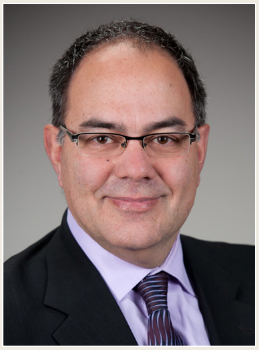
RBC Dominion Securities Inc.

Richard's Report

WINTER 2016



Richard Dupuis
Vice President & Portfolio Manager
705-743-4571
richard.dupuis@rbc.com

Loriann Sharp
Administrative Assistant
705-743-4957
loriann.sharp@rbc.com

Lesley Perks
Associate
705-743-4337
lesley.perks@rbc.com

RBC Dominion Securities
60 Hunter Street
Peterborough, ON K9H 1G5
www.rbcds.com/richard.dupuis

Annual Charitable Donation

This past holiday season, we directed our annual donation, made on behalf of our clients, to our local organization YES – Shelter for Youth and Families. YES helps youth and families in Peterborough live full and positive lives by providing shelter, education and transitional supports. YES provides emergency shelter to hundreds of youth and families in crisis – any time, any day of the year.

Here are a few of their 2014 successes taken from the YES website:

- 28 different families and 177 different youth stayed in their emergency shelter
- 38 youth attended their on-site high school
- 250 households used their food cupboard, feeding 900 individuals
- 44 youth with involvement with the Children's Aid Society received dedicated support from their Youth-In-Transition worker program

Still Not Out of the Woods

by Matt Barasch and Jim Allworth, RBC Portfolio Advisory Group

The correction that began last summer may have been in hibernation for a while, but once again appears to be rearing its ugly head. We continue to believe that while this bumpy road may have some months left to run, the secular bull market that began in 2009 remains in place.

Back in August, equity markets worldwide came under intense pressure driven by collective fears over weakness in China, a continued decline in oil and other commodities, and an impending Fed rate hiking cycle. Soon after, markets appeared to find their footing. But in recent days, we once again appear to be in the midst of a sharp worldwide correction.

In August, we felt that the corrective phase was likely to drag on for some weeks or even months, but that the equity secular bull market that began in 2009 still had significant room to run.

We reiterate this view now.

Continued on page 2

Still Not Out of the Woods

continued from page 1

What's Causing the Sell-off?

Many of the same issues that plagued the market in August are continuing to act as an overhang:

China Weakness. China has undertaken a shift in its economy from one overly dependent on investment to one more balanced between investment and consumption. While a subsequent slowing of the Chinese economy was expected, markets have become concerned that Chinese growth has slowed too much and policy has become unpredictable. Ironically, we have seen some economic stabilization out of China since August with manufacturing and growth metrics no longer falling. However, the somewhat disjointed approach China has taken to weakening the renminbi and continued government intervention in domestic equity markets have become new areas of concern.

Fed Tightening. Historically, Fed rate hiking cycles have not been bad for stocks. In fact, because it tends to speak to the strengthening of the U.S. economy, Fed tightening is often accompanied by continued equity market strength. However, bouts of volatility are not uncommon as the market repositions for higher rates. Back in August, we thought the first Fed rate hike would likely come in September and that there would be a period of volatility in the wake of this. Rather, the first Fed rate hike did not come until December, which may have delayed this period of volatility to the present time.

Commodity Sell-off. The ongoing decline in crude oil prices has spooked investors, as it is viewed as an indicator that global growth is slowing. We continue to believe that the larger problem for oil is too much supply (most measures of demand, especially those in developed economies, have been rising smartly) and is not indicative of a sharper global slowdown. In the near term, the return of Iranian barrels to the market is likely to act as an overhang. However, we believe as the year unfolds, supplies, which have already begun to decline in the U.S., are likely to peak and help to stabilize oil prices. It also appears that much of the recent oil sell-off has been technically driven with record short sales for large managed money and hedge funds.

The U.S. Economy Remains on Firm Ground

While the above issues are near-term headwinds, we would continue to point to strong underlying fundamentals within the world's largest economy.

- The U.S. continues to generate more than 200,000 jobs per month on average and has created nearly 12 million jobs over the past four years.
- Consumer balance sheets are in good shape with a rising savings rate. Further, while interest rates may be poised to rise, they remain near historically low levels and the cost of servicing debts remains very low. Add to this the sharp decline in gasoline prices and consumers have a significant amount of dry powder.
- The housing market continues to improve with starts recently hitting six-year highs. Stronger consumer balance sheets coupled with banks that are in good shape and willing to lend could provide a further tailwind for the economy—one that has been largely absent for much of the past decade.

Emerging Markets Bear Watch

- Emerging markets (EMs) are feeling a significant amount of pressure with some pointing to the current situation as a replay of the Asian Financial Crisis of 1997–98.
- While it is beyond the scope of this piece, suffice it to say that a combination of persistent U.S. dollar strength, which has raised concerns that many EMs will have difficulty funding their external debts, and the collapse in commodities, which are central to the economies of many EMs, have placed significant pressure on several EM economies, currencies, and markets.
- The U.S. economy is very insulated and EM weakness is unlikely to derail it, in our view. However, negative headlines out of EMs may continue to weigh on markets globally.
- Until such time that commodity prices find a bottom (many are trading at or below cash costs, which has often served as a floor in the past) and/or the U.S. dollar stabilizes, EMs are likely to remain under pressure.

Canada Continues on an Uneven Path

The Canadian economy became overly reliant on oil and oil investment over the past 15 years and the adjustment process to a marked downshift in oil-related investment will not be without bumps. While we have seen some signs of stabilization in the Canadian economy, the recovery from the oil rout remains uneven and we expect continued bouts of low growth through the first half of 2016. Eventually, we think the benefits of a weaker Canadian dollar on trade and proposed fiscal stimulus from the newly elected government should help lift the economy onto a more stable path.

Continued on page 3

Still Not Out of the Woods
continued from page 2

Outlook
Market volatility is not uncommon against a backdrop of uneven global economic fundamentals, (U.S.) national politics that are heavily influenced by anti-establishment movements, and a number of geopolitical threats. Add Fed rate hikes to the mix, which often leads to market accidents, and we believe this current episode of share price weakness may have some room left to run.

Often in such periods, the market will eventually reach a point where investors throw out the good with the bad. In our view, such a juncture is rapidly approaching. We would use this opportunity, not only to ensure that portfolios own the right businesses—those that have reliable and well-established management teams, high returns on invested capital, and a strong and defendable business—but also to gradually allocate capital to these businesses as they do not tend to go "on sale" that often.

Repeatedly over the past four years we have heard from investors that "if only the market pulled back, I would add some exposure." But when these opportunities do come, investors are often scared off by the intense volatility that accompanies these pullbacks.

Back during the August/September selloff, this is what we said: "We believe the long-term secular bull market that began at the financial crisis lows of 2009 has further to run. This is the first correction of consequence for the S&P 500 since the 21% pull-back in the teeth of the European debt crisis in 2011. From the lows of that correction to the peak this May, the S&P 500 added approximately 1060 points or almost 100% over four years. In a correction it would not be unusual to give back about a quarter of that advance while remaining inside the confines of a long-term up-trend that would eventually take the market to new all-time highs. That is where we think we are."

We still do.

CRM2: Understanding the Differences Between Time-Weighted and Money-Weighted Rates of Return

While there are multiple ways to calculate your investment rate of return, the time-weighted rate of return calculation is the more common method used in the investment industry. With the regulatory initiative CRM2, or Client Relationship Model Phase 2, Canadian securities regulators are mandating firms to provide investors with an annual money-weighted rate of return by early 2017. Both are acceptable calculation methods, but each has different uses and can be appropriate in different circumstances.

Introduction
In new annual performance reports to be delivered to investors by early 2017, Canadian investment regulators have prescribed the mathematical calculation for rate of return to be the money-weighted calculation, versus the more commonly used time-weighted calculation.

This article is a general explanation of the differences between money-weighted and time-weighted, and examples of when you may see a difference in the rate of return for a given portfolio over the same time period.

A Quick Summary
- The timing of cash flows that you direct, such as contributions (which includes transfers in-kind) and withdrawals, can affect your portfolio's rate of return.
- Time-weighted rate of return calculation removes the effect of these cash flows.
- Money-weighted rate of return includes the effect of these cash flows.
- If there are no cash flows, the two methods will produce the same rate of return.

Time-Weighted
Time-weighted is the financial industry and RBC Dominion Securities standard method to measure performance. For example, the method most commonly used to calculate the performance of financial market indices and mutual funds is comparable to that of time-weighted.

Time-weighted or comparable methods are appropriate calculations in certain instances such as broad market

Continued on page 4

CMR2 - Understanding the Difference...

continued from page 3

indices and mutual funds because contributions and withdrawals – activities that can impact performance, but are not in the fund manager's control – are purposely omitted in this calculation method.

Money-Weighted

In contrast to time-weighted, money-weighted calculates the rate of return including the impact of contributions to, or withdrawals from, the portfolio. For example, if an investor contributes a significant sum into their portfolio just prior to the overall market performance rising, intuitively, this is a positive action. Now this larger portfolio benefits more in dollar terms from the overall market move than if the contribution had not been made.

Conversely, if the investor withdraws a significant sum from their portfolio just prior to overall market performance rising, intuitively, this is a negative action. Now this smaller portfolio benefits less in dollar terms from the overall market move than if the withdrawal had not been made.

Why Regulators Selected Money-Weighted

The timing and amount of contributions and withdrawals (which are included in the money-weighted calculation) differ among each individual investor portfolio. Regulators believe a rate of return that factors in the impact of these individual contributions and withdrawals is the most appropriate way to measure the returns of clients' portfolios.

While time-weighted or comparable methods are more appropriate for assessing fund manager performance relative to market benchmarks, money-weighted is more suitable for assessing a client's personal performance relative to their individual financial plans and projections.

Simplified Comparison of Money-Weighted to Time-Weighted

The following chart generally compares money-weighted and time-weighted outcomes for a given portfolio and time period in six typical scenarios.

Portfolio Activity	Market Performance	
	... a period of positive market performance	**... a period of negative market performance**
+ **Material contribution into the portfolio just before...**	Money-weighted rate of return will tend to be greater than time-weighted rate of return	Money-weighted rate of return will tend to be less than time-weighted rate of return
– **Material withdrawal from the portfolio just before...**	Money-weighted rate of return will tend to be less than time-weighted rate of return	Money-weighted rate of return will tend to be greater than time-weighted rate of return
No material contributions or withdrawals from the portfolio just before...	Money-weighted rate of return and time-weighted rate of return will be very similar, if not the same	Money-weighted rate of return and time-weighted rate of return will be very similar, if not the same