Dalrymple Wealth Counsel
Building you a secure future

May 2014

Informed Decisions

Investment Strategy Update

Key Themes and Investment Positions

Within our Quarterly Newsletter, we have consistently focused on 6 major themes that guide our investment strategy.

- The countries dominating the world economic order have changed and continue to change - new emerging countries and developing markets – rapid financial market and economic growth in China, or the emergence of Russia and Brazil in top – 10 economies
- The importance of a stable and transparent political governance process whether planned, as in China, "faux" (autocratic) democracy as in Russia or gridlock in the US Congress and Senate
- The rule of law, an independent judicial system, a stable constitution and property/land registration systems all feed into a stable investment environment and an informed decision
- The importance of people living longer and of declining birth rates that determine labour force growth, cost of social and healthcare services and growth in GDP
- Innovation and technology as the engine of future growth - "the economic and financial market game changers"
- A focus on potentially disruptive market mechanisms such as Exchange Traded Funds (ETFs), high frequency trading (HFT) and the importance of maintaining a long term focus.

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World economies are tied together more than ever before through trade and foreign direct investment between countries. Innovation speeds labour productivity, altering the balance of trade and domestic and international competitiveness.

Investment in resource development in one part of the world may lower costs of manufacturing in other parts of the world. Countries weak in certain resources may negotiate contracts with or acquire entire corporations in another country. Multinational corporations in one country may negotiate directly with heads of government for rights to export resources. Resource fees paid to autocratic democracies may feed corruption and thwart economic growth.

Economics, taxes, governments, energy, communication and transportation are all important aspects of "doing business" in every country. Governments in one country may negotiate with another country as to the way that government or its corporations may invest in, do business in or sell to companies in their own country.

Making the right investment decisions about stocks for your portfolio needs to be informed about where the companies operate and have a perspective of historical normalcy.

This is where investment strategy becomes important. Investment strategy ties the big picture world to individual security selection. Investment strategy does not drive individual security selection; it makes security selection an informed investment decision.

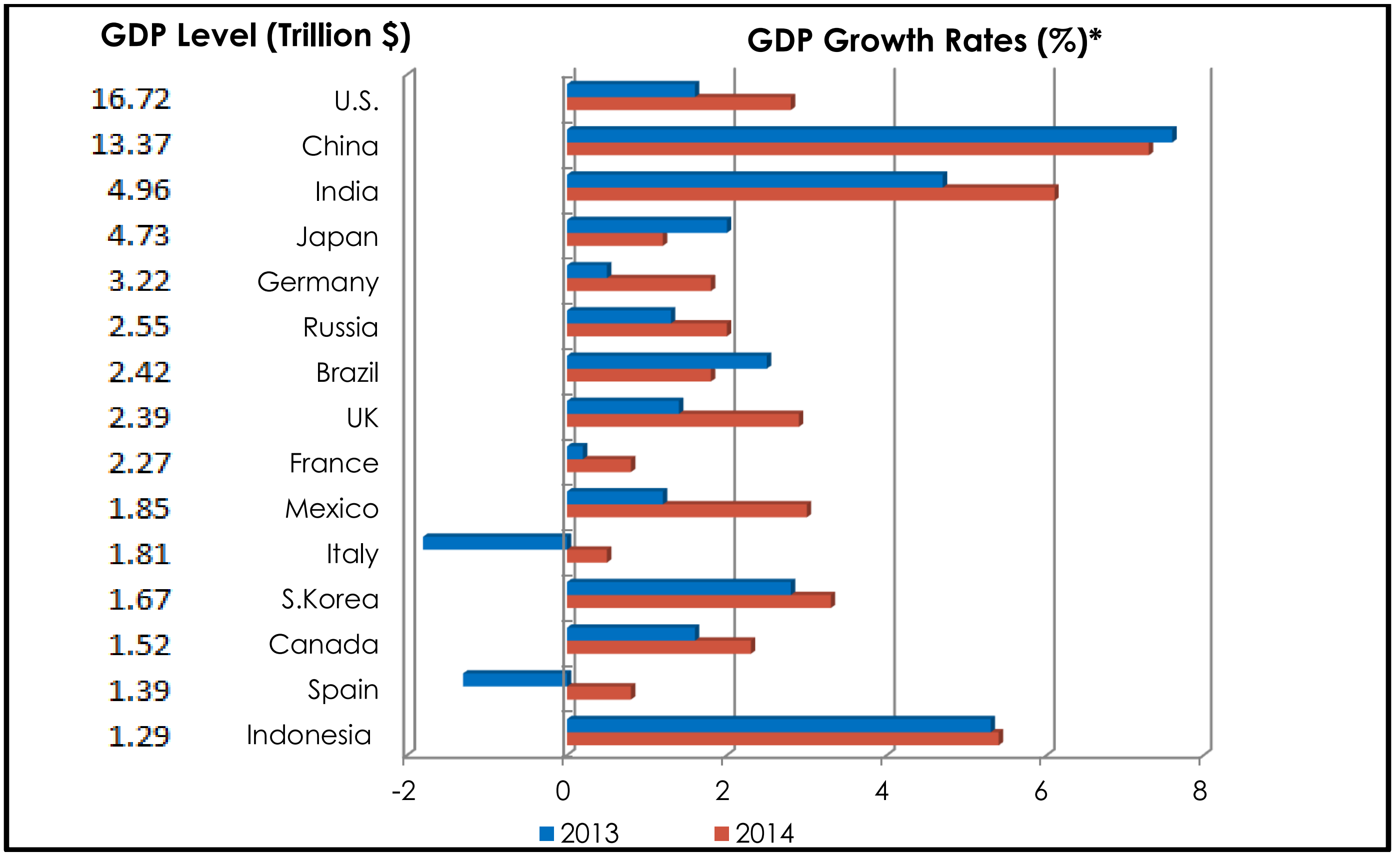
Economic and Financial Market Trends:

The global economy is dominated by the top 15 economies by Gross Domestic Product (GDP)

Total World GDP = $87.18 Trillion

2013 Growth Rates

2011	***3.8%***
2012	***3.1%***
2013	***2.8%***



* CIA World Fact Book, the Economist Survey

Our Current Investment Position is:

- In the US, we are entering an era where equities will enjoy a secular uptrend in growth lasting 10-15 years
- Improving economic growth in the US as the effects of the 2011 sequester ends and gradual improvements in the Eurozone where the recession appears to be ending. Absent as yet are unseen “knock-on” effects of Russia’s annexation of Crimea in the Ukraine
- Restructuring in China, Japan, France and Italy will stabilize growth. In China, stability will fall to 7% for 2014. In France, Italy and Japan, growth will return to more normal 2.0% per year trends by 2015
- Continued disinflation and the threat of deflation in 2014, particularly in Europe
- In fixed income investments, we will continue to invest in North American sovereign and high-quality corporate debt. The debt will be short-term because interest rates are likely to rise – albeit gradually over 3-4 years

We will continue to emphasize more equities and less fixed income in your investment policy and our investment strategy.

Equities will continue to follow a "stay-fully invested" strategy with marginally lower allocation to dividend paying stocks and higher allocation of growth.

We continue to advise on over allocation to the US equity market. We are preparing for gradual re-investment in the Eurozone area but this is not likely to happen until late 2014 when the results of the Eurozone bank "stress tests" are completed.

On currencies, we favour a stronger US dollar, (weaker Yen and Euro) and a weaker Canadian dollar.

On potentially destructive market mechanisms - ETFs, HFT (high frequency trading) and hedge funds, we continue to avoid these investments, – we will remain focused long-term. New emerging legislation in the US and Europe will have effects on HFT and commodity trading.

Current Investment Strategy:

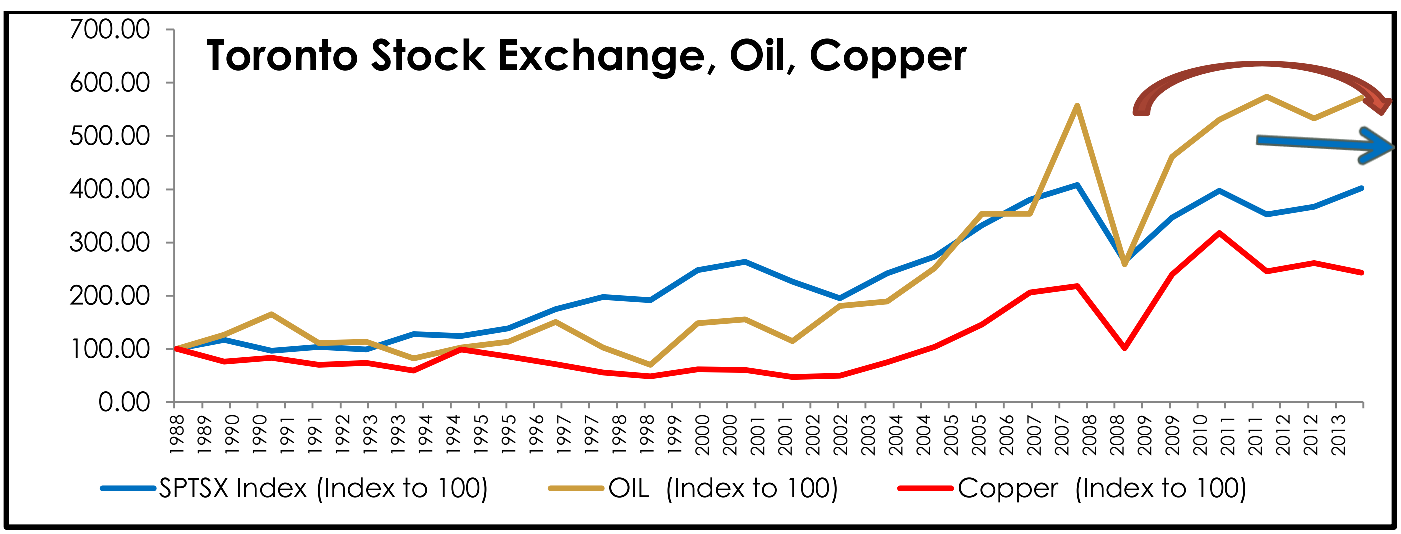
We narrowed investments to North America 5 years ago and continue to maintain this strategy. We are, however, re-examining good quality investments in the UK and Europe in 2014 and beyond. Europe's banking system is still operating under a yellow-flag. We await new bank stress tests later on this year in Europe.
Mexico is now one of the largest economics (top-10) in the world. There is still much to be done in this country in terms of political governance.

We examine, question and review North American companies' areas of operation in many countries: India, Argentina, Venezuela, Vietnam, Thailand, China, Russia, and Brazil.

Canadian Equities:

We expect Canadian equities to underperform the US equity markets

- There is an overlying cloud affecting the Canadian banking sector because of residential mortgage lending and higher consumer debt than is historically the case
- Commodity prices are likely to remain flat with the excess supply of resources and the rising US dollar
- We expect oil prices to remain flat to trending down over the next 5 years
- Offsetting this will be the rise in the industrial manufacturing product sector of the TSX as the US economy resumes its more natural growth path – 75% of Canada's exports are sold to the US

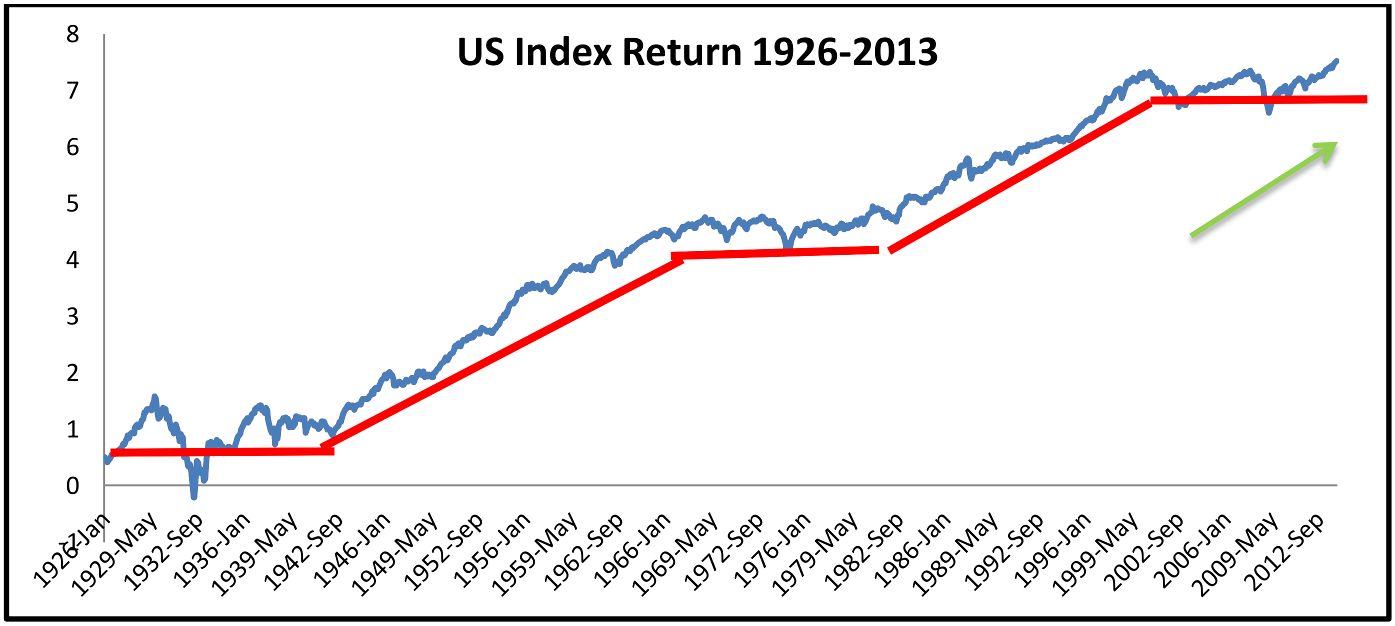


Source: Thomson One.

- Canadian equity investments will emphasize the industrial sector and transportation – related sectors

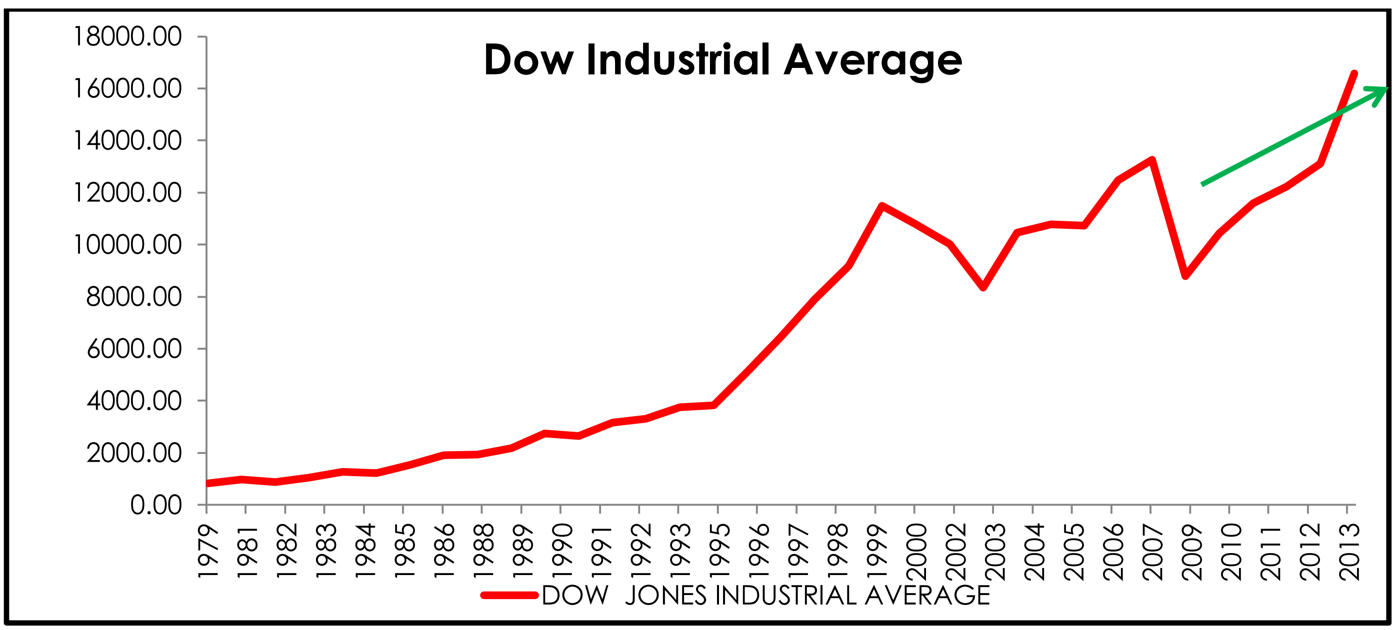
US Equities:

- We expect US equities have entered a long-term secular uptrend



Source: Thomson One.

- Innovation on the internet, cars, 3-D printing, additive manufacturers, robotics and biotechnology are now being commercialized in the US financial markets and by US companies
- Innovation in energy (fracking), nuclear energy and batteries are also being tested, proven and commercialized in the US, China and Japan
- The US dollar will strengthen

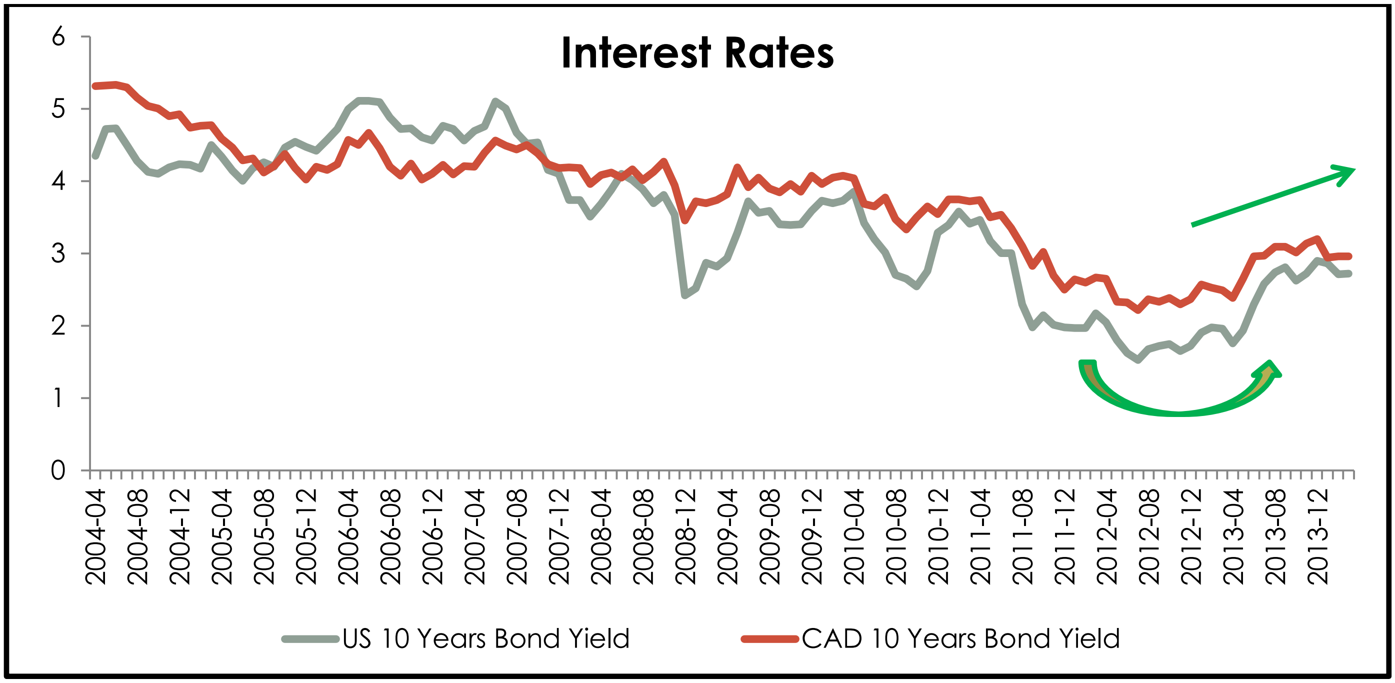


Source: Thomson One.

- Capital efficiency is rising so that new investment in production drives greater and greater profits

Fixed Income and Inflation:

- Inflation grows when the demand for goods exceeds the supply of goods coupled with printing money by central banks
- Economies are connected globally through international trade and the financial system
- Globally, there is excess capacity even though there is excess liquidity provided by the central banks – keeping a substantial bid on inflation
- Looked at globally, growth rates in China are falling into the 5-7% area; the US, Mexico and Canada are operating below capacity; and Europe is operating significantly below capacity
- Interest rates are likely to rise gradually over the next 5 years
- A rise in Canadian interest rates is likely to lag the interest rate rise in the US
- The Canadian dollar is likely to remain weak against the US dollar

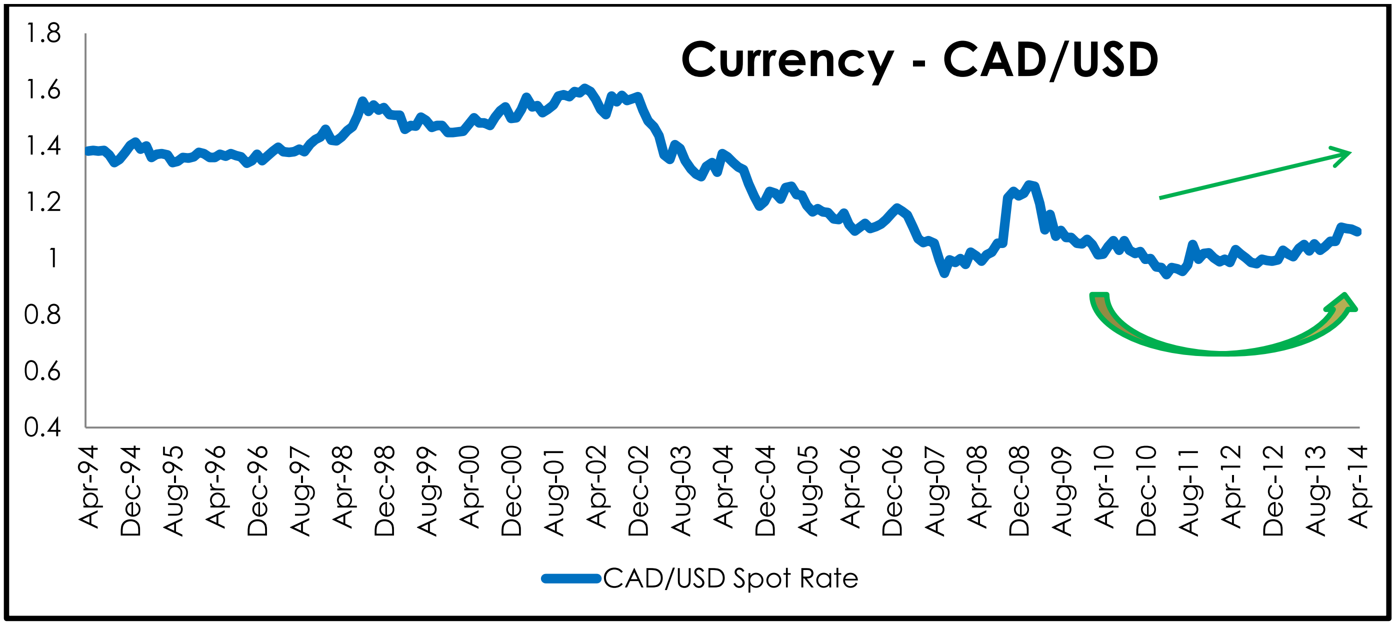


Source: US Federal Reserve and Bank of Canada.

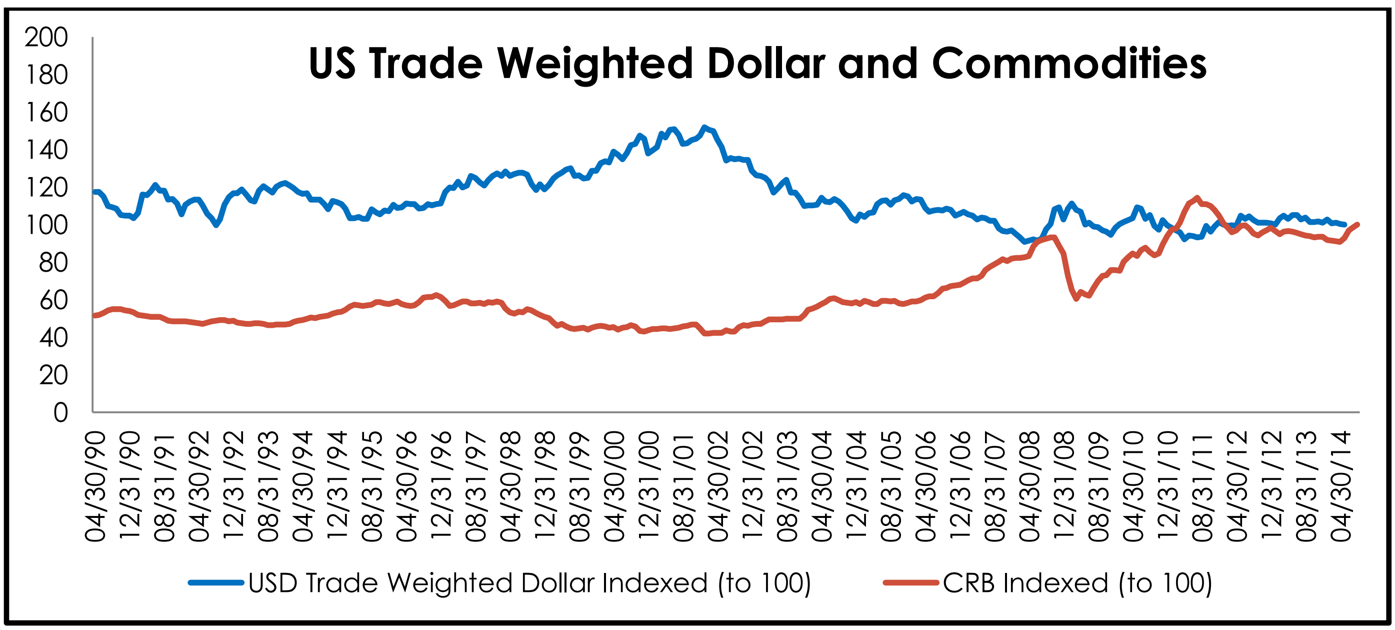
- Inflation in the Euro area is likely to remain subdued
- There remains a threat that disinflation will turn to deflation globally
- Fixed income components of your portfolio will remain short
- Equity returns in the US will not be ``bothered`` by disinflation

Currency:

- We expect the trade-weighted US dollar to rise gradually
- The Canadian dollar will resume its weakening based on a neutral trend in commodity prices, gradual softening of oil prices and a stronger US dollar



Source: Thomson One.



Source: Bloomberg, Raymond James.

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