Wealth Management
Dominion Securities

Jean Marchand, CPA, FCSI
V-P, Portfolio Manager

Philippe Ouellette, GPC, FCSI
Associate Advisor

Diane Martel
Associate Advisor

Équipe Marchand Landriault

January 2017

It has been a privilege for me to manage your portfolios since June 2016, along with the assistance of Diane Martel, Prisca Agneroh, Philippe Ouellette as well as other members of my team. Richard started working for the firm in 1994 and as soon as I joined in 1997 we often discussed market outlooks. Our vision of the markets was and is very similar and so are the needs of our wealthy clientele whose main objectives are building and protecting wealth. In order to reach those goals, we diversify your portfolio by buying good companies, led by experienced management teams. We favor companies that have been paying dividends for several years and tend to increase them. Our analysts are doing an excellent job of finding us these types of businesses. We then evaluate these securities based on the overall level of risk in your portfolio.

To be in a position to control the level of risk in a portfolio, we need to know in depth the securities we hold and do a proper analysis of every market movement. Are we experiencing a temporary decline in the price of a particular stock? Or a too sudden rise in price? Are the fundamentals of the sector worsening? Hence, a portfolio with select securities makes it easier for us to take advantage of this proactive approach. It is for these reasons that we are gradually reducing the number of securities in your portfolio, taking into account the tax impact that these transactions may have.

Fixed income management has been a huge challenge in recent years, with low interest rates making the quest for returns very difficult. Richard did a great job combining the purchase of bonds and the use of managed products (mutual funds) to maximize returns without taking undue risk. In fact, the US Federal Reserve increased its rates last month which suggests the possibility of further increases in 2017. The US 10-year benchmark rates have gone from a historic low of 1.36% in July 2016 to 2.50% currently. Although the economic conditions in Canada is different, Canadian rates will be influenced by the upward trend of our southern neighbors

A period of rising interest rates is also a significant challenge for fixed income management, given that a bond may decline in value if its yield is lower than current market interest rates. We must therefore ensure that the selection of bonds is optimal in order to realize a positive return over the holding period. By purchasing bonds in your portfolio, we ensure that we achieve this objective. With the purchase of managed products, this is not necessarily the case. That is why we have decreased the allocation of managed products. In exchange, we have significantly increased the weighting of preferred shares that allows us to achieve superior returns and tax-efficient dividend income. We have been managing them successfully for a number of years and believe that these products should continue to perform well in an environment of rising interest rates.

Lastly, I would like to discuss the international allocation of your portfolio. It was once believed that political risk was predominantly present in emerging or developing countries. The past year has shown us that this risk is present in developed countries too. The Brexit and Donald Trump's arrival to the US presidency show a dissatisfaction of the middle class and an important desire for change. The protectionist measures on the agenda of the new administration will certainly affect the global economy. In this context, and given the very different visions within the European Union countries, we have reduced exposure to these markets. We also reduced our weighting in emerging markets. Although their growth should be higher than developed countries; the risk of a trade war between the United States and China, a stronger US economy, the upward trend in interest rates and the strength of the US dollar are all significant barriers to their economy. In short, we are experiencing a major shift in the global economy.

The expansionary policies of Donald Trump have for the moment received an excellent reception from the financial markets amid the prevailing favorable momentum of the US economy. The most cyclical sectors have responded extremely well, notably the financial sector, which will benefit from interest rate hikes and a possible easing of the regulatory framework. The industrial sector also exploded in anticipation of rising infrastructure spending.

A major challenge for 2017 will be positioning your portfolio to take advantage of the growth of these cyclical sectors, without however running after the performance of recent months. Investors seeking attractive returns have significantly lowered dividend yields in recent years as they are now trading at historically high price-earnings ratios. It will be difficult to rely on these stocks for your portfolio growth over the next few years. However, we continue to appreciate the dividend they pay while representing the stable portion of the portfolio if equity markets become more volatile. In this context, we try to position your portfolio in order to have the best of both worlds: a solid core of dividend-paying securities and some more cyclical equity holdings for better capital growth potential. We continue to monitor the risk of a US recession, which we consider the greatest risk for invested assets. The likelihood of a recession being low at the moment, we are comfortable with a slight overweight in equities for the year 2017.

Do not hesitate to contact us for any questions, comments or suggestions.

Sincerely,

Jean Marchand, CPA, FCSI	*Philippe Ouellette, GPC, FCSI*	*Diane Martel*
V-P, Portfolio Manager	*Associate Wealth Advisor*	*Associate Advisor*
450-686-3325	*450-686-3485*	*450-686-8486*