Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed

Fall Market Commentary

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Professional Wealth Management Since 1901

RBC Wealth Management
Dominion Securities

In this Issue

- Leading Economic Indicators- Economic Growth Expected to Continue

- US Interest Rates-The Fed is still on hold

- Importance of Sector Diversification- Why we look beyond Canada

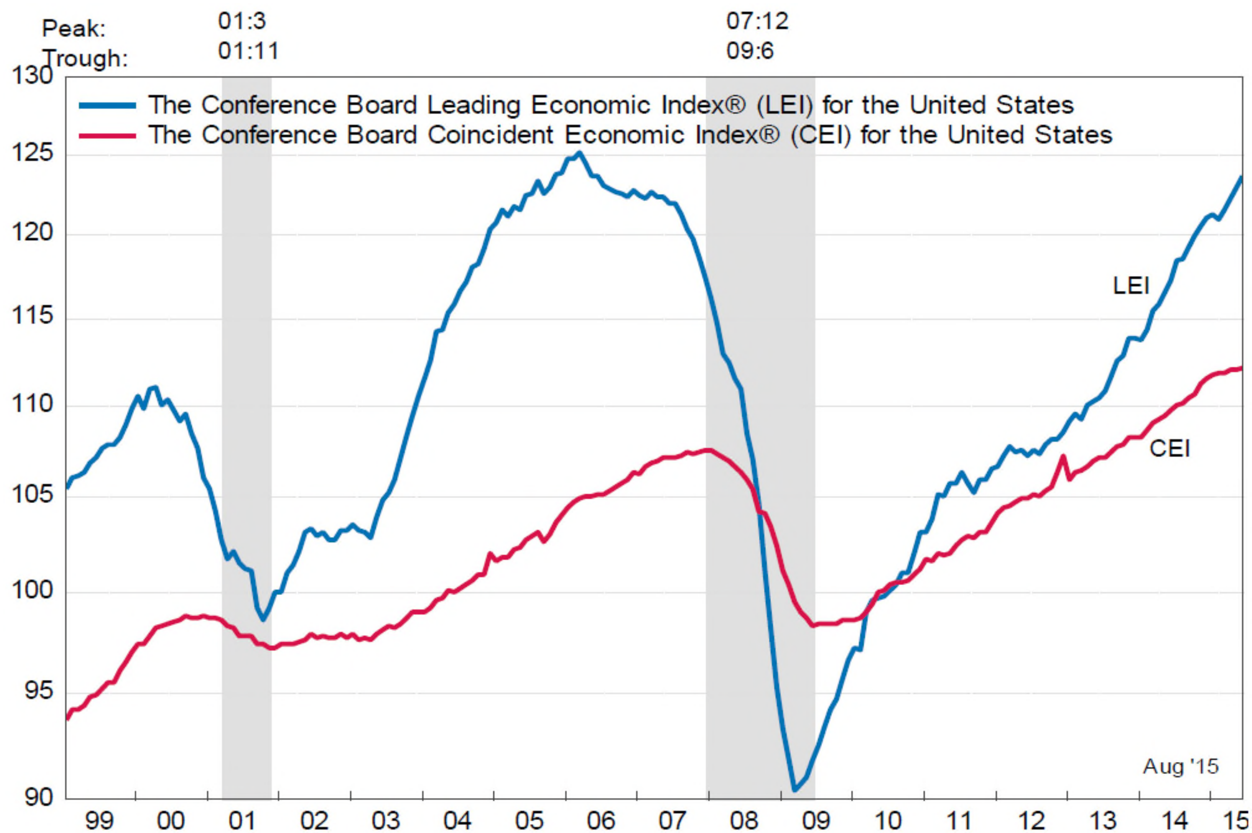
Leading Economic Indicators- Still Positive

•One of the major challenges that faces investors during times of uncertainty is whether the current market pullback is a correction or the start of a new bear market.

•The chart on the right is a composite of economic indicators that currently foreshadow continued economic growth, despite negative headlines.

•If economic growth is expected to continue then corporate profits should continue to grow. In the absence of a recession this should drive stock prices higher.

•While price action of the market is the most watched headline the real driver of equity prices over the medium and long term is corporate profitability.



Latest LEI Trough March 2009, Latest CEI Trough June 2009
Shaded areas represent recessions as determined by the NBER Business Cycle Dating Committee.
Source: The Conference Board

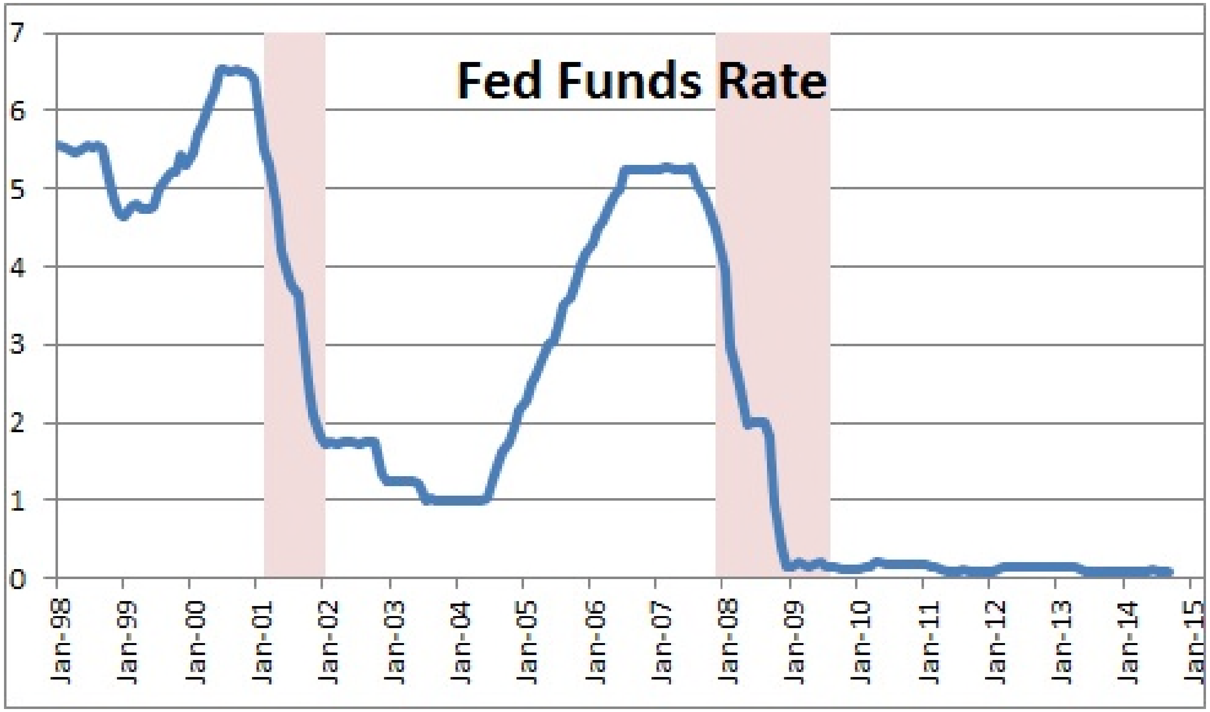
The Fed is still on hold…

•The Federal Reserve Bank in the US has kept interest rates extraordinarily low for the past 6 years in an attempt to stimulate economic activity.

•Since the Fed ended their Quantitative easing program last year investors have been trying to ascertain when the interest rate hikes would begin

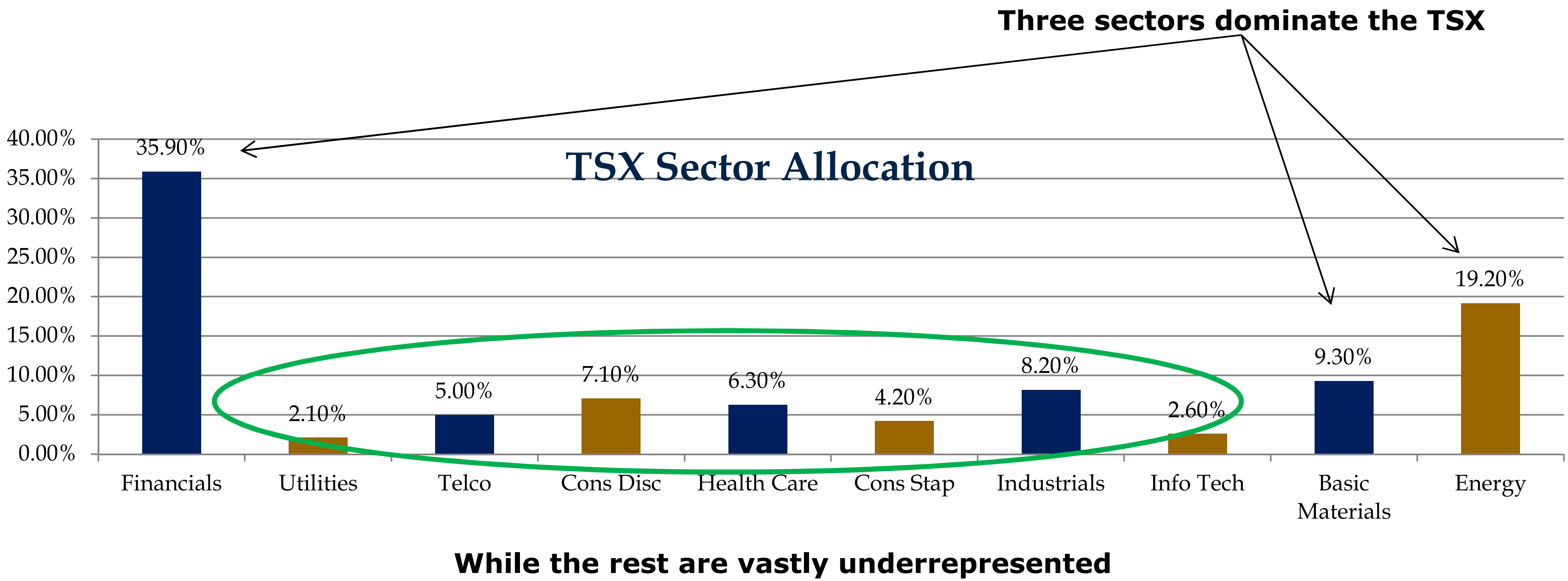
•A strong consensus existed for a September hike but the Fed opted to keep rates unchanged citing slowing global growth and uncertainty as to the pace of the economic recovery.

•The Fed is attempting to strike a balance between raising rates to a more normal level without stifling economic activity.



TSX- Not as diversified as you might think

- The Canadian equity market is very concentrated with Financial, Energy and Materials sectors making up nearly 65% of the index
- Building a properly diversified portfolio with exposure to all sectors can be a challenge in Canada
- Investors were rewarded during the commodity boom of the mid 2000's for this lack of diversification, but since 2011 this strategy has not fared well given the decline in commodity prices

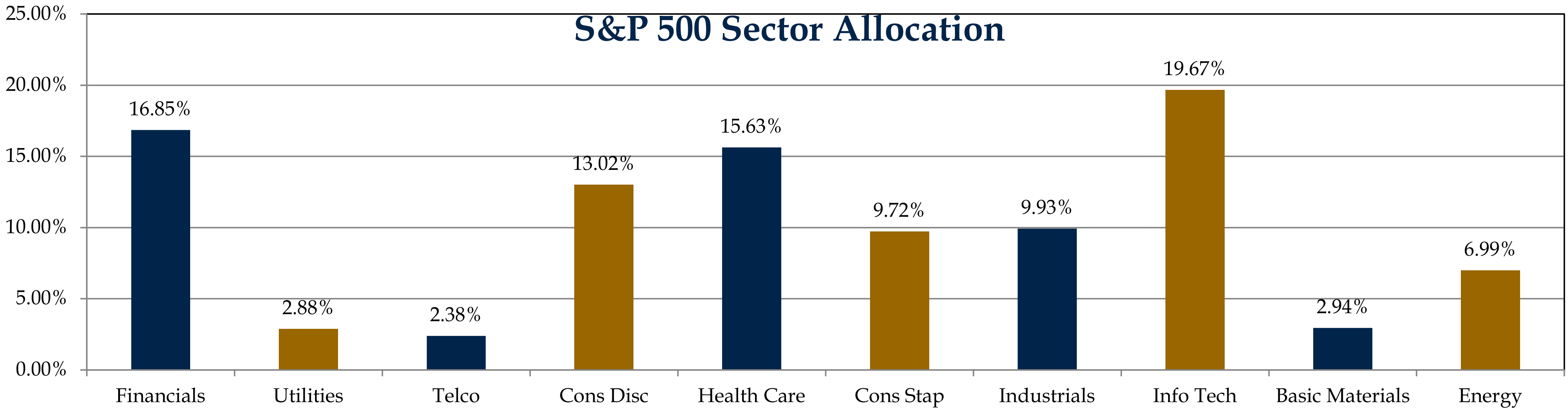


Source: BlackRock & MSCI

S&P 500 Sector Allocation

▪The chart below illustrates how much more diversified the US equity market is, providing Canadian investors with world class companies in sectors in which Canada has little representation.

▪Many US companies are global leaders in areas of Technology, Healthcare and Consumer Goods. Having exposure to these types of companies can help to mitigate the effects of the cyclical nature of Canada's equity market.



Market Recap

The past quarter saw equity markets correct following a number of events in China that unsettled investors. A surprise devaluation of the Chinese currency along with the central government's acknowledgment that domestic growth was continuing to slow both contributed to equity market volatility. Concerns continue to surface around debt levels and hard asset valuations

The Canadian market felt the effects of the Chinese slowdown as the price oil and basic materials faced continued weakness. Resource companies reduced their capital expenditure budgets and in some cases their dividends in an attempt to shore up battered balance sheets as the price of crude oil closed below $40 for the first time in a decade.

The Canadian dollar continued to weaken vs the US dollar falling to levels not seen since 2004, before the resource boom of the mid 2000's had firmly taken hold. This has been a boon to many Canadian companies that sell goods and services into the US and receive US dollars as payment.

We are well positioned for the current market volatility and continue to focus on good quality companies that have a strong commitment to shareholders. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

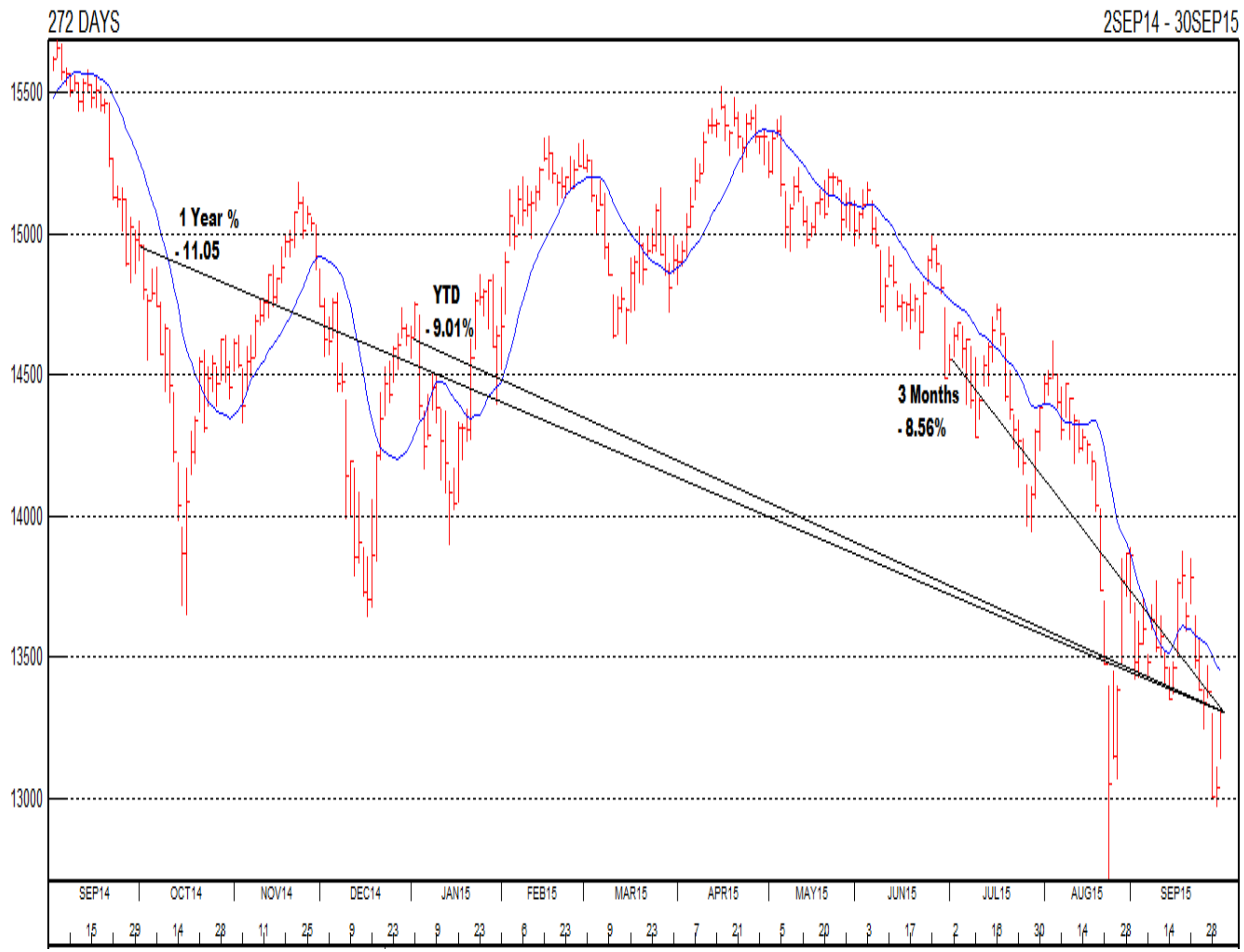
Clients within our Private Investment Management program (PIM) and Third Party Pension Management program will receive their quarterly update and personalized portfolio reports within the next week.

TSX Performance: Annual, YTD & 3 Months

- Canadian equity markets continued to adjust to lower commodity prices, with particular pain being felt in the commodity sectors…again.

- Canadian Banks were not immune as concerns about Canadian real estate, particularly in Alberta markets, kept valuations low.

- The Bank of Canada cut their overnight rate by another 25 basis points again in July in an attempt to offset the slowing Canadian economy.



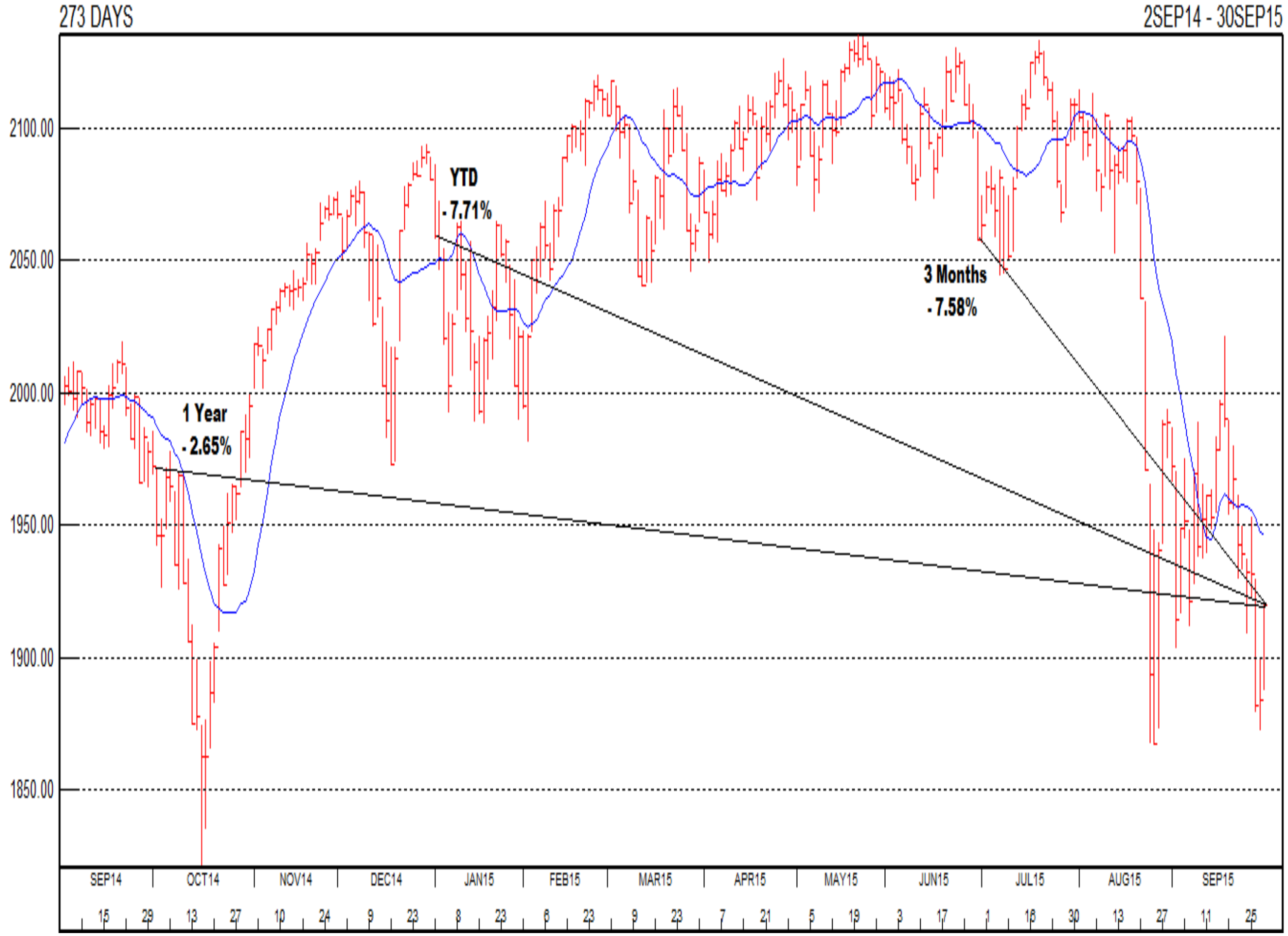
Data Source: Trend & Cycle

S&P Performance: Annual, YTD & 3 Months

- For the first time in four years, the S&P500 officially entered correction territory (defined as a decline of more than 10% from the prior high).

- A sell off in late August culminated in another flash crash type of event on August 24th with the DJIA down over 1000 points in early morning trading before rallying back.

- The US markets have fared much better over the past year than their Canadian counterparts due to the relatively low commodity exposure



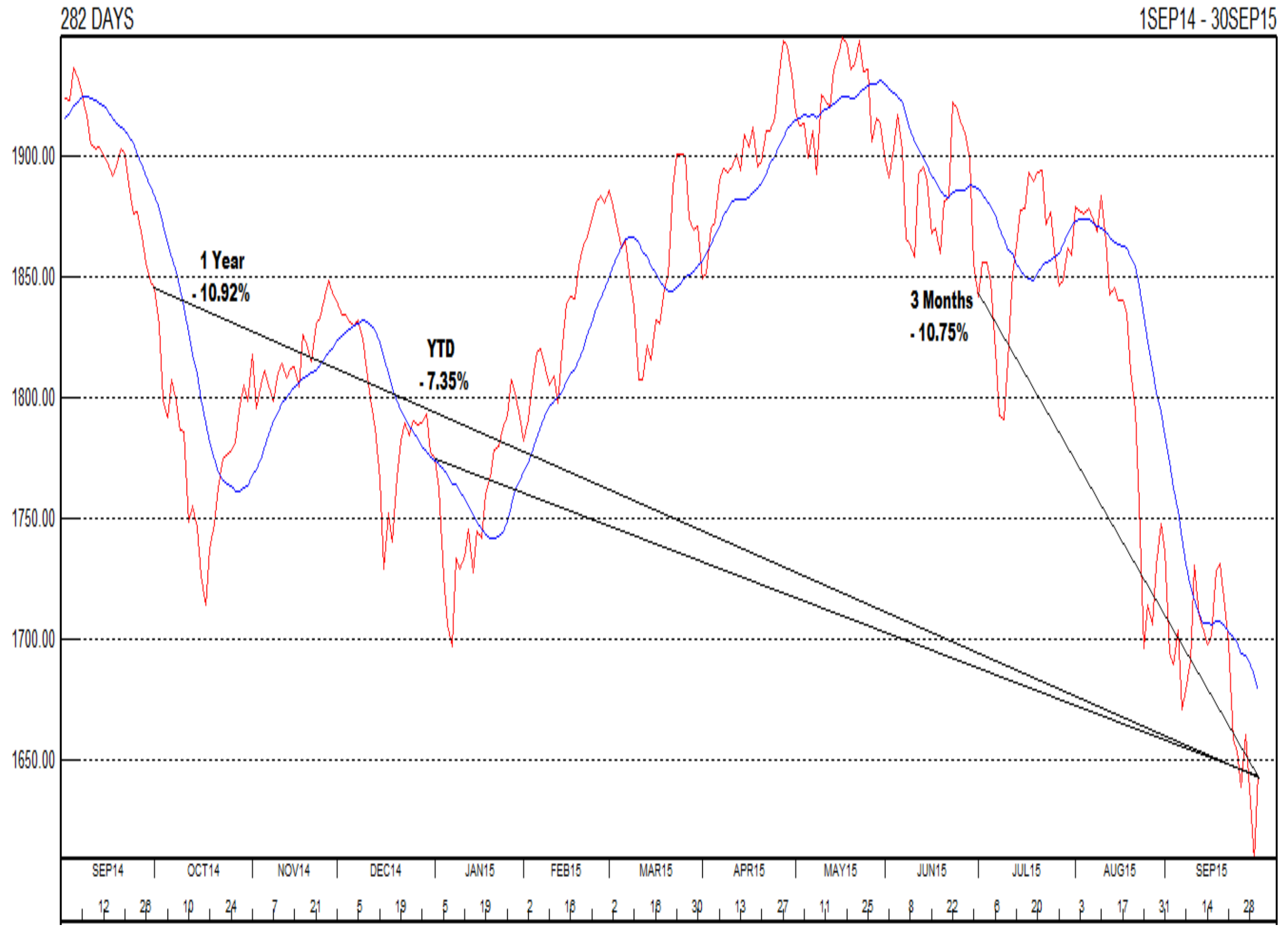
Data Source: Trend & Cycle

EAFE Performance: Annual, 6 & 3 Months

- International equity markets suffered the most this quarter as the Chinese economic woes followed hot on the heels of the Greek crisis.

- European growth has stagnated following the Greek crisis (part 3) with the major European economies decelerating.

- On a positive note Spain appears to be on the road to recovery after suffering through several years of negative growth and persistent unemployment



Data Source: Trend & Cycle

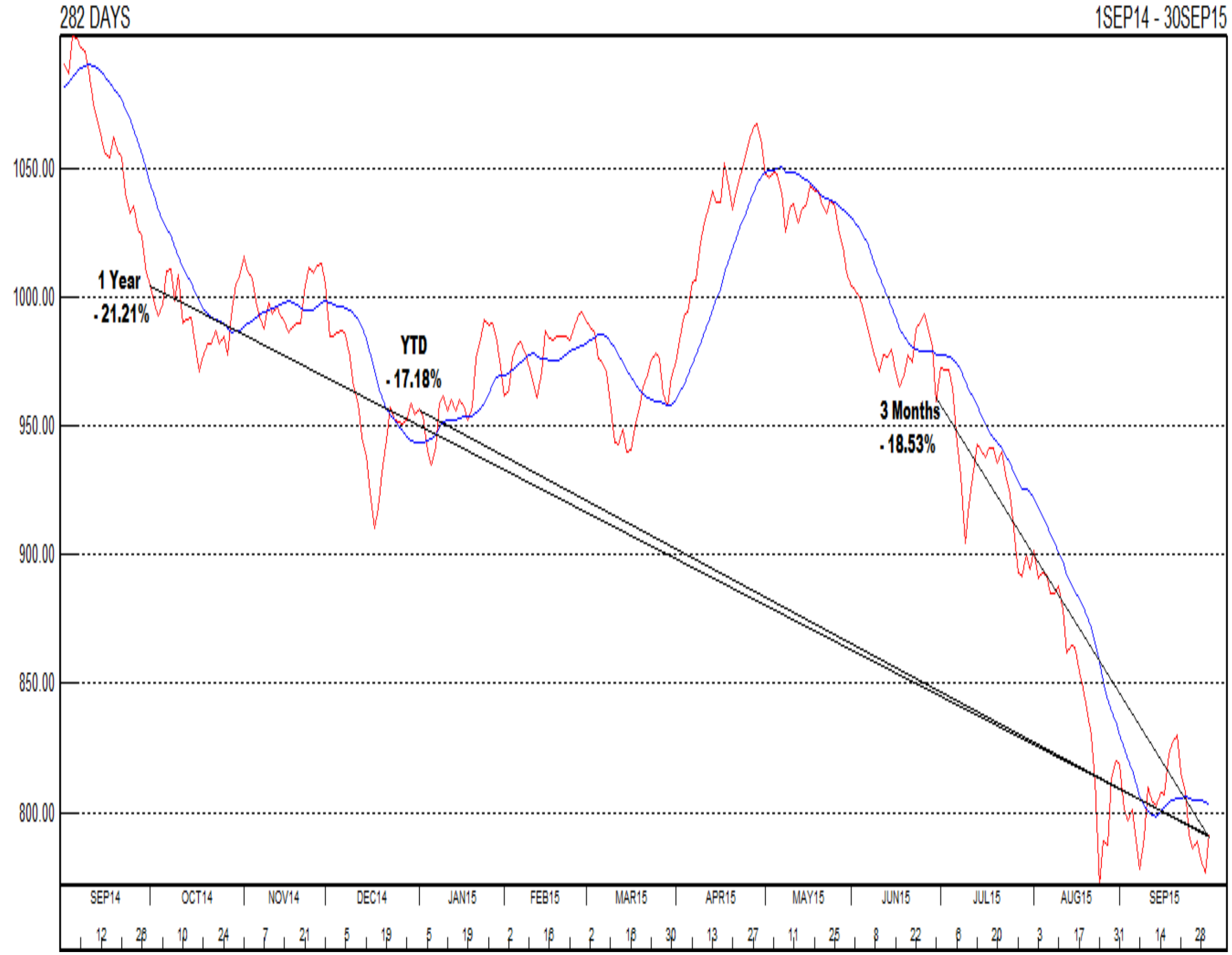
EAFE = Europe, Australasia, and Far East Developed Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- China has been the dominant theme affecting emerging markets over the past three months

- Among the emerging market concerns are slowing economies, debt burdens and currency valuations.

- These concerns have led the emerging markets to sell off back to levels last seen in 2009



Data Source: Trend & Cycle