Quarterly portfolio Summary

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Sample Balanced Portfolio September 30, 2013

Current Investment Mix:	%	$	Target %
Fixed Income:	71.58%	$85,824.42	70.00%
Growth:	27.71%	$33,226.38	30.00%
Cash/Cash Equivalents:*	0.71%	$856.53	0.00%
Totals:	100.00%	$119,907.33	100.00%

Estimated Annual Income: $4,642.31

Bond Maturities:	$		
Cash/Cash Equivalents:	$857	**2017**	$15,000
2013	$0	**2018**	$7,000
2014	$7,500	**2019**	$7,500
2015	$7,500	**2020**	$10,000
2016	$7,500	**Preferred Shares:**	$22,437.90
		% of Portfolio:	18.71%

Stock Market Sector Weightings:		
Oil/Gas:	0.00%	
Financial Services:	7.46%	(BMO, Power Financial, Great-West Lifeco)
Mining & Metals:	0.00%	
Gold & Precious Metals:	0.00%	
Industrial Products:	0.00%	
Communications:	5.81%	(BCE Inc., Shaw Communications)
Pipelines:	5.19%	(Transcanada, Enbridge)
Utilities:	1.96%	(Transalta Corp.)
Consumer Staples:	2.36%	(George Weston Ltd.)
Consumer Discretionary:	0.00%	
Real Estate:	0.00%	
Forestry:	0.00%	
Technology:	0.00%	
Mutual Funds:	0.00%	
Exchange Traded Funds:	0.00%	
Inverse ETFs/Short Positions:	-4.90%	(S&P/TSX 60 Index *Inverse* ETF)
Effective Market Exposure:	***17.88%***	

Sample Balanced Portfolio								30-Sep-2013
Quantity	Investment's Description	Credit Rating	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield (%):	Est. Annual Income:
$857	**Cash Balance** Interest/Dividends Received		$1.00	$856.53	$1.00	$856.53	0.00%	$0.00
	Bonds and GICs							
$7,500	**ING Bank of Canada 3.40% GIC** Annual Pay, Matures: 21-Jun-2014	AAA	$100.00	$7,500.00	$100.00	$7,500.00	3.40%	$255.00
$7,500	**HSBC Bank 3.70% GIC** Annual Pay, Matures: 21-Jun-2015	AAA	$100.00	$7,500.00	$100.00	$7,500.00	3.70%	$277.50
$7,500	**Coastal Community CU 2.25% GIC** Annual Pay, Matures: 14-Nov-2016	AAA	$100.00	$7,500.00	$100.00	$7,500.00	2.25%	$168.75
$7,500	**General Electric Capital Canada** 4.55% Bond, Matures: 17-Jan-2017	AA(+)	$100.11	$7,507.88	$106.75	$8,006.33	4.53%	$341.25
$7,500	**Bank of Nova Scotia** 4.10% Bond, Matures: 08-Jun-2017	AA	$100.16	$7,511.78	$105.80	$7,935.08	4.07%	$307.50
$7,000	**TMX Group Ltd.** 3.253% Bond, Matures: 03-Oct-2018	A (high)	$100.76	$7,052.92	$100.76	$7,052.92	3.10%	$227.71
$7,500	**Province of Nova Scotia** 4.15% Bond, Matures: 25-Nov-2019	AA (low)	$99.91	$7,493.18	$108.19	$8,114.40	4.16%	$311.25
$10,000	**Bell Canada**	A	$98.01	$9,801.10	$97.78	$9,777.80	3.58%	$325.00

Quantity	Investment's Description	Credit Rating	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield(%):	Est. Annual Income:
	3.25% Bond, Matures: 17-Jun-2020	(low)						
	Bond and GIC Totals:			**$61,866.85**		**$63,386.52**	3.58%	**$2,213.96**
	Preferred Shares:							
210	**IGM Financial Inc.** 5.90% Preferred (IGM.PR.B)	Pfd-2 (high)	$24.10	$5,061.00	$25.40	$5,334.00	6.12%	$309.75
250	**George Weston Ltd** 5.20% Preferred (WN.PR.D)	Pfd-3	$20.69	$5,172.50	$23.75	$5,937.50	6.28%	$325.00
230	**The Toronto-Dominion Bank** 5.25% Preferred (TD.PR.P)	Pfd-1 (low)	$22.98	$5,285.40	$25.97	$5,973.10	5.71%	$301.88
210	**Power Corp.** 4.60% Preferred (POW.PR.G)	Pfd-2 (high)	$24.73	$5,193.30	$24.73	$5,193.30	5.66%	$294.00
	Preferred Share Totals:			**$20,712.20**		**$22,437.90**	5.94%	**$1,230.63**
	Common Shares:							
	Financial Sector:	*7.468%*						
42	**Bank of Montreal**	BMO	$63.19	$2,653.98	$68.75	$2,887.50	4.68%	$124.32
91	**Power Financial Corp.**	PWF	$29.30	$2,666.30	$32.05	$2,916.55	4.78%	$127.40
105	**Great-West Lifeco Inc.**	GWO	$25.45	$2,672.25	$30.01	$3,151.05	4.83%	$129.15
				$7,992.53		**$8,955.10**		

Quantity	Investment's Description	*Symbol*	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield(%):	Est. Annual Income:
	Communications Sector:	*5.814%*						
85	**BCE Inc.**	BCE	$31.36	$2,665.60	$44.02	$3,741.70	7.43%	$198.05
135	**Shaw Communications Inc.**	SJR.B	$19.67	$2,655.45	$23.92	$3,229.20	5.19%	$137.70
				$5,321.05		**$6,970.90**		
	Pipeline Sector:	*5.191%*						
71	**Transcanada Corp.**	TRP	$37.93	$2,693.03	$45.25	$3,212.75	4.85%	$130.64
70	**Enbridge Inc.**	ENB	$24.93	$1,745.10	$43.02	$3,011.40	5.05%	$88.20
				$4,438.13		**$6,224.15**		
	Utilities Sector:	*1.964%*						
176	**TransAlta Corp**	TA	$19.67	$3,461.88	$13.38	$2,354.88	5.90%	$204.16
	Consumer Staples Sector:	*2.365%*						
35	**George Weston Ltd.**	WN	$75.59	$2,645.65	$81.01	$2,835.35	2.20%	$58.10
	Common Share Totals:			**$23,859.24**		**$27,340.38**	5.02%	**$1,197.72**

Quantity	Investment's Description	*Symbol*	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield(%):	Est. Annual Income:
	Inverse (ETFs):	*4.909%*						
600	**Horizons BetaPro Inverse ETF S&P/TSX 60 Index**	HIX	$11.06	$6,633.00	$9.81	$5,886.00	0.00%	$0.00
	ETF Totals:			**$6,633.00**		**$5,886.00**	0.00%	**$0.00**
	Stock Market Investments:			**$30,492.24**		**$33,226.38**		**$1,197.72**
	Investment Portfolio Totals:			**$113,927.82**		**$119,907.33**	4.07%	**$4,642.31**

Bond pricing = *The 'Bid' price as at the close of the last trading day in the period. Data provided by Bondview.*
Stock market data = *closing trade on the last trading day in the period. Data provided by QuoteMedia.*

Review: Balance Portfolio

What changes did you make in the 3rd quarter?

There were three changes made to the portfolio;

1. Fortis Inc. redeemed the portfolio's investment in the Series C, preferred shares, on July 10, 2013 at $25.00, plus accrued dividends of $0.1456, per share.
2. To replace the redeemed preferred shares, the portfolio purchased 210 perpetual preferred shares issued by Power Corporation at a price of $24.73 each. These shares provide an annual yield equal to 5.66%.
3. Using most of the portfolio's accumulated income, the portfolio invested in a $6,000 par value, bond issued by TMX Group Limited. The bond will mature on October 3, 2018 and pays a semi-annual yield equal to 3.096%. This bond fills a gap in the portfolio's fixed income maturity ladder.

Why are you buying bonds and preferred shares when interest rates are rising?

Yes, interest rates have risen recently. But we maintain our belief that interest rates will remain low and are not on the verge of a new, long-term, rising trend. We attribute the recent increase in interest rates to the U.S. Federal Reserve's May statement that they would begin to decrease (*Taper*) the amount of bonds and Mortgage Backed Securities (MBS) purchased each month through their Quantitative Easing (QE) program.

With reference to the Federal Reserve's QE program, we continue to believe:

- The assets accumulated (some $3.8 trillion and growing) through the QE programs are now a permanent feature of the Federal Reserve's balance sheet. Contrary to popular belief, the Federal Reserve will not be selling these assets and reducing its balance sheet back to the pre-financial crisis level of $800 billion.
- If and when the Federal Reserve decides to decrease the amount of monthly purchases made under QE, the decrease is not a tightening in monetary policy and should not lead to a new, long-term, rising trend in interest rates.

Note: *If and when monthly QE purchases decline, we do believe that interest rates should move back to a more normal, market-centric, level. If we were to guess, we would throw out a rate of maybe - 3.40% - on the U.S10-year Treasury bond. We continue to believe the current economic conditions should [keep inflation and interest rates low] for the next few years.*

Why not invest more in the stock market?

We always tend to be more cautious as stock markets move higher toward new highs- especially as they move above previous peaks. Historically, as stock market indices rise, the regular economic and business cycles are growing and maturing. As the stock markets and economies move into their fifth year of recovery, they are probably closer to a peak than investors realize.

On a whole, economic activity continues to be very sluggish; corporate profit growth rates are declining and stock market valuation metrics appear to be stretching to justify higher prices.

Note: *Even with slower economic, revenue and profit growth, stock market prices can still move higher if investors remain willing to pay higher and higher valuation multiples – expanding Price To Earnings (P/E) ratios, for example.*

At this point in the cycles it is difficult for us to add to the portfolio's stock market investments. We are comfortable with the portfolio's current investments.

The portfolio's current asset allocation is consistent with the criteria and objectives as set out by its Investment Policy Statement (IPS).

What are your worries or concerns for investors today?

We still have many of the same concerns outlined in our second quarter review summary.

Mainly,

- **Short-term:** We worry about;
    - The absence of accelerating economic growth in Europe, North America and Asia. Here we are, five years after the economic crisis, $22 trillion of liquidity injections into financial systems and all we have to show for it are higher stock markets, lower interest rates and *sluggish* economic growth. We worry, like many do, that additional liquidity infusions by central banks will only exacerbate the distortions within financial markets and we are uncertain about

market volatility if the liquidity ceases to be injected. *We feel social and demographic trends may be working against central banks and their QE initiatives.*

- **Longer-term:** We remain concerned with
    - The demographic shift in investment focus from growing assets to investing for income as so many baby boomers approach retirement. A most difficult objective with interest rates suppress at current levels.
    - The current financial health of the baby boomers as they carry greater amounts of debt into their retirement years; as pension plan benefits fail to support their financial security in retirement and the growing trend where baby boomers delay their retirement or continue to work during *retirement*.
    - Governments around the world continue to spend more than they *make* – continue to run large annual deficits. Governments can only increase their revenues by two processes – economic growth and/or raising income tax rates. Unless economic growth begins to pick-up, we fear governments will focus more and more on raising income tax rates.
    - The growing trend within the developed economies is to raise taxation – both for corporations and individuals. For example,
        - In Canada, a number of provinces have now introduced surtaxes on higher income individuals, higher tax rates on small business dividends, added healthcare 'fees/premiums' based upon taxable incomes, decreased individual income tax credits, etc. all in an effort to raise tax revenue. We fear corporations will be next – potentially reducing profits and stock prices.
        - In Europe, governments are now drafting new income tax rules for corporations in an effort to stop tax avoidance, which is rampant for multi-national corporations like Apple, Google, Intel, Microsoft, Starbucks, General Electric, etc. These measures, if passed, will substantially increase income tax expense for corporations and decrease the profits supporting stock market prices.
        - In the United States, with their ongoing annual deficits, rising social costs (Food Stamps, Obama-care, Social Security (SS), SS disability payments, etc.) and sluggish economy, it could just be a matter of time before they begin to look at raising income tax rates, for individuals and corporations.

Our short and long-term concerns are certainly obstacles investors will need to negotiate, but they are not *do-or-die, end of the world* in their implications.

What are you watching right now?

We are very interested in two areas that may influence how investors make decisions about their savings.

1. Over-riding questions for many investors, *how will central banks reverse the extraordinary liquidity they have injected into the financial systems – or maybe they won't?* Maybe all of the newly created liquidity is now a permanent feature on central bank balance sheets! *What new economic theories will central banks adopt as policy?* We believe the liquidity will not be reversed, but will remain part of the financial systems' new structure. Recent history demonstrates that simply reducing monthly liquidity injections will be nearly impossible. So we are deeply interested in how QE is dealt with, how the capital markets, consumers and overall economies respond and what new, untested, economic theories will be adopted by central banks.
2. We are closely watching the oil market and specifically the Iranian situation. Should the current round of talks prove successful and international sanctions against Iranian oil exports are removed, this new supply could have very negative implications for oil prices. Iran is estimated to have the third largest (Canada is second) proven oil reserves in the world. Currently, it is estimated Iran produces 2.46 million barrels per day, down from 4.4 million in 2007. Should the sanctions be lifted, Iran can easily add 1.46 million barrels/day of oil production, within 30 days, and actually reach 5.0 million barrels/day within 18-months. This added supply would put downward pressure on the current oil price negatively affecting Canadian investors. (While investors might be hurt, consumers would reap huge economic benefits.)

What investment changes are you considering for the portfolio?

Right now, no changes are contemplated. While we are cautious about stock market values at these levels, we are comfortable with the portfolio's conservative asset allocation and the reliability of its investment income stream.

If the economy can gain a stronger footing and begin to grow at a healthier rate, then we would be inclined to sell the portfolio's investment in the Inverse Exchange Traded Fund *(Horizon BetaPro Inverse S&P/TSX 60 Index ETF - HIX)* and invest the proceeds in a TSX index ETF for greater exposure to the stock market.