The Dividend Value Discipline™
Market Commentary
3rd Quarter 2013 (Q3) – as of September 30th

Q3 2013 came in stronger than most years past, i.e. it is not unusual for the market to give up much of its gain over the summer months and close out September on a decidedly weak note. This year, the "dog days of summer" were a non-event, so the old adage of "sell in May and go away" would have meant the loss of considerable opportunity cost. In our opinion, the biggest driver of this upside bias was investors recognizing that the glory days of bonds are behind us, and that 5-year GIC's rates at 2.90% just aren't going to cut it for most people. Consequently, one by one, investors chose dividend-paying stocks with similar (but growing) dividend yields and overall earnings yields in the ~7% range. In other words, the forces I outlined in my recent missives, the September edition of **The Opportunity Update** (www.tinyurl.com/TheOppUpdate) and the August edition of ***The Strategist*** (http://tinyurl.com/strategist-archives) are still intact.

Fully-invested accounts in **The Dividend Value Discipline™** have returned around +5% on a year-to-date basis, with September 30th marking a new month-end high water mark for the program. Due to differences in start dates and the timing of cash flows, no two account returns are the same. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

As you would expect, our objectives for the program remain: (1) income every month; (2) buy only those securities which become attractive on a go-forward basis; and (3) absolute returns of +8% each and every year. That said, we continue to tweak our investment process in a constant effort to improve the risk/return equation. The recent addition of Alex Vozian, CFA, coupled with considerable modus operandi improvements, already appears to be bearing fruit. I have never been more excited about the companies we own and the recent ones that are within our sights. You can hear more on the last edition of **The Opportunity Update** referenced above. Now on to the major transactions of the past quarter and our rationale for each of them.

In mid-September, we sold our position in fertilizer producer **Mosaic Co.** at $46.70 USD per share, exiting a 29-month hold period with a loss of 15.89%. The approximate 2% allocation translated to a program impact of about -0.32%. What changed with the company? On July 29th, Russian potash producer Uralkali announced that it would no longer participate in the global cartel on potash prices, and would instead try to capture market share by significantly expanding production. The reaction was immediate with all stocks in the potash space dropping sharply. Mosaic dropped to a low of $39.95 USD that day. Our blunt assessment is that the industry dynamics have changed and producers are now looking at considerably lower prices. As a result, we do not foresee the profits and stock price of Mosaic materializing as we had previously expected. In predictable fashion, investors overreacted to the news and we thought we would be better served by allowing the panic stricken to get out of the way, prior to selling. That strategy allowed us to realize much better prices on the subsequent rally.

Next we acquired a significant position in the world's largest wealth manager, **Blackrock, Inc.**, which has close to $4 trillion in assets under management. Blackrock is a company that has one of the finest economic moats we have ever studied; its product diversity and heavier concentration in the institutional client base provide Blackrock with a "stickier" set of assets than many of its peers. Blackrock's culture is manifested in its determination to offer the best products and solutions for its clients. You may recognize the company name by its industry-leading iShares ETFs (exchange traded funds), which has currently cornered 82% of the ETF market share in Canada. Blackrock has a track record of successfully dovetailing acquisitions – namely, Merrill Lynch Investment Managers in 2006 and Barclays Global Investors in 2009. More recently, it was Credit Suisse's ETF business, which will expand its European ETF footprint. Currently, over 40% of Blackrock's revenues come from outside the Americas and the company is focused on furthering that geographic reach. Blackrock has an excellent history of returning cash to shareholders. The 3-year compound annual growth rate of its dividends is 24%. We are looking forward to future events.

As I write this missive at the end of day 1 of the U.S. government shutdown, the obvious question is what lies ahead and how is it likely to affect us? What I can tell you is that, historically, government shutdowns have been more positive than negative. Since 1970, we have had 17 such events. Although the stock market has historically endured short-term selloffs, in 11 of those 17 instances, the S&P 500 Index was higher one month later. My take is that this time around, the reaction will be "a little worse" (it depends on your perspective) than usual. I say that because the shutdown is coming on the heels of an extremely overbought/stretched to the upside market, with the S&P 500 knocking on +20% year-to-date returns. Even without the shutdown, we should be due for some kind of correction. It is almost like the market is looking for a reason to correct. That is not a bad thing. We are about 8% shy of our target equity allocation within **The Dividend Value Discipline™**. Obviously, cheaper prices are a good thing when you have cash to invest. As we approach the next hurdle – the much more important debt ceiling that could see a U.S. Treasury default on October 17th – there could be some interesting opportunities indeed. Watch your inbox. ☺

Yours truly,

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