The Dividend Value Discipline™
Market Commentary
4th Quarter 2010

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The end of 2010 marked the eighth full calendar year for **The Dividend Value Discipline™** program. We are happy to report that it was another rewarding year for participants, with returns for fully invested accounts clocking in at the 14% to 16% range. We are even more pleased to report that, after adjusting for cash flows, accounts in the program are now posting higher values than we reported on December 31, 2007. This means that we have beaten the worst bear market in 70 years, and we say that humbly, recognizing that we must continue to do so. My team and I thank you for your confidence (which we fully acknowledge we tested in 2008/09) and tenacity. Obviously, we could not have done so without your intestinal fortitude – congratulations!

Not surprisingly, our objectives remain unchanged: income every month, an acquisition process where you buy ***only*** those securities which become attractive on a "go forward" basis, and absolute returns of 8% each and every year. 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.

During the quarter we saw a colossal shift away from government guaranteed bonds and into stocks, pushing prices steadily higher. That phenomenon was exacerbated as many institutional money managers sought to close their performance gaps into year-end.

Our major buy/sell decisions for **The Dividend Value Discipline™** over the past quarter were as follows:

Enbridge Inc. was the first to get the axe on October 19th, where the price offered came very close to what we believed the company to be worth. The chance to redeploy the capital into companies with similar dividend yields but greater capital gain potential was just too much for us to resist, so we exited, booking a 33% gain.

On the same day we sold our **PetMed Express Inc.**, swallowing a 19% loss. Economic challenges within the U.S. had bumped the company's television advertising costs, adversely impacting the sales, margins and the like. Waiting for a turnaround which may or may not happen just seemed like too much opportunity cost.

Shortly thereafter, we took up an initial position in convenience store retail distributor **Colabor Group Inc.** This company has impressed us with its culture and defensive qualities. When the market overreacted to a lost contract, the decision to buy was relatively easy. Why do we like it? Over 55% of its sales are secured by long-term agreements that provide for price increase flow-throughs – basically a "cost plus" approach. Financially, its balance sheet is strong and they make prudent use of debt. The CEO has been with the company for over a decade and, in March of 2010, he spent $135K of his own money in buying up shares at $11.50. We acquired ours at an average price of $10.82 and that figure translates to a dividend yield just shy of 10%, based on cost. Today I wish I had bought more.

In mid-November we cashed out our **Trinidad Drilling** debentures, our rationale being, "this is as good as it gets". Notwithstanding the 7.75% coupon, the company had the right to redeem the debentures at par in early 2011, which they are now in the process of doing. The sale crystallized a substantial gain of some 29% for the hold period.

In early December we acquired an initial position in oilfield drilling company **Ensign Energy Services Inc.** for all accounts that did not hold **Stoneham Drilling Trust**. Ensign promotes its senior managers from within, the organizational structure is flat and a performance mindset prevails. Senior managers have a huge insider ownership, some 18% of the shares outstanding. Financially, the company is the envy of its peer group having more than enough resources to expedite its technologically advanced build program. Again, I ask myself, why didn't I buy more? Given our outlook on the energy complex, we expect good things to come.

In order to help lower 2010 capital gains tax bills, we sold **Stoneham Drilling Trust** in December for all non-registered accounts. Our strategy was to crystallize the tax benefit of the capital loss and move the proceeds to equally undervalued securities in the same space, namely Ensign and Husky Energy Inc. This allows us to retain the upside potential that we see in the energy complex. We continue to hold Stoneham in existing registered accounts for diversification purposes.

By mid-December, the bond market had taken a considerable beating, giving us the chance to acquire a "bond surrogate", this being the **Scotia Capital Canadian Corporate Bond Index iShares**. Liquidity constraints within the Canadian corporate bond market made this a prudent investment option, versus buying the individual bonds. This investment pays a monthly income of almost 4.75% per annum, based on our purchase price.

As we closed out the year I was expecting stocks to move down – my thinking was that the institutional money managers would have had their fill. This did not materialize, and thus some open orders did not get filled. It appears that retail investors have taken over from the "pros", as The American Association of Individual Investors reported that 63% of their survey participants were bullish as of December 23rd. Historically, this has been a great contrarian indicator, meaning that weaker markets into the New Year are likely.

Heading into 2011, we have some cash at the ready – roughly 10% in most accounts, which will be put to prudent use, should the opportunities present themselves. We look forward to another prosperous year for all concerned, and thank you again for your continued support and confidence.

Happy New Year!

Yours truly,

Chris Raper
Vice President, Portfolio Manager
Raymond James Ltd.

www.chrisraper.com

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