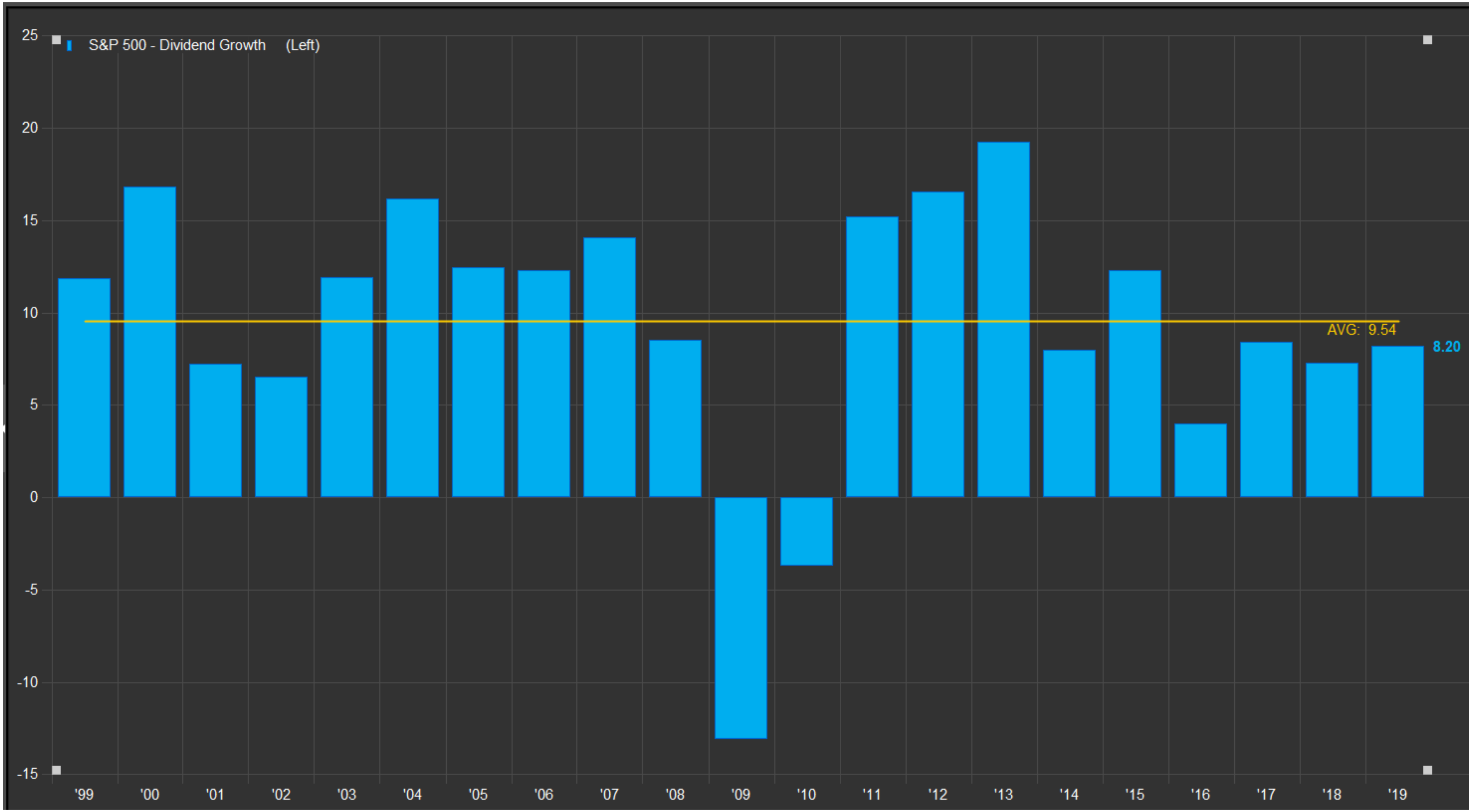
Our Strategic Thinking

- Ownership > Lending
- Why?
- Dividends @ 2.1% > Interest @ 1.5%
- Dividends more tax-efficient than interest
- Economies grow over time and companies in those economies grow
- Therefore, dividends and capital grow over time
- Recessions always end

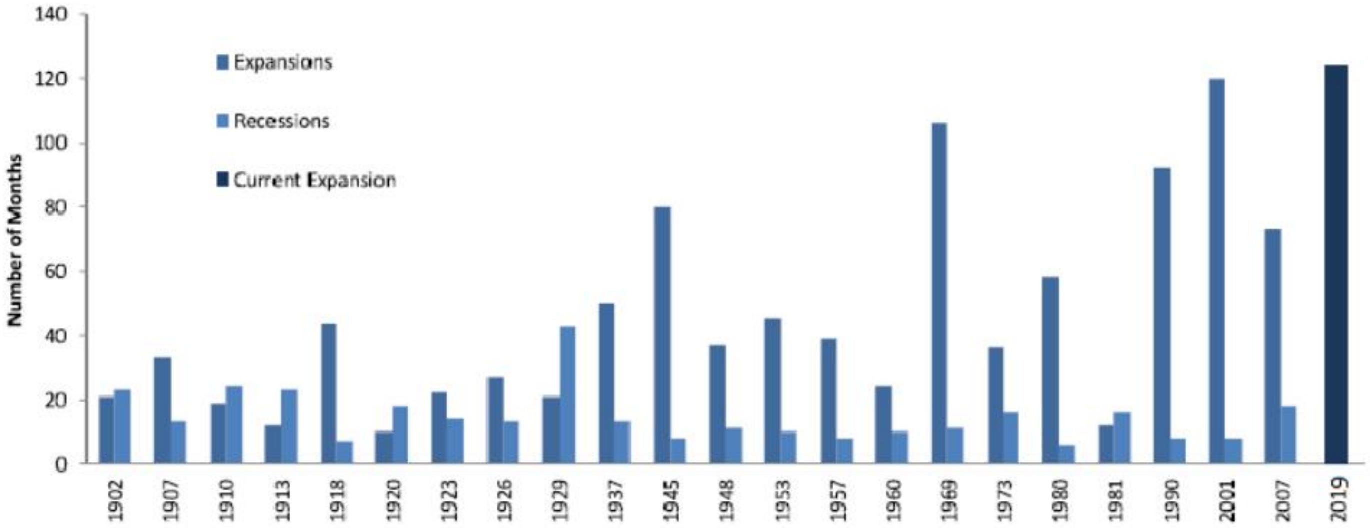
Dividends 2.09% > Interest – 10 year bond bottoms at 1.5% again!!

20 Years of Dividend growth – 9.5% average



Economies grow over time

Expansion vs. Recession in the US



Average, all cycles:	Recession	Expansion
1854-2009 (33 cycles)	16	42
1854-1919 (16 cycles)	22	27
1919-1945 (6 cycles)	18	35
1945-2009 (11 cycles)	11	59

Recession is the number of months from peak to trough. **Expansion** is the number of months from the previous trough to latest peak.

For example: 120 months – March 1991 to March 2001 expansion

Source: National Bureau of Economic Research

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Recessions always end

- The US NBER definition is a decline in economic activity lasting more than 2 quarters
- Visible in GDP, real income, employment, production, and retail sales
- US – 47 recessions since Confederation
- 11 recessions in Post WWII history
- Post WWII the average duration is 11 months

Our Tactical Thinking

- Risk of recession increased due to political factors; not economic necessarily
- Our economic heat map still ok
- Inverted Yield Curve points to economic risk
- Equity market peaks after inversion
- However, sentiment is terrible and excellent contrarian indicator
- Currently only 1 buyer for every 2 sellers at the auction!!!

Economic Heat Map still ok

Indicator	Status		
Yield Curve (12-month to 10-year)	–	–	✓
Unemployment Claims	✓	–	–
Unemployment Rate	✓	–	–
Conference Board Leading Index	✓	–	–
ISM New Orders Minus Inventories	✓	–	–
Fed Funds vs. Nominal GDP Growth	✓	–	–

Expansion	Neutral	Recessionary

Source - RBC Wealth Management, Bloomberg, FRED Economic Data
St. Louis Fed

Yield curve inversion increases economic risk

Month yield curve inverts	Month recession begins	Interval (in months)
Dec '56	Sep '57	9
Sep '59	May '60	8
Apr '68	Jan '70	21
Mar '73	Dec '73	9
Sep '78	Jan '80	16
Sep '80	Jul '81	10
Feb '89	Jul '90	17
Apr '00	Mar '01	11
Jan '06	Dec '07	23
	Average	14 months
	Median	11 months

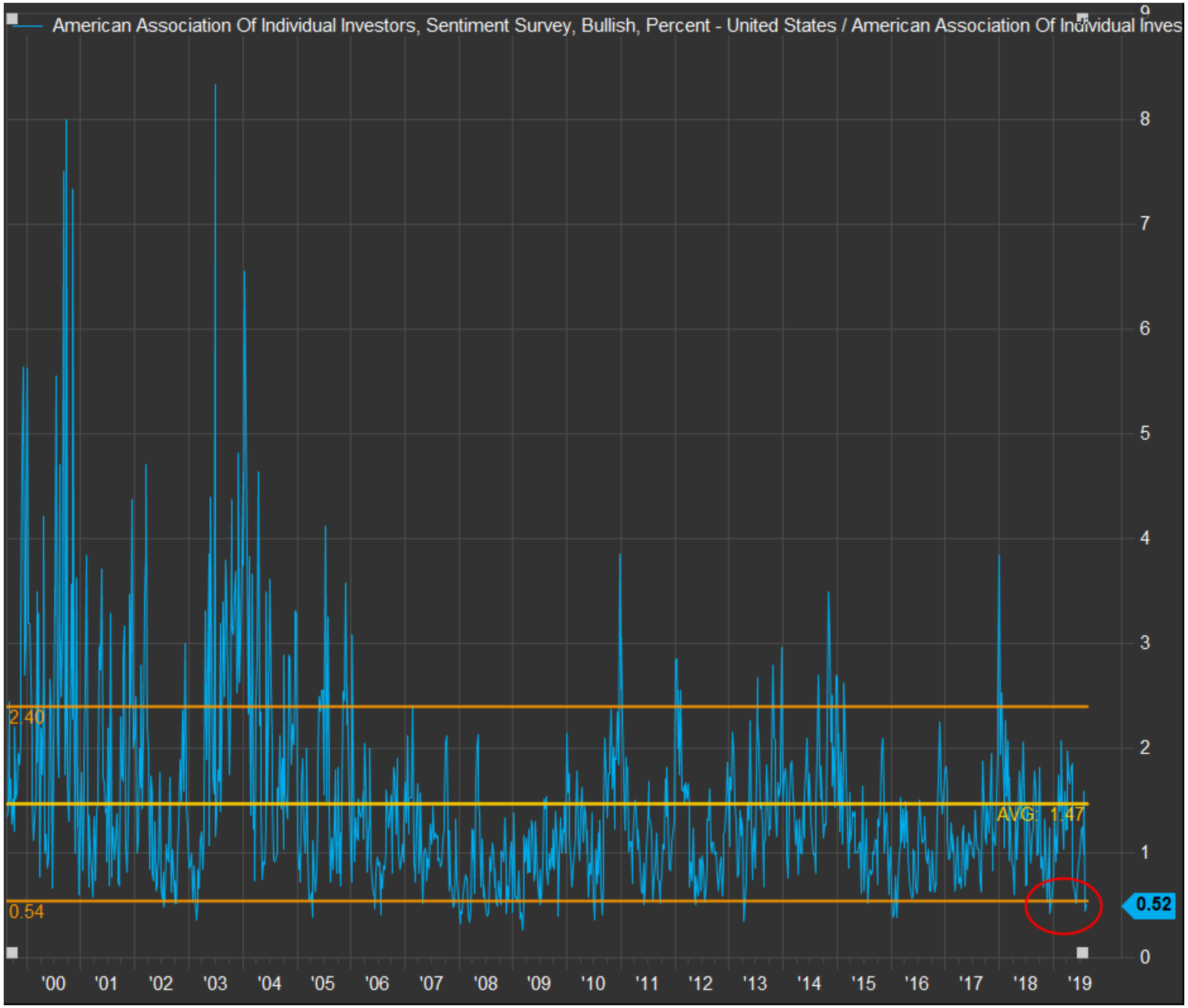
Source - RBC Wealth Management, Bloomberg, Federal Reserve, National Bureau of Economic Research

Yield curve inversion precedes a market peak

Month yield curve inverts	Month S&P 500 peaks	Interval (in months)
Dec '56	Jul '57	7
Sep '59	Aug '59	-1
Apr '68	Dec '68	8
Mar '73	Jan '73	-2
Sep '78	Sep '78	0
Sep '80	Dec '80	3
Feb '89	Jul '90	17
Apr '00	Mar '00	-1
Jan '06	Oct '07	21
	Average	5.8 months
	Median	3 months

Source - RBC Wealth Management, Bloomberg, Federal Reserve, National Bureau of Economic Research

Sentiment of buyers/sellers – average 1.5 (3:2) vs current 0.5 (1:2)



Conclusions – Strategy

- Strategically – Stay the course with greater ownership than lending
- Strategically - Collect higher income and let the dividends continue to grow and compound
- Strategically – The price of ownership will fluctuate and resolve higher over time.
- Strategically – Time is your best tool to mitigate risk. Build the portfolio to support 2-3 years of income or capital needs.

Conclusions – Tactics

- Tactically - We are mindful of the increased economic risks
- Increase in economic risk = Increase in volatility
- Increase in volatility = Increase in opportunity
- Increase in opportunity = Increase in cash deployment
- Increase in cash deployment = Increase in ownership
- Recessions do end
- Economies will continue to grow