The Dividend Value Discipline™
Market Commentary
4th Quarter 2014 (Q4) – as of December 31st

As we wrap up 2014, we are happy to report another calendar year where we can tick off all of the program objectives for **The Dividend Value Discipline™**:

- ✓ income every month
- ✓ buy only those securities which become attractive on a go-forward basis
- ✓ returns of +8%, net of all costs

In fact, fully invested accounts clocked in with returns in the range of 9% to 10% for 2014, notwithstanding the "oil shock" of the last six months which has been especially hard on Canadian investors. In essence, our "shock absorber" approach, where we reduce equity exposure and move it to bonds and/or cash when people are greedy and/or valuations are expensive (and vice versa when people are fearful and/or valuations are compelling), has once again delivered the goods. As always, our focus on the "rent cheque" allows us to smooth out returns, which in turn allows our clients (and our team) to stay "in the game" during the rough patches, which is ultimately how we all make money. You should expect us to outperform stock indices in down markets and underperform in up markets.

If you have participated in **The Dividend Value Discipline™** from its meagre beginning in late 2002, December 31, 2014 marked the close of your 12th calendar year of positive returns - yes, we lost ground in 2008 and we remain grateful for the confidence you afforded us during that difficult time. In all but four of those calendar years, we have met or exceeded our 8% target, and the compound return for those that started at the program's inception is tracking well north of the 8% bogey. As you know, 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.

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

Throughout the quarter, we saw increasing evidence that the U.S. dollar strength would continue, and our long term historical perspective told us to be wary of too much commodity exposure during such periods. Accordingly, we exited **Southern Copper Corp.** in early November, pegging a nominal loss of 0.22% based on our initial buy back in March 2014. In the energy space, we went into the worst of the downturn "light on exposure", bucked up during the worst of the selloff, and then reduced exposure on the ensuing year-end rally. Turning to the specifics, we sold the balance of our **Arc Resources Ltd**. position at just shy of $28.00 per share, for a minimal gain of just 2.04% from our original December 2013 purchase date. Notwithstanding Arc's high quality assets and the high regard we have for management, we just see too many headwinds in the oil and gas producer space. In the same vein, we sold the balance of our **Husky Energy Inc.** shares on December 17th at just north of $25.00. For those of you who were participating in the program in August 2010 (the original purchase date), the resulting gain was some 25%, primarily achieved by selling a significant stake at much higher prices back in January 2013. Looking back, it is now painfully obvious that we should have sold the entire position, yet we can't live life in the rearview mirror – the evidence for the oil and gas sector has changed and we must shift our stance. The "buck up" we referred to above took place earlier in December, when we doubled our position in **Suncor Energy Inc.** In a nutshell, given Suncor's international pricing exposure, refinery/downstream assets, and low debt/growing free cash flow, we see it as one of the most defensive names in the industry. Thus far, we have been well rewarded for our courage.

Leaving the commodities theme, we exited **Kraft Foods Group Inc.**, locking in a gain just shy of 3% over a four month holding period, over execution concerns (notwithstanding their impressive strategic plan). We also exited our position in drug distributer **AmerisourceBergen Corp.**, booking a gain of ~48% after a holding period of 17 months. Our sell decision was based on the explosive upside move in the stock price which offered us just too much "instant gratification" to let it pass by. Suffice to say, the value proposition is not what it once was, so we went looking for greener pastures. Finally, in the last week of December, we exited our smallish remaining position in smart phone chip supplier **Qualcomm Inc.**, over concerns of their unresolved collection issues with Chinese licensees. For us, the uncertainty was just too much risk and too much of an energy drain. Those who held Qualcomm since it was first added to the program back in May 2012 bagged a gain of roughly 24%.

Turning to the new acquisitions, we bought North American hazardous and radioactive waste service provider **U.S. Ecology Inc**. We like the fact that the company provides an essential service, and that hazardous waste disposal sites are almost impossible to build today as everyone is understandably infected with the NIMBY (Not In My Backyard!) syndrome. That leaves existing sites and treatment providers with oligopoly-type pricing because there is little in the way of new competition.

Next up was a revisit to a past holding, with the purchase of global risk and insurance services firm **Marsh and McLennan Companies Inc.** (MMC). They operate in more than 130 countries, helping clients identify, plan for, and respond to risk and critical business issues. MMC got high marks from us on the corporate culture front and we like the fact that they cater to "sticky" mid-size/larger companies at a time when those companies are flush with cash and keen to mitigate risk. Their revenue base is well diversified, with roughly one half coming from Risk and Insurance Services and the other half coming from Consulting Services. Ever since their former COO, Daniel Glaser, took the reins as CEO in early 2013, dividend increases have taken on a renewed focus and the company has stated publicly that they are committed to double digit increases in the future. We love that rent cheque and expect more of the same.

Our last acquisition of the quarter was retailer **Macy's Inc**. For us, this was the sweet spot in terms of taking advantage of the increased consumer spending due to cheaper gasoline prices, yet that is not where we started. Our study of culture and economic moat gave Macy's high marks on both fronts. Culture-wise, the company concentrates on customer service and organic growth. Moat-wise, you can see that thinking in action as they have built up a defensive position with their "omni-channel strategy" whereby stores are stocked with appropriate inventory for the local market, and then double as a fulfilment centres for their on-line business. Dividends have been on an upward track the last couple of years, which we obviously like.

We wrapped up the year with a sizeable cash position (~18% on average), and with only 50% of the program capital invested in dividend-paying equities, most of which are domiciled in the U.S. Our "normal" equity allocation is closer to 75%, so obviously we are having a hard time finding decent value propositions. It is at times like this that we must remind ourselves that patience is a virtue and it is most often better to wait for the fat pitches, rather than swing at difficult curve balls. We look forward to seeing what kind of fat pitches 2015 will be throwing!

All the best of the New Year,

Chris Raper, CIM, CFP
Senior Vice President, Portfolio Manager
Private Client Group, Raymond James Ltd.

&

Ryan Cramp, CIM
Associate | Portfolio Manager
Private Client Group, Raymond James Ltd.

www.chrisraper.com

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