

PPM GROUP

OF RBC DOMINION SECURITIES



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INTEGRITY, TRUST AND EXPERIENCE

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WELCOME & THANK YOU

A warm welcome to the clients who have recently joined us, and a special thank you to the people who mentioned our name to them. We appreciate your trust and support.

BEST OF THE BUNCH

2016 started off in a dramatic fashion with the S&P 500 and the Toronto Stock Exchange both down significantly during the month of January and through the first half of February. Since then we have seen a recovery with the markets making back what they gave up. This may be the prevailing trend for this year. After very strong years in the equity markets in 2013 and 2014, stocks took a breather in 2015. Although we hope 2016 will be a better year than 2015, we are not forecasting big gains. This year may be a choppy one as stocks got ahead of fundamental economic indicators. The result of this is that shares have become more susceptible to negative headlines. These negative moves are then exacerbated by the herd mentality of high frequency trading. However, with interest rates as low as they are, we continue to believe that good, dividend-paying companies are the best store of value as well as the best way to generate income – and investors might have to accept some volatility in the near term.

At the beginning of January this year, Chinese economic data was released which indicated that the Chinese economy was growing more slowly than previously reported. The Chinese government also removed safeguards in their market that had prevented shares from declining more than a set amount per day. These two factors led to a free fall in the Chinese stock market and caused the rest of the world to wonder whether China would slow down enough to create a global crisis. China was able to largely avoid the great recession of 2008 by implementing mass infrastructure projects to keep their young employed. This plan worked very well but was never going to be a permanent solution. China's biggest customers were hit hard by the financial meltdown eight years ago and it is no surprise that China is slowing as a result – Mr. and Mrs. Smith simply aren't buying as many BBQs and TVs as they were a decade ago. Therefore, though we will continue to keep a close eye on China, we believe the U.S. economy will be the one which leads us.

The U.S. economy is slowly recovering. It is likely this trend continues and that policy makers will do everything they can to make sure it does. The U.S. Federal Reserve began the process of normalizing interest rates by raising them at the end of last year for the first time since the financial collapse. Since then, Janet Yellen, who is the chair of the Federal Reserve, has been very clear that the U.S. will take its time raising rates and not risk the global recovery.

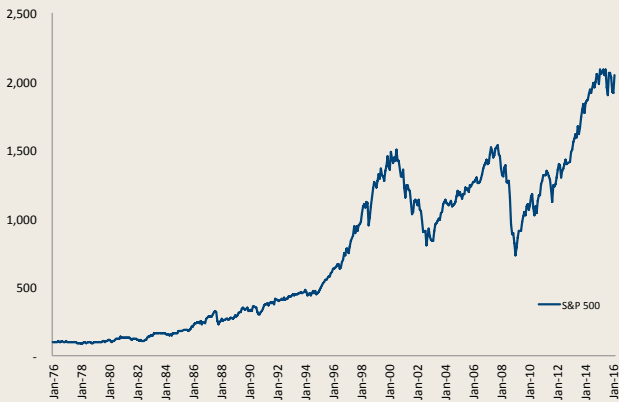
The extreme caution displayed by the U.S. Federal Reserve surrounding interest rate hikes has led to a selloff in the U.S. dollar and, as a result, a rise in the Canadian dollar. The stabilization of the price of oil also helped boost the Canadian dollar. We do not think this trend will continue over the near term. The Canadian economy is only beginning to feel the effects of the lower oil prices. Further to this, the government

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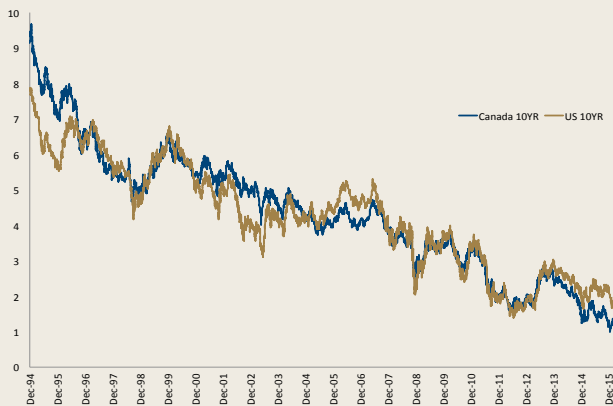
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S&P 500 Long-Term Return



Source: Bureau of Labor Statistics, Statistics Canada, RBC Economics Research

U.S. vs. Canada 10-Year Bond Yield



Source: Federal Reserve Board, Statistics Canada

is implementing a large infrastructure plan which, whether it is a good thing or not for our economy, is not going to lead to strength in our dollar. In the U.S., the economy is recovering and interest rates will likely rise slowly – both positives for the U.S. dollar. At some point over the next few years, the supply/demand imbalance in the oil markets will correct itself and the price of oil will recover – at this point there will be more sustainable strength in the Canadian dollar, but not until then.

Good quality equities cannot be reproduced overnight like cash and bonds. Due to mergers and acquisitions, the number of good companies may even be decreasing. Low interest rates make borrowing money to fund such consolidating transactions attractive. Even with rates set to rise, this trend will continue.

Bonds currently pay next to nothing and do not fare well in rising interest rate environments. Though bonds serve a purpose in a portfolio, helping to smooth out the volatility inherent with equity investing, most of your growth and income will come from your equity holdings over the near term.

Commodities are in a bear market and are likely to stay there for some time. This all links back to the slowdown in production in China (and globally) and, as a result, less consumption of commodities worldwide.

In today's environment, equities really are the best asset class of the bunch. We suspect volatility will continue with stocks susceptible to negative news. However, as a long-term, value-oriented investor, equities offer the best prospects among all asset classes. It will not be perfect, and very well may be a bumpy ride, but we think good quality companies will stand the test of time the best, and provide the greatest returns as well as capital protection.

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