The Dividend Value Discipline™
Market Commentary
3rd Quarter 2012 (Q3) – as of September 30th

The close of Q3 2012 marks the 10-year anniversary of **The Dividend Value Discipline™**. Our objectives for the program then were the same as they are now:

(1) income every month
(2) buy only those securities which become attractive on a go-forward basis
(3) +8% net returns each and every year

The first account that we opened pegged in with a compound annual return of 8.89% over that 10-year time frame. That number was achieved by sticking with the tenets of buying only those securities that pay a "rent cheque", keeping our research "in house" and adhering to our buy sell discipline, which can best be summed up as the following three factor matrix:

- The security's return potential to fair value – you will only know this if you do your own homework.
- The public's perception of that value – is it waning or gaining?
- The current state of investor psychology – be greedy when others are fearful, fearful when others are greedy.

We have not met all of our objectives each and every year. There is no question that we failed miserably in 2008, yet had fully recovered our previous (July 2007) high water mark by February 2011. Throughout that debacle, we learned a lot and tweaked the program to prevent a reoccurrence. Our current practice of "the great company bias" is one such example. We continue to work hard at improving our skills. We are here to serve.

Fully-invested accounts closed out Q3 2012 with a year-to-date performance in the +5% range with most of the year-over-year returns in the low teens. Due to differences in start dates and the timing of cash flows, no two accounts are the same. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

Those participants who joined the program recently (or those who have added considerable cash) will see lesser results due to our practice of "the buys only mandate". While frustrating in up markets, we continue to believe it is the best path to reaching our objectives.

Turning to the major decisions for Q3, and continuing with our standard of transparency even when it hurts, program participants will be aware that in late August we sold our position in **Life Partners Holdings Inc.** (LPHI), taking a 65% hit on that particular holding. I have written extensively regarding the reasons why and now see it as "learn what you can and move on".

On a brighter note, we exited our small position in **iShares Canadian S&P/TSX Global Gold Index Fund** (XGD), marking a near 20% gain. The decision was spurred by the strong rally in gold producer stocks and a new target within the complex which we intend to buy on the next substantial pullback.

The other significant sale was in fact a substantial "trim" of pipe producer, **Shawcor Ltd.** (SCL). The impetus was a 20% jump in the stock price, on news that the controlling shareholder is prepared to sell. Being incrementalists at heart, we sold roughly 40% of our holdings and marked a +50% gain thus far.

Turning to new acquisitions, we are excited about the addition of premium farm and construction equipment maker, **Deere & Co** (DE) – most readers will know it by the name John Deere. The corporate culture at Deere is on a level that few companies can match. They have a very long history of promoting from within, with many of its senior executives having tenures of 20 plus years. Management is shareholder focused and they should be – they own over $60 million worth of the common shares. Its focus on quality equipment is evident by the high resale value of its used machinery. Given the company's emphasis on research and development, we don't see that changing. That strategy has paved the way for impressive earnings growth and considerable shareholder returns. Deere's dividend per share growth has compounded at double-digit rates over the last five and ten year periods. We expect to add to our Deere position in the months ahead.

The last significant acquisition is closely related to our bullish stance on natural gas. During the last days of the quarter we managed to accumulate an initial stake in natural gas systems provider, **Enerflex Ltd.** (EFX). Why Enerflex? To start, we like the macro space – we are of the firm belief that North America is going to find ways to harness the prodigious (and cheap) energy offered by natural gas. Enerflex is going to make it happen and get well paid to do so. At the corporate level, EFX has gone through an extensive cost cutting program that lasted two years. They are now positioned for growth and there is no shortage of demand for their services. Management is focused on the return on invested capital which is the right metric for us as shareholders. We look forward to watching EFX execute.

As we start Q4, we are aware that September was unusually benign (seasonally it is one of the weakest months of the year) and we are now entering tax loss selling season, where investors often throw the baby out with the bath water. We intend to catch a few of those babies as we drive towards our year-end ambition of marking our 10th calendar year of **The Dividend Value Discipline™** with another "beat" of +8%.

Yours truly,

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