Dalrymple Wealth Counsel

Building you a secure future

March | 2016

Newsletter

Dalrymple Wealth Counsel

3650 Victoria Park, Suite 205
Toronto, Ontario

Phone: 416-502-9393
Fax: 416-492-9394
ian.dalrymple@raymondjames.ca
www.dalrymplewealth.com

Our Philosophy

We believe that long-term financial security is the result of sound investment disciplines and risk management practices.

Helping clients feel secure in their goals is our first priority.

We believe in:

- Partnership with our clients in the goal setting process
- Clearly identifying each client's unique financial needs and objectives
- Consistent application of a logical disciplined investment approach
- Accountability through adherence to strategies consistent with client financial goals
- Absolute confidentiality

2016: Gloomy Start, Bumpy Ride, Clearer Destiny

Since mid-2014, the weakening of the loonie has cost Canadian consumers. For example, we have seen the price of produce imported from south of the border increase significantly. According to Statistics Canada, consumers spent almost 4% more on food this January compare to a year ago. On the flip side the Canadian dollar return on US securities has been constructive.

On a positive note, we expect the price of oil to bottom in the next six months and also expect China's GDP growth to stabilize in the 4.5% - 6% range this year.

The word "volatility" has appeared frequently in our past newsletters. In fact, we expect volatility to apply for the first half of 2016 as well.

As your wealth manager, it is our responsibility to navigate and guide your portfolio in the right direction when uncertainties arise. It has always been our approach to stay focused and disciplined to make informed decisions in your best interest.

In this issue, we will cover:

- ***Investment Strategy Update***
- ***Global Market Performance Review***
- ***Market Outlook for 2016***
- ***How We Think About Risk Management - Robert Hughes***
- ***The DWC Approach towards Risk Management – Ziyu Chen***
- ***Team Update***
- ***Community Charitable Support***

Investment Strategy Update

We anticipate several strategic changes to the portfolio in 2016:

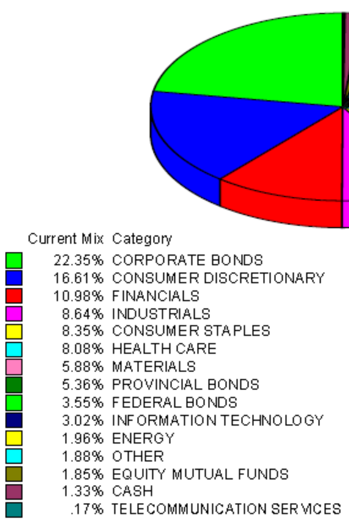
- The price of oil is expected to bottom in the 1st half of 2016. We believe this year is the time to reconsider, and probably include oil and gas stocks in the portfolio.
- We will see the bottom in the CAD/USD exchange rate in 2016. Therefore, we are shifting to relativity more CAD investments in your portfolio.
- We are currently repositioning and rebalancing the portfolio in order to meet your investment policy statement center weight range in respect of the equities asset class. Due to the out-performance of the equities during the past few years, equities have become overweighed in most of the portfolios. Money will be flowing back to the fixed income asset class.

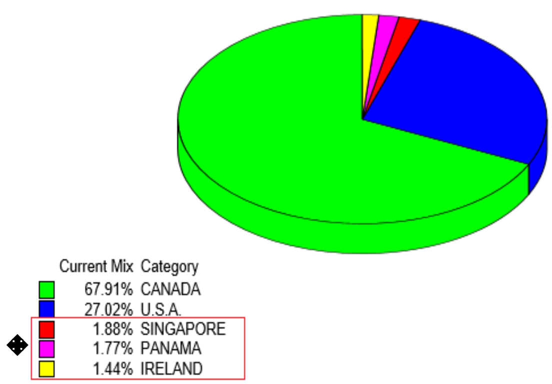
Please see the charts below, showing our average weighting by industry sector and country. Please note, your sector and currency diversification may vary from the average.

Sector Diversification

Country Diversification

As of December 31st, 2015





Canadian and US companies that have their headquarters in foreign jurisdictions. Examples of companies Outside CA & US include Ingersoll Rand in Ireland, Carnival Corp in Panama, BoardCom Ltd. in Singapore.

Source: Raymond James.

For more information about our historical returns, investment approach and risk management, please visit our website at www.dalrymplewealth.com For more information about your portfolio, please consult your quarterly report or call us to discuss your thoughts.

Market Performance Review

Both Canadian and US stock indices posted less than satisfactory returns (-11.1% and -0.7% respectively) for the year 2015. The S&P500 rose 18.2% in CAD equivalent return, entirely due to the weakening of the Canadian dollar. The economic cycle is taking an arguably overdue pause or correction. A mixed bag of negative news such as the sluggish Canadian economy, weak commodity prices, the loonie losing value, China's yet to be proven economic reform, as well as slow global economic growth are affecting the market.

Most of the major indices are down in early 2016. The International Monetary Fund (IMF) expects the global economy to expand at 3.4% (3% in 2015). We still remain positive on North American financial markets; we expect average portfolio returns of 5%-8% in 2016. TSX is likely to have better returns than the S&P500 due to the rebound of oil and commodity prices supported by the delayed weakening of USD.

Performance of Global Market - Q4, 2015

Financial Markets (Price Return)	Level	Current Quarter	Past Quarter	Trailing 12 Months
Canada (S&P/TSX Composite Index)	13,010	-2.20	-8.56	-11.10
US (S&P 500 Index)	2,044	6.50	-6.94	-0.70
China (CSI 300)	3,731	16.50	-28.39	5.60
Europe (DJ Euro Stoxx 50)	3,268	5.40	-9.45	3.80
India (Sensex)	26,118	-0.10	-5.85	-5.00
Japan (Nikkei 225 Index)	19,034	9.50	-14.07	9.10
United Kingdom (FTSE 100)	6,242	3.00	-7.04	-4.90

Note: Performance is measured in local currencies; changes are the indices changes that do not include income.

Source: Bloomberg, Raymond James.
As at Dec 31st, 2015

Market Outlook for 2016

When the market is volatile, the media provides "entertainment". The larger the turbulence, the more negativity we hear. We believe some of the negative news is short term, distractive and lacks relevance. In our previous newsletter, we boiled down the major financial market headwinds to four factors: a Fed interest rate hike, falling oil prices, declining growth in China and the strong US dollar.

We have stressed our point that the Fed rate hike is a good thing. We believe the US economy will continue to grow at a reasonable pace because of its leading technology and innovation. Its economy is well diversified and does not have significant exposure to China.

On the other hand, it is necessary to further discuss the concerns and strategic implications to the US and Canada of oil, commodities and currencies and China.

Oil

The price of Oil has dropped over 60% since 2014 and is trading at a 13-year low (close to $34.00 per barrel as of this writing). In 2010, the US achieved energy technology breakthroughs such as hydraulic fracturing and offshore drilling that has made oil production much easier than ever. That led to the US shale revolution growing from virtually nothing to producing 4.5m barrels a day. The rapid and low fixed cost of delivering shale oil has not only enticed many new suppliers to rush into the business, but also makes supply more responsive to price than conventional oil (which requires a bigger capital investment). Furthermore, the emergence of shale oil has made the US close to self-sustaining; China, India and Japan remain major oil importers.

The strong US dollar and the slowdown of developing countries during recent years are weakening global demand. Global growth in the past two years has been much weaker than it was during 2003-2008 when the oil price rose substantially. To make things worse, the Organization of the Petroleum Exporting Countries (OPEC) producer Saudi Arabia has made a decision to defend their market share by refusing to cut their production. Hence, we clearly are in an over-supply situation. This is the major cause of falling oil prices.

Total OPEC output has not reduced but has not increased either. On the other hand, Iranian oil is about to come to the market. China's demand for oil is still dropping, but at a slower rate now.

With China stabilizing its growth in the 5%-6% area, we expect their demand for oil to keep increasing. OPEC is still providing more than half of China's oil and OPEC members are continuing to secure more orders. On the supply side, Saudi Arabia is running unsustainable budget deficits so they will likely cut their supply later this year leading to bottoming in the price of oil.

Reference: "Understanding the new global oil economy", Martin Wolf, http://www.ft.com/intl/cms/s/0/368e73a6-9775-11e5-95c7-d47aa298f769.html#axzz3yRxjflgP

Commodities and Currencies

Since late 1990s, most of the commodities have experienced double-digit annual growth as they went through the so called "commodity super cycle". For the past few years, the strong USD, weak emerging market demand, the drop in oil prices and commodity inventories growing in China have signaled that this phenomenon is coming to an end. We believe it is still too soon to say so and we think commodities will recover to some extent in 2016.

Currencies of countries that are commodity exporters will remain under pressure. In January, the Bank of Canada (BOC) left the interest rate unchanged. As mentioned in past newsletters, the BOC overnight borrowing rate is low enough (0.5%) and we don't believe any further cut is likely to stimulate the economy. As the Bank of Canada stated, they are willing see the effects of government stimulus from Ottawa rolled out before making any further decisions. The Canadian/USD lost 16% during 2015. We believe the US currency will continue to dominate the Canadian currency during 2016, although the loonie will strengthen. The possible game changers include, an oil price rebound and the Canadian economy picking up, while the US economy slackens.

Commodities and Currencies - Q4, 2015

Currency, Oil & Gold	Level	Current Quarter	Past Quarter	Trailing 12 Months
Canadian Dollar (in US Dollars)	$0.72	-3.80	-6.14	-16.00
Oil (US$/bbl)	$37.04	-17.90	-24.18	-30.50
Gold (US$/oz.)	$1,061.00	-4.80	-4.80	-10.40
US Dollar (Trade-Weighted)	$98.63	2.40	0.91	9.30
Copper (US$/lb)	$2.10	-8.80	-10.77	-25.30

Source: Bloomberg, Raymond James.
As at Dec 31st, 2015

Source: Bloomberg, Raymond James.

China

We don’t believe China is going through a crisis but rather the country is trying to reform itself into a more effective economic and political structure in the long run. Certain problems such as corruption, overuse of government intervention, large debt from state owned enterprises (many of which become unpayable when the economy is slow), have long existed, even when the GDP was growing in double digits. That said, we have never thought the Chinese government will allow a “hard landing”.

Reviewing the past three months, it appears that the growing pains from the reforms are more severe than anticipated. From the devaluing of the Chinese currency in order to prevent capital leakage, to introducing the concept of the “circuit breaker” in an effort to curb the local stock market from plummeting, the government is using many new tools which may or may not work. We believe the current Chinese government has the right intention to steer the nation on a “sustainable growth track” due to the unique political structure of this regime. More work is still required and arguably there is very little historical experience from any country that China can draw on for guidance.

The economy will expand at this new norm of 5% - 6% over the next few years or so. We still believe the volatility of the Chinese stock market has little to do with its economy.

United States

Last December, the US Federal Reserve (FED) eventually raised interest rates for the first time since 2006 showing confidence in its domestic economy. Based on the data provided by the Economist, 4th Quarter US GDP increased by 0.7% (annualized), compared to the same time last year. The forecast for 2016 is 2.5% (World Bank) which is the about same for 2015 (2.4%). The growth ratio of US GDP has ranged from 1.6% to 2.5% since 2010. A possible headwind for US markets is the higher US dollar, which, as we have seen in the last year, can hurt corporate earnings. We believe that further interest rate hikes are unlikely in the short term. At its January meeting, the FED expressed concerns about global market turbulence.

Canada

The Canadian economy is in a much tougher situation. The estimated 2015 annual GDP is 1.2%, is the lowest since 2009. As a resource-reliant country, the economy has been hit hard by lower oil and commodity prices, beginning in late 2014. Taking it a step further, we feel that the lack of spending by Canada in infrastructure and innovation for the past several decades are also closely tied to our current set back. Canada is going through a phase of transitioning from a resource-based economy to a country that can grow and develop in a more balanced manner.

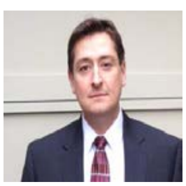
On a positive note, the low loonie will eventually show a favourable impact on the domestic economy in 2016, especially in terms of exports. After falling the previous three months, we have already seen modest increases in exports in November. The growth of Canadian GDP is expected to accelerate modestly for the next two years.

Source: Bloomberg, Raymond James.

Performance Follows - Risk Management First

"Portfolio risk management first is the necessary foundation of sustainable and consistent investment portfolio performance. We have found that if management of portfolio risk is pursued first then portfolio performance will follow. Risk management first limits portfolio downside and is more consistent and sustainable than seeking maximum return."

Ian Dalrymple



How We Think About Risk Management

Robert Hughes, Financial Advisor

Below is an article I wrote for our January 2014 newsletter. I have brought it out of the archives to remind you that our approach involves identifying various types of risks and working to ensure that these risks do not jeopardize your family's vision and goals.

How We Think About Risk Management

In preparing for this article some time ago, I typed "risk management" into the search field of my browser to gain some perspective into how others think about risk, and to determine if my intuitive belief that our approach to risk management is unique. One of the first search results included words such as "we have a strong, well-established, centralized risk management culture and its effectiveness is fundamental to our success." The families we work with succeed because we look at risk and how various risks affect them – first and foremost. One of the search results I came across did discuss risk in the context of clients. Here I read, "Our wide array of risk management solutions can help you safeguard your finances. Insurance, at its most fundamental level, is about managing risk and protecting against future financial loss." Again, these words come up short because, clearly, this definition of risk has been designed to sell a product. If you read my last article, you know that we do not sell financial products; rather, we build custom tailored portfolios of stocks and bonds to support our clients' visions. The problem with most familiar and every day usages of the term "risk" is that they tend to define risk as being strictly objective and impersonally measured; when really it is a personal or social attitude toward something uncertain in the future. That "something" is the family vision. Our risk frameworks are carefully designed to help families achieve their visions.

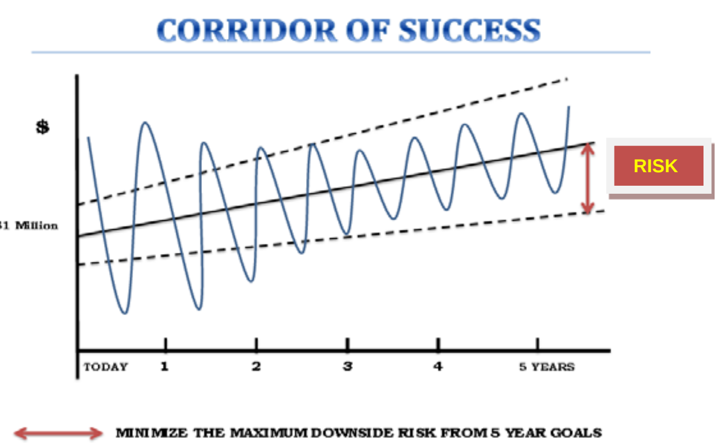
We look at risk within the context of your financial goals - in terms of the chance or likelihood an individual or family will be able to achieve their vision. To understand your family vision, we provide a framework to help families manage their personal risk as well as risks associated with the financial markets. Our framework helps the family identify, manage, control, and monitor risks in the content of a plan. This approach allows us to deliver highly personalized professional wealth management because it broadens the scope of how wealth is looked at beyond financial assets. It treats the management of all assets and liabilities and lifestyle needs in an integrated, holistic framework. From our perspective, recommending a mutual fund is not doing right by you (setting aside for the moment the fact we don't sell mutual funds), because the mutual fund manager invests without regard to your plan and your goals. We achieve this by helping you identify the various types of risks you may face in your plan.

Identifying various types of risks and working to ensure that these risks do not jeopardize the family vision of the future is the centerpiece of our approach.

The DWC Approach to Risk Management

Ziyu Chen, Registered Representative

This past January we arguably experienced the most volatile January since 2010. During such volatile times, many of you may feel a sense of "risk". In a nut shell, risk is essentially "what are the odds of losing money"? The reality is, no matter if it is during "good" or "bad" times in financial markets, investment risk always exists. Many of you who had risk discussions with us may recall the *corridor of success*. We tend to consider only one side of volatility – the downside.



We are told by General George Patton to take calculated risks. It is really our job as wealth managers to measure and take the risks that are suitable for a client's unique circumstance and risk tolerance. In this short article, I will try to provide an overview of the DWC approach of measuring and engaging risks while constructing a portfolio that suits your risk tolerance and goals.

Our senior portfolio manager, Ian Dalrymple, spends a lot of time understanding and learning about each client's personal and financial circumstance, as well as their capacity and willingness to take risks. We consistently follow through with the clients as their circumstances evolve.

Based on your risk profile, we will determine the unique asset class breakdown that suits you and your family. The mixture of cash, fixed income (bonds), equities (stocks) will be outlined in an investment policy statement that will be signed by both you and Ian.

Each portfolio holds a basket of securities that are selected by our consistent and disciplined research process. For the fixed income asset class, we only hold short term (five years or less) bonds in order to minimize changes in the portfolio's interest rates. In addition, we only hold fixed income with a credit rating of BBB+(1) or higher to minimize default risk. Even with limited income in nominal terms and no capital gains, we still consider bonds a necessary part of your asset mix to hedge the risk of equity exposure. Within the equity asset class, individual securities are selected to achieve sector diversification (in other words, we will never place too much weight on specific industry sectors or individual security).

Our portfolios are monitored and rebalanced on a regular basis. That is, if one particular security or asset class has done particularly well over time, its weight will be brought back to the predetermined balance in order to avoid taking excessive risk and to be consistent with your investment policy.

Over the past six years, DWC has consistently outperformed its benchmarks from three months to six years (annualized). You can find this information on our website. The data and information is gathered and prepared by Raymond James (Canada) Ltd.

(1) *https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352*

Team Updates

Andrea Tzimas, Senior Branch Administrator

Welcome

We would like to welcome Andrea Tzimas, our new branch administrator, to the Dalrymple Wealth Counsel team.

Andrea is a graduate of the University of Toronto, where she majored in economics and sociology. After graduation, Andrea joined BMO Nesbitt Burns where she filled various roles including supporting branches across Canada in operations and compliance functions. More recently she was responsible for compliance regulatory initiatives as the manager of the national office in wealth management.

Andrea brings seven years of experience in the securities industry and understands the importance of always providing a superior client experience. She looks forward to meeting and building lasting relationships with the clients of Dalrymple Wealth Counsel and helping to ensure client financial goals are achieved.

Andrea is married to Mike and they have a one and half year old son named Lucas. When she's not working or on mom duty, she likes to run to stay fit and is very involved in charity work and raises funds for SickKids hospital. But what she loves best is to spend time with family and friends

Thank you

Adriana Gogoi has left our firm to pursue a new career. We thank her for her dedicated services and wish her all the best.

GIVING BACK TO THE COMMUNITY

"Giving back to the community is in the DNA of Dalrymple Wealth Counsel, and an important part of our vision of the future. We choose our partners carefully – where we have a relationship to build a better tomorrow."

Ian Dalrymple

Marisa Bertoia, Branch Administrator

The purpose of Skate with Daniel events is to raise funds for brain tumour research and to increase awareness of brain tumours in children. Annually in Canada over 300 children are diagnosed with a brain tumour. Brain tumours are the second most common childhood malignancy after leukemia and the number one cause of cancerous death in children/youth under 20. The cause of brain tumours remains unknown and at this time there is no way to predict or prevent a brain tumour.

Please visit our website at **www.skatewithdaniel.com** for more information on brain tumours and Skate with Daniel.

In February 2007, at the age of 16, Daniel Bertoia was diagnosed with a brain tumour. In August 2008, Daniel passed away. Daniel's passion and spirit is still very much alive and with your contribution we will continue to honour his commitment to help find a cure for brain cancer.

If you are considering making a charitable contribution as the year end approaches, please consider Skate with Daniel as one of your options (you can take advantage of any appreciated securities as a tax credit). Our goal is to reach $1,000,000 and your support will go a long way in helping us achieve this goal to help find a cure brain tumors. We have all been touched in some way or another by cancer….let's come together and give a little. **Advancing Research, Creating Miracles!**

To make a donation of appreciated securities or cash, please contact Marisa Bertoia at:

marisa.bertoia@skatewithdaniel.com or 647-203-7628

What Skate with Daniel Accomplished

SICKKIDS HOSPITAL

GRAND SPONSORS $500,000 – $999,999

The Daniel Bertoia Family Fund - Skate with Daniel