Quarterly portfolio Summary

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Sample ETF Portfolio September 30, 2013

Current Investment Mix:	%	$	Target %
Fixed Income:	63.71%	$16,193.03	65.00%
Growth:	35.93%	$9,133.53	35.00%
Cash/Cash Equivalents:*	0.36%	$90.88	0.00%
Totals:	100.00%	$25,417.44	100.00%
Estimated Annual Income:		$798.78	
Est. Annual Investment Costs:	0.22%	$57.06	

Bond Maturities:	$		
Cash/Cash Equivalents:	$91	**2018***	$1,441
2014*	$1,441	**2019**	$0
2015*	$1,441	**2020**	$5,000
2016*	$1,441	**2021**	$5,000
2017*	$1,441		
**Estimated maturity in ETFs*		**Preferred Shares:**	$1,543.75
		% of Portfolio:	6.07%

Stock Market Sector Weightings:	$9,133.53	Invested for growth & allocated to
Energy *(includes pipelines)*	17.80%	(Horizon S&P/TSX 60 Equal Weight Index)
Financial Services:	11.35%	(Horizon S&P/TSX 60 Equal Weight Index)
Mining & Metals:	13.27%	(Horizon S&P/TSX 60 Equal Weight Index)
Gold & Precious Metals:	0.00%	
Industrial Products:	18.63%	(Horizon S&P/TSX & BMO Industrials ETFs)
Communications:	2.99%	(Horizon S&P/TSX 60 Equal Weight Index)
Utilities:	16.76%	(BMO Utilities & Horizon S&P/TSX ETFs)
Consumer Staples:	5.60%	(Horizon S&P/TSX 60 Equal Weight Index)
Transportation:	3.43%	(BMO Industials Index)
Consumer Discretionary:	7.03%	(Horizon S&P/TSX 60 Equal Weight Index)
Health Care:	2.37%	(Horizon S&P/TSX 60 Equal Weight Index)
Real Estate:	0.00%	
Forestry:	0.00%	
Technology:	0.77%	(Horizon S&P/TSX 60 Equal Weight Index)
Inverse ETFs/Short Positions:	0.00%	
	100.00%	

Sample Exchange Traded Fund Portfolio									30-Sep-2013
	Investment's Description	**Credit Rating**	**Average Cost:**	**Book Value:**	**Current Price:**	**Market Value:**	**Yield:***	**Est. Annual Income:**
$91	**Cash Balance** Interest/Dividends Received		$1.00	$90.88	$1.00	$90.88	0.00%	$0.00
	Bonds and GICs:							
725	**First Asset DEX 1-5 Year Laddered Government Strip Bond Index**	(BXF)	$9.94	$7,206.50	$9.95	$7,213.75	2.16%	$155.72
$5,000	**Transcanada Pipelines Ltd** Discount Bond, Matures: 20-Nov-2020	A	$76.54	$3,826.80	$75.56	$3,777.95	3.66%	$153.14
$5,000	**Bell Canada** Discount Bond, Matures: 01-Jun-2021	A (low)	$72.35	$3,617.40	$71.33	$3,566.70	4.14%	$167.96
	Cash, Bond and GIC Totals:			**$14,741.58**		**$14,649.28**	3.23%	**$476.82**
	Preferred Shares:							
95	**iShares S&P/TSX Canadian Preferred Share Index**	CPD	$16.71	$1,587.45	$16.25	$1,543.75	4.37%	$69.38
	Fixed Income Investment Totals:			**$16,329.03**		**$16,193.03**	3.34%	**$546.20**

shares	Investment's Description	Credit Rating	Average Cost:	Book Value:	Current Price:	Market Value:	Yield:*	Est. Annual Income:
	Growth Investments:							
		Broad Market Index:						
540	**Horizon S&P/TSX 60 Equal Weight Index**	HEW	$10.65	$5,751.00	$11.17	$6,031.80	2.45%	$141.09
		Industrial Products Sector:						
87	**BMO S&P/TSX Equal Weight Industrials Index**	ZIN	$17.27	$1,502.49	$18.84	$1,639.08	2.14%	$32.21
		Utilities Sector:						
105	**BMO S&P/TSX Equal Weight Utilities Index**	ZUT	$14.25	$1,496.25	$13.93	$1,462.65	5.30%	$79.28
	Growth Investment Totals:			**$8,749.74**		**$9,133.53**	2.89%	**$252.58**
	ETF Portfolio Totals:			**$25,078.77**		**$25,417.44**	3.19%	**$798.78**

Est. Annual Income includes the accrued interest earned on the discount bonds.
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.*
* **Distribution Yield** = *the 12-month trailing $ distributions divided by the portfolio's Average Cost - representing the portfolio's yield, not the market yield. The ETF distributions may include a Return of Capital and it may not be accurate to compare individual ETF distribution yields.*

Review: ETF Portfolio

What changes did you make in the 3rd quarter?

No changes were made to the portfolio.

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.*

You bought a bond and a preferred share in the other two sample portfolios, 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.

The sample ETF portfolio is scheduled to receive another deposit ($5,500) in January 2014 and if the economy can gain a stronger footing and begin to grow at a healthier rate, then we would be inclined to add to the portfolio's ETFs – maintaining the portfolio's target asset allocation.