The Dividend Value Discipline™
Market Commentary
2nd Quarter 2014 (Q2) – as of June 30th

As we closed out the second quarter of 2014, Canada's commodity-centric **TSX Composite Total Return Index** sprinted to a +12.9% year-to-date return, while the U.S.-based **S&P 500 Total Return Index** pegged in at +7.3% (+7.7% in Canadian dollars). By comparison, fully invested accounts within **The Dividend Value Discipline™** have posted year-to-date returns of just over +5% (due to differences in start dates and the timing of cash flows, no two account returns are exactly alike). Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

In other words, **The Dividend Value Discipline™** has not kept up with the markets in the short term, but let's remember, that is not the objective of the program. To recap, the objectives are: income every month; buy only those securities which become attractive on a go-forward basis; and returns of +8% each and every year. We take a "shock absorber" approach to investing, with a balance between fixed income and equities, while always focusing on the "rent cheque". You should expect us to outperform stock indices in down markets and underperform in up markets. By way of example, here is an excerpt from our Q4 2011 Market Commentary: *"the S&P/TSX Composite Index pegged a -11.1% return for the year and the S&P 500 Index came in a bit stronger at 0% (+2.2% in CDN$ terms)…So how did we stack up? Fully invested registered accounts (RRSP, RESP & RRIF) met or exceeded the +8% bogey, whereas non-registered accounts pegged in at a respectable +5%, on average."*

What follows are details of the major transactions in the program over the last 90 days, and the rationale for each.

We exited the remainder of our **EnCana Corp.** shares in mid-April, notwithstanding the company's massive "gas rich" land position and our upside bias on natural gas prices. That said, the company has had some serious missteps, causing the shares to bottom at ~$17.50 Cdn per share last summer. In response, its Board of Directors rightfully installed a new CEO, Doug Suttles, formerly of BP. While Suttles has put together a credible plan to improve the company's fortunes, we had little evidence that the plan was actually working. Accordingly, last December we started selling down EnCana, using the proceeds to purchase shares of **ARC Resources Ltd.**, where the yield was a healthy 4.1% on our initial buy point. ARC has a significant land base in the lucrative "liquids rich" Montney play in northwest Alberta. We see it as underappreciated, as does the company's management – they have been buyers as well.

Regarding new acquisitions, the evidence for our "embracing capex" theme just keeps getting stronger. You can hear more about this on the June 7, 2014 edition of ***The Opportunity Update*** - www.tinyurl.com/TheOppUpdate. Addressing that theme, our first acquisition was "high spec" aluminum manufacturer, **Kaiser Aluminum Corp.**, a major supplier to Boeing and Airbus. They are well positioned to take advantage of the replacement cycle of the world's now record old commercial aircraft fleet. We also see the Ford F-150's new all-aluminum frame as a game changer – others will have to follow suit, creating a secular demand shift. "High spec" translates to high barriers to entry and we also like the strong history of succession planning at Kaiser. Financially, the company carries modest debt, has impressive earnings growth and a 3-year annual dividend growth rate of 9%.

Our second addition was Edmonton-based consulting engineering firm, **Stantec Inc**. Culture-wise, the company is strong. In part, their success comes from acquiring many smaller engineering firms, while at the same time making the acquired "human capital" more productive. Talent development is a top priority, particularly within the upper management ranks. The result has been double-digit earnings growth, coupled with amazing earnings stability. We expect more of the same and see underlying strength in North America's expanding infrastructure needs, as the U.S. re-industrializes and Canada scrambles to be a major supplier.

At the close of the quarter, the top five equity positions in **The Dividend Value Discipline™** in terms of allocation were **Microsoft Corp., ARC Resources Ltd., Colgate-Palmolive Co., CVS Caremark Corp., and Qualcomm Inc.**

Looking ahead, we should be cognizant that our major themes remain intact. Since the June 7, 2014 recording of ***The Opportunity Update***, the price of copper (the world's best economic forecaster) has strengthened, the industrial renaissance in America continues and the evidence continues to point to a "late stage capex" economic cycle, where energy, materials and select industrial stocks tend to outperform. Against that positive backdrop, we are also aware that we are now in the seasonally weakest months of the year: July, August, September and October. Down markets should be expected, and yet, that is the source of better value propositions. The plus? We have ample "shock absorber" assets to sell to take advantage of any compelling opportunities that come our way.

Enjoy your summer,

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