

Quarterly portfolio Summary



Sample Income Portfolio

September 30, 2013

<u>Current Investment Mix:</u>	<u>%</u>	<u>\$</u>	<u>Target</u>
Fixed Income:	99.47%	\$116,065.49	100.00%
Growth:	0.00%	\$0.00	0.00%
Cash/Cash Equivalents:*	0.53%	\$617.43	0.00%
Totals:	100.00%	\$116,682.92	100.00%

Estimated Annual Income: \$4,567.74

<u>Bond Maturities:</u>	<u>\$</u>		
Cash/Cash Equivalents:	\$617	2017	\$22,000
2013	\$0	2018	\$6,000
2014	\$15,000	2019	\$11,000
2015	\$15,000	2020	\$15,000
2016	\$7,500	Preferred Shares:	\$22,562.05
		% of Portfolio:	19.34%

Stock Market Sector Weightings:

Oil/Gas:	0.00%
Financial Services:	0.00%
Mining & Metals:	0.00%
Gold & Precious Metals:	0.00%
Industrial Products:	0.00%
Communications:	0.00%
Pipelines:	0.00%
Utilities:	0.00%
Consumer Staples:	0.00%
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:	0.00%
<i>Effective Market Exposure:</i>	0.00%

Sample Income Portfolio

30-Sep-2013

Quantity	Investment's Description	Credit Rating	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield(%):	Est. Annual Income:
\$617	Cash Balance Interest/Dividends Received		\$1.00	\$617.43	\$1.00	\$617.43	0.00%	\$0.00
<u>Bonds and GICs</u>								
\$15,000	ING Bank of Canada 3.40% GIC Annual Pay, Matures: 21-Jun-2014	AAA	\$100.00	\$15,000.00	\$100.00	\$15,000.00	3.40%	\$510.00
\$15,000	HSBC Bank 3.70% GIC Annual Pay, Matures: 21-Jun-2015	AAA	\$100.00	\$15,000.00	\$100.00	\$15,000.00	3.70%	\$555.00
\$7,500	Coastal Comm. CU 2.25% GIC Annual Pay, Matures: 15-Nov-2016	AAA	\$100.00	\$7,500.00	\$100.00	\$7,500.00	2.25%	\$168.75
\$12,000	General Electric Capital Canada 4.55% Bond, Matures: 17-Jan-2017	AA(+)	\$100.10	\$12,012.00	\$106.75	\$12,810.12	4.53%	\$546.00
\$10,000	Bank of Nova Scotia 4.10% Bond, Matures: 08-Jun-2017	AA	\$100.16	\$10,015.70	\$105.80	\$10,580.10	4.07%	\$410.00
\$6,000	TMX Group Limited 3.253% Bond, Matures: 03-Oct-2018	A (high)	\$100.76	\$6,045.40	\$100.76	\$6,045.40	3.10%	\$195.18
\$11,000	Province of Nova Scotia 4.15% Bond, Matures: 25-Nov-2019	AA (low)	\$99.91	\$10,990.10	\$108.19	\$11,901.12	4.16%	\$456.50

\$15,000	Bell Canada 3.25% Bond, Matures: 17-Jun-2020	A (low)	\$98.01	<u>\$14,701.65</u>	\$97.78	<u>\$14,666.70</u>	3.58%	<u>\$487.50</u>
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Bond and GIC Totals:				\$91,264.85		\$93,503.44	3.65%	\$3,328.93
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Quantity	Investment's Description	Credit Rating	Average Cost:	Book Value:	Current Price:	Market Value:	Annual Yield(%):	Est. Annual Income:
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Preferred Shares:

220	IGM Financial Inc. 5.90%, Preferred (IGM.PR.B)	Pfd-2 (high)	\$24.10	\$5,302.00	\$25.40	\$5,588.00	6.12%	\$324.50
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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
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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
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225	The Toronto-Dominion Bank 5.25%, Preferred (TD.PR.P)	Pfd-1 (low)	\$22.98	<u>\$5,170.50</u>	\$25.97	<u>\$5,843.25</u>	5.71%	<u>\$295.31</u>
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Preferred Share Totals:				\$20,838.30		\$22,562.05	5.94%	\$1,238.81
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Investment Portfolio Totals:				\$112,720.58		\$116,682.92	4.05%	\$4,567.74
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Bond pricing = Bid Price as at the close of the last trading day in the period. Bond data provided by Bondview.

Stock market data = Last trading price for the last trading day in the period. Stock market data provided by QuoteMedia.

Review: Income 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.S 10-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?

The investments held by the sample income portfolio are governed by the criteria and objectives outlined in its Investment Policy Statement (IPS). As a result, investing in the stock market is not an option given the portfolio's investment objectives.

The portfolio's current asset allocation is consistent with the criteria and objectives as set out by its 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 suppressed 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.