The Dividend Value Discipline™
Market Commentary
4th Quarter 2009

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Wow, wasn't that a party! Yes, we needed one after the drubbing we took in 2008. For those investors who had the fortitude to "stick with the program", 2009 was rewarding indeed. Fully invested accounts reaped returns in the 40% range, and we closed out the year with a roughly one third / two thirds split between cash & fixed income versus equities. As a reference point only, the all-equity TSX Composite Index came in with a gain of 30.7% for 2009.

As you are aware, no two accounts are exactly alike due to the ***"buys only"*** process and different start dates. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

An interesting aside – our top performing account came in just north of 56%. How did that happen? The client added significant amounts of cash in both November 2008 and February 2009, proving once again that your investment behaviour has a huge impact on returns.

Heading into 2010, our objectives for **The Dividend Value Discipline™** remain unchanged – income every month, an acquisition process where we buy ***only*** those securities which become attractive on a "go forward" basis, and finally, absolute returns of 8% each and every year.

Major Transactions Since September 30, 2009

In the early part of the quarter, part of our strategy was to move to larger capitalization companies in stable industries, as we saw them as less vulnerable in the next market correction. Pipeliner **Enbridge** is a good example and we acquired a full 5% weighting on October 5, 2009.

Paradoxically, we then chose to swap large cap Colgate Palmolive position, realizing a modest gain, for the smaller cap company, **PetMed Express**. In short, the value proposition was just so much greater with PetMed. It is the industry transformer, selling both prescription and non-prescription pet pharmaceuticals direct to consumers, much to the chagrin of local veterinarians. We see this playing out the same way that Amazon took market share away from local booksellers – something that has benefited Amazon's shareholders handsomely. Our intention is to add to the position upon further evidence that our thesis is correct.

In late October, we opted to eliminate the Brazilian electrical company **Cemig**, as the stock price was approaching what we believed the company to be worth. It is now apparent that the rest of the world thinks it is worth considerably more. Notwithstanding our 16% gain for a four month hold period, we would have been better off holding Cemig. All was not lost – we took those proceeds and added it to fertilizer producer **Terra Industries**, at $31.75 US on October 30th, and then sold that addition on December 10th at $42.75. We continue to hold the reduced position.

We also eliminated aluminium producer **Alcoa** at the end of November, where we pegged a 24% gain for a 5-month hold period. That sell decision was prompted by an income yield of less than 1%, a favourable US exchange rate, and concern over large and growing aluminium inventory positions. This has also turned out to be the wrong move (in the short term, at least).

In early December things got busy. We added to natural gas producer **Peyto**, gas processor **Altagas**, and trimmed back our **Canfor Pulp** position – the former two being more attractive from a risk perspective, versus the latter. By mid-December, **Franco Nevada** had launched a takeover bid for International Royalty Corp and fearing a bidding war, we opted to reduce our position in favour of one of the world's largest gold producers, **Newmont Mining**.

Our attention then turned to the energy industry, as we saw opportunity in two great companies that were being sold down for tax loss selling reasons, namely **Cenovus** (the oil side of the Encana split) and **Pason**. Both positions were showing gains before year-end, as the sellers exhausted.

On the fixed income side, we have struggled to find investment opportunities that are compelling. We were able to collect a modest position in **Russell Metals debentures,** yielding 7.75% to 2016, and **First Capital Realty debentures**, yielding 5.70% to 2017. Both come with a convertible feature, giving us some upside potential over the interest income. With 5-year GIC rates just north of 3%, it is not hard to see that this area of the market will continue to be difficult.

We enter 2010 with some trepidation and a lot of excitement. Our intention is to monitor investor demand and let the trend establish itself before making any major changes. Under-invested "pros" are far less of a factor and we need to see how investors are going to respond in the New Year. We remain confident that opportunities will present themselves and we are certainly in a liquid position to act.

Yours truly,

Chris Raper
Vice President, Portfolio Manager
Raymond James Ltd.

www.chrisraper.com