31/14 \$0.8604, Dec 31/15 \$0.7221

Source: Thomson One

During 2015 we chose to reduce or eliminate positions that had become too risky with the downturn in commodities. In January we sold our Bombardier 7.35% 2026 bonds, mostly at par but some at 98 cents on the dollar. These had been a great income producer for a decade, but the news on Bombardier had deteriorated so they had become too risky for us to own. They currently trade at approximately 67 cents on the dollar. In the summer of 2014 we tendered our Sherritt 8% 2018 bonds at 104.50 and were paid out for one half of them. In the summer of 2015 the base metals market had deteriorated further so we sold the rest at 95 cents on the dollar. These currently trade at approximately 40 cents on the dollar.

We sold the last of our Westshore Terminals in July at around the \$30 level. While WTE has a very good balance sheet and has had insider buying from Jim Pattison, a visit to the Beijing airport convinced me that coal demand will suffer as China attempts to improve its air quality. WTE currently trades at \$11.65 so we were fortunate to exit this position.

On the buy side we purchased Suncor and Freehold Royalty Trust last spring. Most clients are down slightly on these positions, but both companies have some of the best balance sheets in the industry, so should be among the survivors when oil eventually recovers.

We also purchased preferred shares in late 2015, taking advantage of the tax loss selling in the sector and capturing 6% plus dividend yields. These continue to provide equity-type yields.

In 2015 U.S. bond yields rose, producing losses for existing investors. Canadian bond yields fell, providing capital gains to add to the paltry yields

Canadian T-Bills and Bonds Yields

	<u>Jun. 30, 2015</u>	<u>Sept. 30, 2015</u>	<u>Dec 31, 2015</u>
90 day	0.59%	0.42%	0.51%
180 day	0.60%	0.44%	0.51%
1 year	0.59%	0.49%	0.51%
2 year	0.482%	0.515%	0.479%
5 year	0.808%	0.795%	0.733%
10 year	1.681%	1.428%	1.399%
30 year	2.303%	2.196%	2.150%

International 10-Year Bond Yields

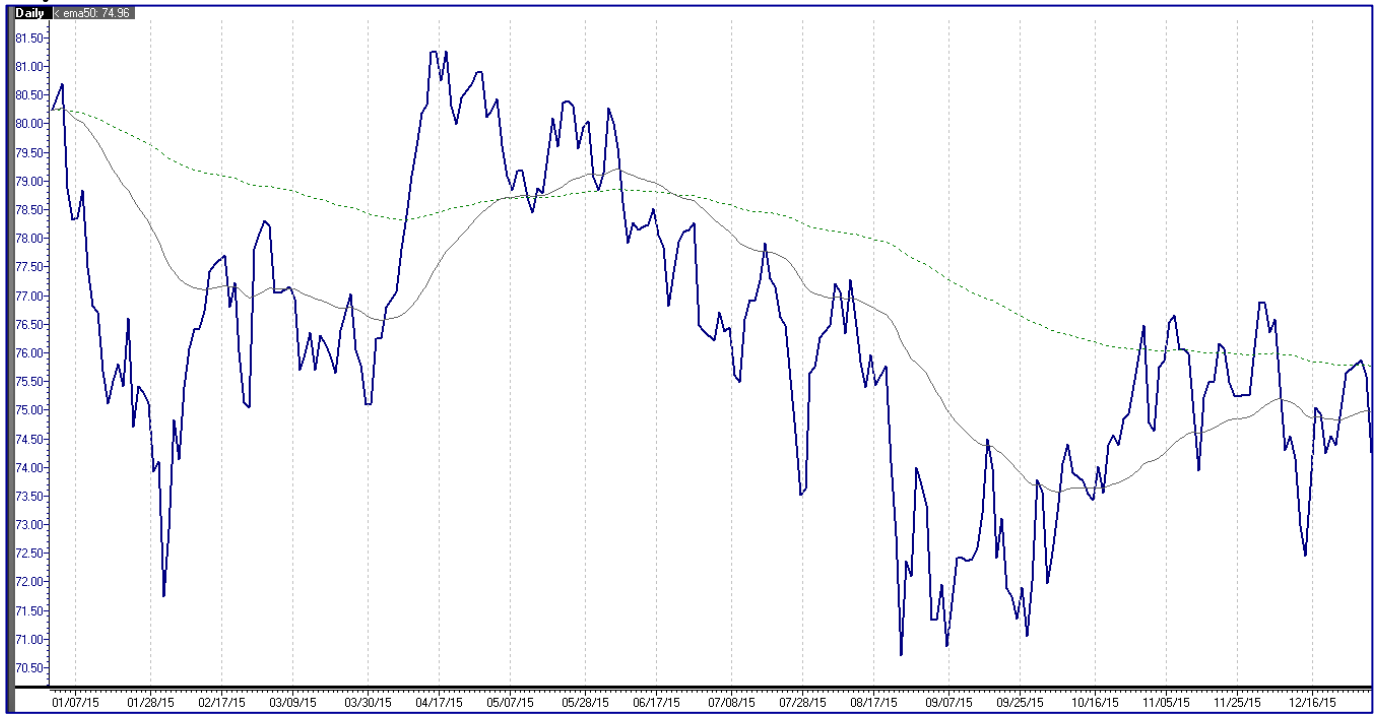
	<u>Jun. 30, 2015</u>	<u>Sept. 30, 2015</u>	<u>Dec. 31, 2015</u>
Japan	0.45%	0.35%	0.26%
U.S.	2.36%	2.03%	2.27%
Germany	0.76%	0.59%	0.63%
Canada	1.68%	1.43%	1.40%
U.K.	2.02%	1.76%	1.96%
France	1.19%	0.98%	0.98%
Spain	2.29%	1.88%	1.76%
Italy	2.33%	1.72%	1.59%
Portugal	2.96%	2.38%	2.49%
India	7.85%	7.54%	7.76%

Source: Bloomberg.com

Taking Advantage of Volatility

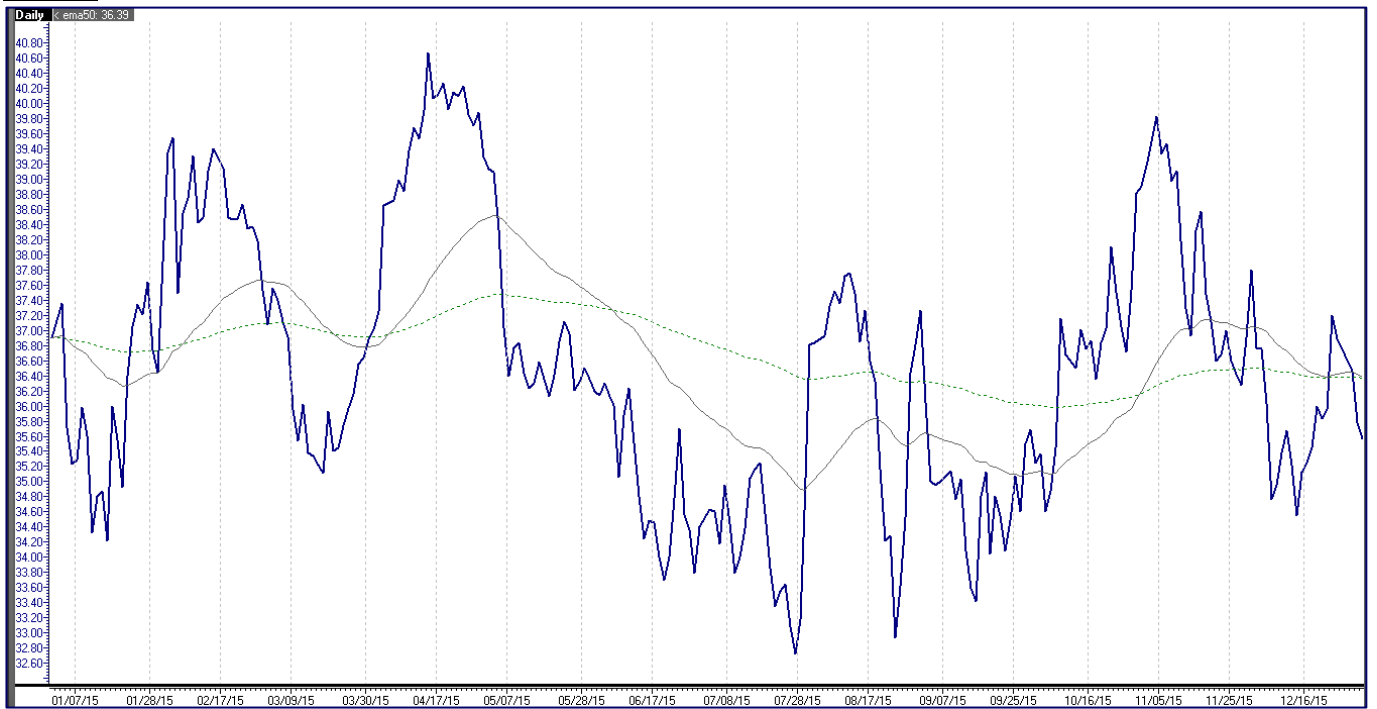
In my ‘Outlook for 2015’ comments in our December 2014 newsletter I commented, “my expectation for 2015 is for more volatility and uncertainty in the markets.” That turned out to be accurate as the following 1 year charts indicate:

Royal Bank



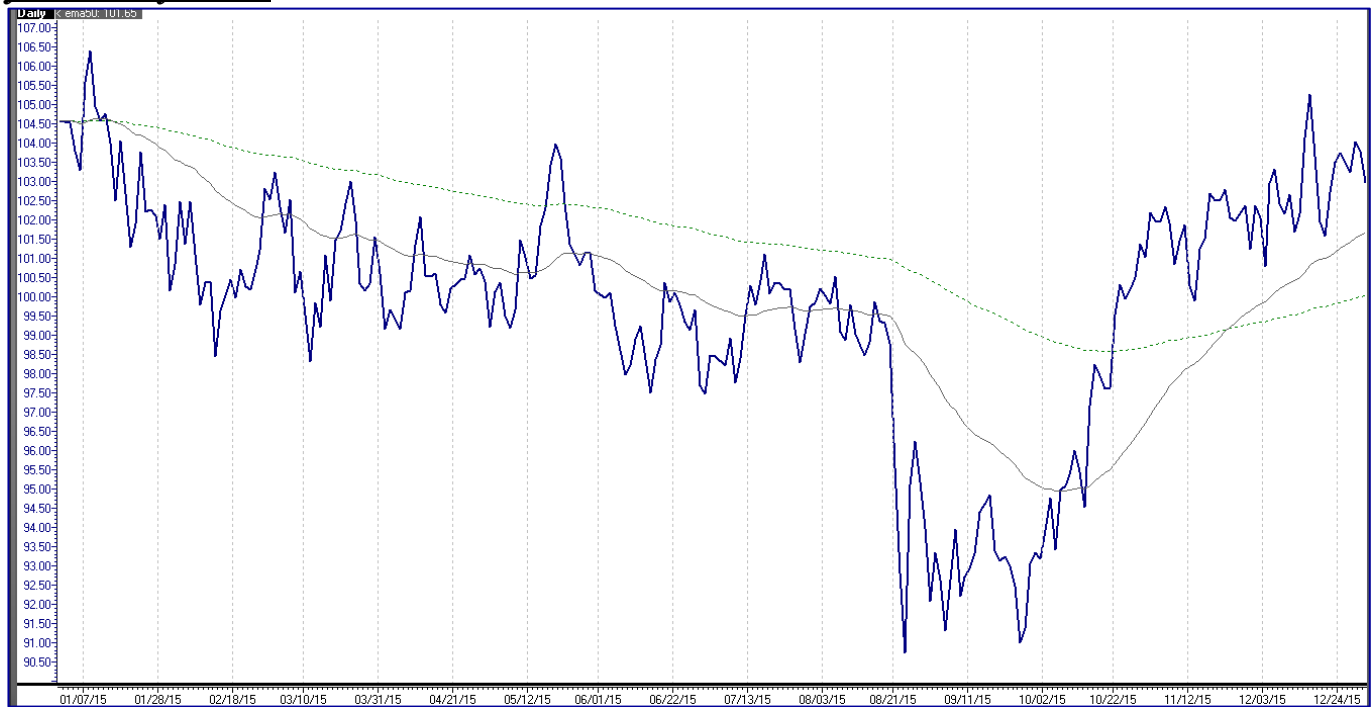
Source: Thomson One

Suncor



Source: Thomson One

Johnson & Johnson



Source: Thomson One

While these companies didn't gain or lose a lot of ground in 2015, the best strategy was to 'buy the dips.' As long as the markets remain volatile I feel that the best strategy is to 'buy the dips' when high quality dividend producing investments are pulled down by market forces.

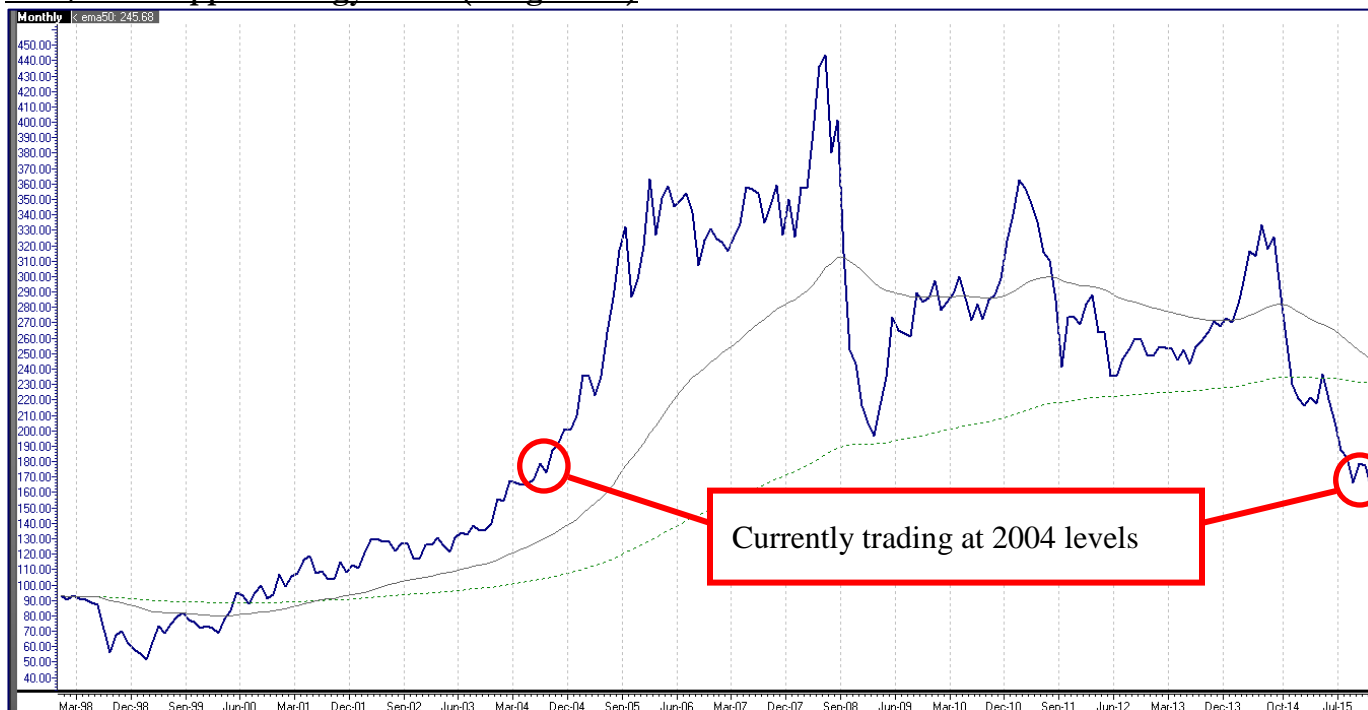
Oil and Gas

Whether we like it or not, Canada is a country that is economically dependent on oil and gas, agriculture, coal, uranium, and other commodities. While commodity producers bear the brunt of falling commodity prices, airlines, banks, restaurants, commercial landlords, construction and home renovations, retail and government rely on the spin offs and royalties from the resource industries. Until the oil price turns up we can expect the Canadian dollar and TSX to underperform the U.S.



A glimmer of hope can be seen with Suncor's offer to buy Canadian Oil Sands. While this is an all stock deal, Suncor would not be attempting this purchase if they thought oil would stay at \$36.50 per barrel.

S&P/TSX Capped Energy Index (Long Term)



Source: Thomson One

Team Update

To provide clients with the best possible advice and service, Meaghan and Mark have been working towards their Certified Financial Planner (CFP) designation. In December both Meaghan and Mark passed the first exam in their studies and in the New Year they write their Applied Financial Planning Certification exams for the Personal Financial Planner (PFP) designation before writing the final CFP exam.

Meaghan has worked on our team in an assistant role for two years while building her money management and investment knowledge, earning her Chartered Investment Manager (CIM) designation in June. Meaghan has been promoted to Associate Financial Advisor. Ian continues to create our investment strategy and you will receive the same investment advice whether you speak to Ian, Mark or Meaghan.

Outlook for 2016

My expectation for 2016 is for further choppy markets, with an upside bias later in the year as oil prices eventually strengthen.

Our strategy is to remain tactical, selling positions that become too vulnerable while adding to the strongest and most competitive companies when market corrections create buying opportunities.

Activities of first quarter 2016

During the next few months we will be contacting clients for their TFSA and RRSP contributions if required. The 2016 TFSA contribution limit is now \$5,500.00 for the year and the deadline for RRSP contributions in the 2015 tax year is Monday, February 29, 2016.

T5 and Summary of Investment Income tax receipts should be mailed to you on February 22, and T3 and T5013 tax receipts should be mailed by March 30. 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.

If you would like a capital gain/loss report for the year please call. Unless you request otherwise we will report U.S. capital gains or losses in Canadian dollar terms to simplify your tax returns.

All the best for 2016!

With the addition of Mark and Meaghan as associate advisors, we now have the ability to take care of more relationships. If you have friends who have expressed an interest in finding a new advisor, we'll be delighted to hear from you and gently follow up with them. Just call our office at 250-729-2830 and we'll take it from there. Thanks!



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