The Opportunity Update – December 7th, 2015

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Track #1: Introduction – The Skinny

Hi, this is Chris Raper, Senior Vice President & Portfolio Manager, Private Client Group of Raymond James Ltd. & co-founder of **The Dividend Value Discipline™**. Welcome to **The Opportunity Update**, which is being recorded for you in Victoria, B.C. on Monday, December 7th, 2015. Here is what we are going to cover today:

You are now listening to **Track #1: The Introduction**, where I give you the skinny on what I am going to talk about.

Track # 2: The Markets – Can We Make It 7? Your immediate thought might be, "Is Chris trying to change the goal posts?" Long time listeners will be fully aware that the goal for our core investment program, **The Dividend Value Discipline™**, is +8%, each and every year, and some of you have reminded me of that fact over the past few weeks ☺. There is no such change afoot, rather I am going to give you a historical perspective on the number of years that the U.S. markets have been positive – we will be gunning for 7 years in a row as we close out 2015. Of course, I am going to give you an update on what we are seeing in the latest leading economic indicators and speak to the potential U.S. Fed rate hike on December 16th. Being Canadian, I am obviously going to address the all important oil and gas complex and what that portends for the Canadian dollar. Being Chris, I am going to talk about the rout in copper prices and the divergence we are seeing in the semiconductor index. Those two indicators continue to influence our long term "anti-Canada bias", which I don't see changing anytime soon. I will tell you why I believe those investors who are heavily weighted to Canada are in for years of continued pain.

On **Track # 3: The Dividend Value Discipline™ – Moving to Growth**, I will speak to what some may see as a slightly more aggressive stance within **The Dividend Value Discipline™.** Most listeners will know that we have held a defensive hand throughout most of 2015 and that has served us well. As we see it, the defensive names have become more expensive while the more growth-oriented names have become a better value. This is especially true since August and in the smaller to mid size company space. As you might expect, at some point I have to make a move to the other side of the ship – and that move is underway. I will walk you through the key decisions and our thinking behind those decisions.

On **Track # 4: The Wrap Up – Christmas, Bargains and Reflections**, I will present the key takeaways, give you some insight on where I see extreme value, and then provide a few reflections on this season of hope and the year which is rapidly drawing to a close.

Track #5: Postscript I is where I walk you through our core investment program, **The Dividend Value Discipline™**, its methodology, return objectives and all-in costs. This track is primarily for the benefit of potential clients who are being introduced to us by way of this recording. By the time you are done listening you will know what makes the process unique vis-à-vis our competition and whether or not you are interested in pursuing it any further. Not interested, not interested right now and let's talk further, are all perfectly acceptable answers.

Track #6 is Postscript II – again for the benefit of prospective clients. It will give you some insight on what to expect during our initial meeting, where we both want to answer the question, "Is there a fit between our services and your needs?"

In terms of legal requirements – the opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd.

I am also required to tell you that Raymond James Ltd. is a member of the Canadian Investor Protection Fund, which is a good thing. If you are interested in those details, please ask me the next time we speak.

I also want you to recognize that some of the things I am going to say today are going to be proven wrong in the future. It is an inevitable part of this business. The thing to recognize is you don't have to be right all the time, to do well. You just have to be more right than most or conversely, less wrong than most. When we are wrong, we like to acknowledge it quickly and adjust accordingly – we try to keep our losses small.

Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up – when I say I am bearish, it means I expect things to go down. Likewise, north means up and south means down. When I speak about rent cheques, I am speaking about income – primarily dividends and interest payments. If you catch me using industry jargon beyond that, I invite you to call me out. Send an email to the office and believe me, my team will let me know.

That's a wrap on the skinny and off we go to Track # 2.

Track #2: The Markets – Can We Make It 7?

“People who don’t know their history are bound to repeat its mistakes.” In short, history gives us perspective. The great thing about the U.S. markets is that we have reliable data that goes all the way back to 1871. Now some of you may question the relevance of data that is over 140 years old, and it is true that much has changed since the horse and buggy days. My conviction is that yes, the circumstances are very different, yet the way humans react or respond to any given crisis changes very little. It seems every generation has to make their own mistakes. To wit, I started my banking career right after the oil bust of the late 1970’s, when every second car had a bumper sticker on it reading “Please Lord, give me another oil boom – I promise I won’t ____ it all away this time”. Like the mini-skirt, I wonder how long it will be before those bumper stickers hit the best seller list.

So…I am going to ask you to play along with me here. Simply fill in the X to the following statement: Since 1871, the number of times that U.S. markets have been up 7 years in a row is X. If you are not driving your vehicle as you listen, I encourage you to write down your number. I’ll give you the answer as I close out this track.

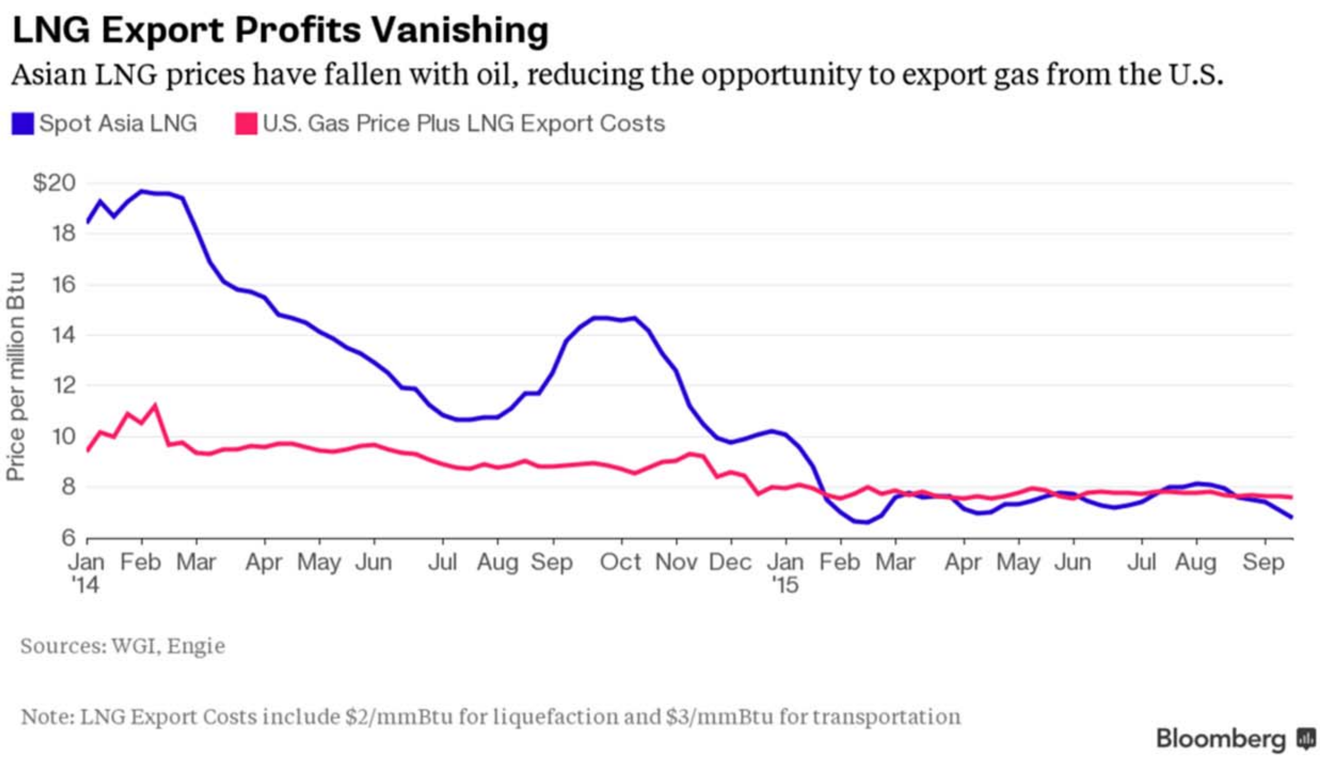
Moving to our leading economic indicators and starting with the price of copper, it has been a tough fall. On our September recording, the price was $2.33 per pound and at today’s open, we are at $2.06. So Dr. Copper, the harbinger of economic growth, is screaming “a recession is coming a recession is coming!”, yet the equally important semiconductor index found its feet in early October and is now pushing through highs not seen since last June, indicating the economic soft patch we had this past summer is now largely behind us. The latter point is consistent with most of our other leading indicators. Here are some very current insights:

- Consumer, commercial and industrial borrowing in the U.S. has taken a strong turn north – it actually went double digit in October and, unlike here in Canada, the U.S. consumer is not overburdened with debt.
- Even Europe appears to be growing more confident – the Eurozone PMI climbed to a 19 month high in November, indicating strong expansion.
- Friday’s U.S. Non-Farm payroll report blew away expectations… and when you read through the fine print not only is the pace of hiring growing, the number of hours worked and wages are also growing. On a related theme, the November ADP private payrolls put in its strongest

showing in the last 5 months and online help wanted ads jumped 4.3% in November – the strongest showing since April 2011.

How do we make sense of all this conflicting data? First, let's recognize that there has been an improvement over where we were on the September recording, when both the semis and copper were pointing south. That said, we still have an extremely bifurcated market. Here is my take – the strength of the U.S. dollar is killing anything commodities related. As the U.S. dollar rises, emerging economies have a harder time because most of their economies are commodity centric. It also puts a headwind on U.S. manufacturing because as the dollar climbs, their goods become less competitive. Why are we seeing expansion in Europe? A weaker Euro. How did Canada manage to post a positive gross domestic product for the third quarter? A weaker loonie. Does the high U.S. greenback push our southern cousins into a recession? Not so fast – let's remember that the U.S. economy is 80% services and only 20% goods. If the U.S. dollar climbs too high too quickly, bad things can and do happen. If we get a more moderate pace, companies and investors have time to adjust. That takes me to the potential U.S. Fed rate hike at their December 16th meeting. Post Friday's job report, the market has put a 79% probability that the Fed raises it Fed discount rate by ¼ of 1% – the first raise in nine years. In other words, it is near unanimous – the market believes this is a done deal. There are a couple of things I take away from that. First, most of the positives from the Fed action are already baked in – the old adage "if it is in the news it is in that stock" applies. Second, if they don't raise their Fed funds rate, there is going to be a huge counter trend rally in anything commodities related because the U.S. dollar will get pummelled. Furthermore, I would expect the U.S. markets to get pounded because investors will see it as the Fed is worried, very worried. My job is to be ready for either scenario. Time won't permit me to cover my game plan but please, just know that I have a plan. An interesting historical note – the U.S. Fed has never had a hike in December and that body has been around since 1913. I don't know if it's out of respect for Santa Claus or Rudolph but they just don't like to raise rates in December. The 16th is going to be a very interesting day. Still on history, how high can the U.S. dollar index go? Today, it is trading at ~99 and was north of 100 just last week. It started the year 90.60 – sounds impressive until you peel back the pages of history and understand that it peaked at north of 160 in the 1980's.

Given the likelihood of further strength in the U.S. dollar, you have probably figured out that I remain long term bearish on Canada's energy space and therefore the loonie. Other than some powerful counter trend rallies, I see it as a house of pain. We are awash with oil globally, Canada can't get a pipeline built to save its soul, and we have yet another royalty review coming in Alberta while our oil sands projects have become the global whipping boy for the environmental movement – despite the fact they produce 0.15% of the worlds greenhouse gas emissions. Incidentally, Canada's total greenhouse gas output is only 1.6% of global output – about the same as Iran and Mexico. But hey, we still have LNG right?...well, maybe. You will have noted on the graph below that natural gas prices in Asia versus North America are pretty much the same – suffice to say we have lost a lot of the incentive to ship LNG. My apologies if this sounds unpatriotic – I just can't get excited about much in Canada, for the foreseeable future. In fact one of our major Canadian holdings, Dollarama, is really a bet against Canadian prosperity and it has been a really good bet thus far.



Now, back to my question at the outset – how many times since 1871 have the U.S. markets been up 7 years in a row? The answer is zero. That doesn't mean it can't happen. In fact, if there was ever a time, it might be now – the severe 2008/09 recession seeded enormous fear into a whole new generation and markets tend to crawl a wall of worry. Global central bankers have pursued a near zero to negative rate interest policy, which of course drives dividend paying stocks to abnormally high valuations as income starved investors seek rent cheques. To illustrate the alternative in the extreme, ~40% of all government bonds in Europe are trading at negative interest rates. That's right, you pay the government to keep your money safe. It is a crazy world out there. With that, we are off to Track #3.

Track #3: The Dividend Value Discipline™ – Moving to Growth

Now, turning to the markets – to give you some reference points, at the close of business on Friday, December 4th, the U.S. Standard & Poors 500 Index pegged in at +3.60, and the TSX Composite Index was negative 6.48%. Fully invested accounts within **The Dividend Value Discipline**™ closed out at the ~+4.5% level, all on a year-to-date/local currency basis. So yes, it is going to take our usual Santa Claus rally to close the gap to make our +8% objective.

As the market grew more defensive in the late summer, the defensive names got bid up to levels that we believed the companies to be worth. That enticed us to exit and seek out other companies with better value propositions. Not surprisingly, those names were more growth oriented in nature. You will see that theme played out as I walk you through the major decisions. Starting with the sells, we exited **Costco Wholesale Corp.** (COST) towards the end of September just shy of US$145 per share, bagging a near 40% return over a 14 month hold. COST continues to be a fine company. We have immense respect for the mangement group and yet we were holding a stock with a 3% earnings yield. Even when we factored in the growth rate of that 3%, we just didn't have much of a value proposition – there was no margin of safety. Accordingly, we took the money and went shopping elsewhere. Of course, the market doesn't have to agree with us and this time it didn't – COST has moved to higher levels still. Still on the expensive defensives theme, we exited **Colgate-Palmolive Co.** (CL) at the end of October just north of US$69 per share. In short, investors had bid up the stock price to a level where we no longer considered it to be a decent value proposition. The company continues to struggle with foreign exchange headwinds and we don't see that changing anytime soon. If you were with us in November 2011, you bagged a gain of almost 35% and this time around the stock didn't run away with the spoon – it went south.

The last of the sales in the defensive space was U.S. drug distributor **McKesson Corp.** (MCK) – not because we believed it to be fully valued, rather a macro event that suggested to me that selling would beget more selling and if I didn't accept a smallish loss, I would be sitting with a bigger loss. The macro event, dubbed the "Hillary effect", stems from Hillary Clinton's tough talk on how she intends to curb healthcare costs in the U.S. healthcare system. Bottom line, this is a potential game changer and we don't believe the risk is worth the reward. For those of you participating in the program in February 2015, which obviously includes me, our loss was just north of 10% over the seven month hold.

The only sale we had in the non-defensive space was Montney based oil and gas producer **Arc Resources Ltd.** (ARX), just north of $20 per share. We have been in and out of this stock a few times throughout my career. In fact when I came in this morning and saw the stock down some 8% and just north of $16 per share, I went "hmmm"... Notwithstanding our high respect for management, we also need to respect the fact that they produce a commodity that is being overwhelmed by over-supply. When we look to oil trading below $38 this morning & natural gas barely over $2, no comment is required. Arc produces a lot of liquids rich gas and those liquids are used by the oil sand producers as a dilutant. Obviously with no XL, no Northern Gateway, carbon taxes and royalty reviews, the growth of that market is vulnerable at best. When we look to our traditional dry gas market of Ontario and east, the shale development in the northeast corner of the U.S., the Utica is now shipping gas north and west, effectively flooding our traditional markets. As per the last track, call me skeptical on the idea that LNG will save the day. All in, the macro environment trumped our high regard for Arc's management and their resource base. We took a nominal 6% loss, assuming you were a partipant back in April of this year. If you joined us in the late summer, the news is considerably better because we last bought it in August at ~$17, so you walked away with a tidy profit.

Moving to the buys, you are definitely going to see a bias to more growth oriented names. Here is why: history teaches us that in no and slow growth economic periods, those stocks that can grow their earnings and dividends tend to be rewarded with higher valuations. Inutitively, this makes sense. In effect, there is a scarcitiy of growing companies, so those that can grow get rewarded with a growth premium. As I explained in the last issue of The Strategist, when most investors think of growth stocks, names like Amazon, Facebook, Alphabet (formerly known as Google)... come to mind. Our challenge with those names are twofold: 1) they don't pay a dividend, which immediately strikes them off our list and 2) they are well known and well followed – the darlings of Wall Street – and tend to be priced accordingly. We are finding better value propositions in the lesser followed mid cap space.

What follows is a lengthy list. Just to make sure I get through it before Santa Claus comes, I have kept my comments short. You can get more insight by referencing our client only one-page email dispatches.

Starting with financials, we reacquired Canadian based yet globally diversified **Great-West Lifeco Inc.** (GWO). Financially, these guys get it – when times get tough, they buy. We were impressed when they bought Irish Life Group off the Irish government at bargain basement prices back in 2013. We find the rent cheque sustainable, accounting for only 20% of free cash flow. It has room to grow.

The last quarter's results were impressive and we expect more of the same. We also reacquired **U.S. Bancorp** (USB), so it obviously got by our moat and culture checks. USB is the fifth-largest commercial bank and a top tier organization. They keep a sharp eye on costs, do a stellar job of mitigating risk and the result is profitability/return on assets that is at the top of their peer group. So where is the growth? I mean surely a bank of this size cannot grow much faster than the economy? There is some truth to that argument, yet I see growth of a different kind. The U.S. banking complex is trading at a very low multiple, say 13 times earnings, relative to the overall market of say 17 times. Market historians know that over time, things tend to revert to the mean. My thinking says that with higher U.S. interest rates now at hand, which normally translates to higher bank profits, the bank multiples will move towards the market multiples. Assuming I am right, we will be rewarded with the growth in the multiple, plus our rent cheque. Oh, and about that rent cheque... it has grown at a compound annual growth rate of ~38% over the last 5 years. Bring it on I say.

The next addition was in the transport sector, which has been left for dead this year. To wit, the Dow Jones Transportation Average Index (TRAN) is down some 13% on a year-to-date basis. While much of the damage has occurred in the rail space in large part due to overinvestment in transporting oil, the tide takes out all boats... and therein lies the opportunity. **J.B. Hunt Transport Services Inc.** (JBHT) is one of the largest transportation logistics companies in North America. In short, they are an aggregator of smaller trucking and logistic companies. These small tuck in acquisitions get systemized and indoctrinated into the highly productive corporate culture, and that allows JBHT to constantly expand their market share. That's why they can and do grow faster than the economy. JBHT got really high marks on the corporate culture front. Part of their strategic focus is to attract the best people through work flexibility while keeping the newest equipment on the road. That gives them an edge. The dividend tends to get raised every year and their latest 5 year compound growth rate is ~11% – yes, we expect more of the same.

Next up was **Rockwell Automation Inc.** (ROK), the world's largest industrial automation company. These guys are an impressive lot. Diversified by industry and geography, they create industrial process-control equipment for every imaginable industry. They are in 80 countries and employ over 82,000 people. The executive team's interests are aligned with shareholders – their median stock ownership is over 26 times their base salary. Their moat? When a customer purchases an automation system, the useful life can reach up to 20 years and most often comes with a service agreement. You can imagine the level at which ROK is ingrained within its customers' business. The rent cheque? It has more than tripled in the last 10 years. There is also a big demographic tailwind, i.e. when companies like BMW or Ford look 15 years into the future, they see a declining workforce as the boomers exit the job market. Robotics and automation become increasingly important with each passing year.

Now to our anti-oil play. We bought the largest independent refining company in the U.S., **Valero Energy Corp.** (VLO). Refineries are the bottleneck between cheap crude and the end consumer. Our take is that the "not in my backyard" syndrome and difficult environmental permitting will make it near impossible to build new refineries anytime soon. Cheap crude feeds increasing demand for things like gasoline and jet fuel. The refineries are the bottleneck – there is a huge barrier to entry, so existing facilities can milk excess margins for years to come. Culture wise, VLO's focus on their "operating income per barrel" gives us some great insight as to how management thinks – stick to your knitting, and do it well. The rent cheque growth has been significant – the dividend has compounded at 17% for the last 5 years and the most recent bump was a whopping 60%. Enough said!

In the consumer space, we are back to being an owner of **TJX Companies Inc.** (TJX), a company that operates stores you may know such as Winners, HomeSense and Marshalls. They operate across North America and have a growing presence in the UK and Europe. Culture wise, there is a lot to like at TJX. Management bench strength is deep, with most of its officers rising through the ranks and sporting 25+ year tenures. Employees are given a great deal of autonomy which leads to high morale and high productivity. Traditional retailers are overburdened with inventory and this plays to TJX's advantage. Essentially, buying excess inventories for nickels on the dollar and selling it for dimes. Financially, TJX has a habit of returning capital to shareholders. Shares outstanding typically decrease by ~3.5% annually while dividend increases have increased at +20% annually for the last decade.

Still in the consumer space, we bought **Lowe's Companies Inc.** (LOW), the second largest home improvement retailer worldwide. Home Depot is currently holding the number one spot. This industry has a significant tailwind because many of the bankruptcies associated with the 2008 real estate collapse have now been forgiven. In the U.S., people are re-entering the home ownership market. Their moat, primarily due to scale, is evidenced by their track record of above average returns on invested capital. The culture is strong, with the executive board having an average tenure of 16 years. Their employees are a happy lot, often citing LOW's ability to hire "great people" and provide them with “good pay” and “great benefits”. The rent cheque has compounded at 28% annually for the last 5 years.

Almost out of breath as we move to the last acquisition – this time a technology name. **Intuit Inc.** (INTU) is a software company that develops financial and tax preparation software – namely, Quickbooks and Turbotax. Small to mid-size business is their forte and that segment of the market is rapidly growing, as is the move to cloud based subscription agreements – the holy grail of recurring revenue.

That is a far longer list than usual and it should be noted that we have started with smallish positions in a lot of them – we intend to stick with our incremental process for trimming and selling our defensive names in favour of growth until the evidence suggest we do otherwise. That’s a wrap and we are off to Track # 4.

Track #4: The Wrap Up – Christmas, Bargains and Reflections

First the takeaways:

Track # 1 – a reminder, the opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd. I also want to reiterate that some of what I told you is going to turn out to be wrong and when it becomes evident we are wrong, our intent is to acknowledge it quickly and adjust accordingly. The strategy is to keep the inevitable losses small and let your winners run.

Track # 2: The Markets – Can We Make It 7?

Records are meant to be broken. Can the S&P 500 Index post positive returns for 7 consecutive years for the first time in over 130 years? From where I sit today, and not withstanding the Dow Jones Industrial Average being down 145 points as I speak, I say it happens. If the Fed does not raise rates, then all bets are off – fear will overcome investors and you will see a big selloff. The good news is, we have a plan for both scenarios. Economically, the positives are starting to outweigh the negatives. The direction of the U.S. dollar will control a lot in the short term. I remain bearish on Canada's energy complex and therefore our loonie and yet fully acknowledge that in the short term we could get a huge reversal to the upside if the Fed doesn't deliver as expected.

Track # 3: The Dividend Value Discipline™ – Moving to Growth

While some may see it as an offensive move, I see our transition to more growth oriented companies as the most defensive move we can make, short of moving to 2% GIC's. Simply put, the defensive space has become unduly expensive, as have bonds. When investors get over their current fear, they will move to more growth oriented companies in search of growing rent cheques. We have got smallish positions in a lot of new companies. Any market weakness will give us the opportunity to add to our holdings. The scarcity of growth stories will put a premium on those companies. On our last recording, I told you that I expected to be at our 75% target equity allocation by the time of this recording, and we are not there yet – as I speak we are at about 68% for fully invested accounts. We have some dry powder for when market weakness presents an opportunity.

Now to Christmas Bargains and Reflections – I promised you some Christmas bargains so here goes. There is one space where I see tremendous value and minimal risk – the Canadian preferred share space has been absolutely pounded this year and my take is that investors are selling without understanding what they are giving away. Dividend yields of 5%+ are readily available and you get the dividend tax credit on that rent cheque, so the interest equivalent is more like 7%+. If you are an income centric investor and flush with cash, it may be time to pick up the phone and give Erika, Dave or Ryan a call.

That concludes our key takeaways. Potential clients will want to take the time to listen to Tracks #5 & #6.

So that's a wrap on the year, business wise. Thank you for taking the time to listen. I trust it was insightful. As we approach this season of love, peace and hope I want you to know that my team and I are extremely grateful for the opportunity to serve. We are a blessed bunch – we work with an extraordinarily client focused firm and many of you will be aware that Raymond James Ltd. was awarded with the Globe and Mail's "Canada's Top 100 Employers" designation this fall. I am blessed beyond measure with the great people I get to work with, both from a team and a client perspective. Thus, I say thank you to each of you for being part of our story. I hope and pray that you will find some time to both bless and be blessed by the ones you love over the holiday season. On behalf of the entire team here at Chris Raper & Associates, this is Chris Raper, wishing you a Merry Christmas and may God bless you and your family.

Track #5: Postscript I – The Dividend Value Discipline™ Methodology

The first thing to note is that **The Dividend Value Discipline™** is core to everything we do – meaning if we were approached by a prospective client and we determined that our trademarked investment process did not fit with their investment philosophy or their need, then we are not the right advisors for that particular client – there is no fit.

You should also be aware that nothing gets any more attention at our shop than this particular program. The lion's share of our client assets are allocated to the program and that includes our most senior people, my family, and me. The take away is that my team and I have huge vested interest in ensuring the success of the program.

The process is discretionary, meaning we make all of the buy and sell decisions and report to you after the fact. Post a new purchase, our normal course is to send an email outlining the background of the company and the rationale for the decision, five business days after it settles to your account. When we close out a position, we also send an email outlining the result and our rationale.

Our objectives for the program are:

1) Income every month – that can be paid out or reinvested
2) An acquisition process where we buy **only** those securities which become attractive on a "go forward" basis
3) Absolute returns of 8%+, each and every year

On September 27, 2014, we marked our 12-year anniversary with account #1, pegging in a net to client return of +8.77% compounded annually. That said, I do not want to leave you with the impression that it has been a consistent +8% each and every year – that is the objective, it has not always been the result. Yes, we took a bath in 2008 – we learned lots and more importantly put structures in place to prevent it from happening again. 2009 was an absolutely stellar year and by February 2011 we were on to new highs having fully recovered from the worst bear market in 70 years. Accounts that have been around since the start of the program have experienced one calendar year of negative returns. As at December 31, 2014, we are at a meet or a beat, in nine of the past twelve calendar years. Those results have been achieved by focusing on three keys objectives, so let's walk through this with the illustration of a three legged stool.

The First Leg is Dividends

Every security that we buy you must provide some form of income – we do that because income makes portfolios inherently less volatile, i.e. less chance of loss. The analogy I like to use is that of an apartment block versus a piece of raw land – it is a lot easier to hold onto the apartment block in a tough real estate environment when you are getting a rent cheque every month. Income drives stability and absolute returns.

The Second Leg is Value

Our research function is in-house. We were one of the first private client teams in the industry to have a dedicated analyst on staff and that team has expanded since then. My objective was and still is, to get to the truth. I did not want to depend on any outside analysts that I had little or no contact with. One of the great things about having an in house investment team is that I can ask questions until I am satisfied that we have the right answers. We spend an inordinate amount of time studying the corporate culture. If you are interested in what that looks like, read **Good to Great** by Jim Collins – that is the yardstick we use to measure potential investments against. More recently, we have expanded our thinking on the importance of wide economic moats. You can hear more on that subject by archiving the September 2013 edition of this recording on our website. We believe that the focus on great corporate culture and wide economic moats gives us an edge. Anecdotally, we can provide you with lots of evidence to support that. I remain convinced that having your own people who are totally dedicated to the investment process, adds a lot of value not available at most other private client focused groups.

The Third Leg is Discipline

Here I refer to the buy/sell decisions. We often identify extremely attractive value propositions and then delay the buying decision, why? Because if you are the only guy in the world that sees it as undervalued, you can wait a very long time for the market to recognize that value – in other words, the stock price doesn't rise or worse still, it goes down! Those are not comfortable situations so we try to avoid them. We buy when it is apparent that the market is starting to recognize the stock as undervalued. One of the most helpful indicators is positive relative strength – i.e. is the security in question starting to outperform its peer group and the market – because if it hasn't, there's little incentive in owning it. Sell decisions can be triggered by a number of things – when the company fails to materialize as expected, when a company's stock price exceeds what we believe it to be worth, negative relative strength, or when we find a better opportunity elsewhere. In reality it tends to be a combination of those factors.

Perhaps the most important part of the buy/sell discipline is the way we operate the program – we call it "The Buys Only Mandate". Unlike our competition, we only buy those securities which become attractively priced on a go forward basis, meaning if you start today and your brother starts three months from now, your portfolios are going to be different in the short-term, and more closely aligned the longer you are in the program together. As rational as that might seem, most people do the exact opposite. Every time you buy a mutual fund, you buy a pro-rata share of an existing portfolio – by definition, you got the buys, the holds and the near sells. To us, that is not rational – would Warren Buffett buy 100 companies in a single day? Were they all great value propositions? You should also be aware that most 3rd party money management programs work exactly the same way – they buy the basket. Our objective is the protection of your hard earned money and we believe that the buys only mandate is consistent with that objective.

Other key points to the program – a fully invested account would normally have 20 to 25 positions in it, so we are relatively concentrated. Our fees are 1.75% per annum plus the GST or HST – it is tax deductible for non-registered accounts. Our target returns: 8%+, net to you – roughly half of it coming in the form of income and half in the form of capital gains.

You should also know that when I buy for you, I buy for me – when I sell for you, I sell for me – same time, same price – and that statement also applies to our most senior people as well. Furthermore, every person on our team participates in our profit sharing plan, which means they have a vested interest in looking after you.

Generally speaking, we are looking to establish new relationships with new clients that have north of $1 million in investable assets – that said, I'm a lot more interested in where you are going, than where you are. If you have a credible plan to get to that number say within a three to five year period, we are very interested in meeting with you.

To conclude this track, if income and absolute returns are attractive to you, and you think that there may be a fit between your objectives and those of **The Dividend Value Discipline™**, then I would suggest a face to face meeting is in order. You can check out what to expect during that initial meeting by moving to Track # 6 – Is There a Fit, and that is where we are going, right now.

Track #6: Postscript II – "Is There a Fit?"

Our objective – and presumably yours – during the first meeting is to figure out whether or not we have a basis for an ongoing relationship. In essence, can we work together? If so, will it be mutually beneficial? Job one is to get your tough questions off the table, so we encourage people to ask whatever is on their mind. Our responsibility is to be forthright with our answers, regardless of what it is that you might want to hear.

Before we enter into any new relationship one of the biggies we ask ourselves is, "can we add significant value"? To answer that question we need to learn some things about you, your family, your finances and what your ideal future looks like. If you are not really sure on the latter point, we have some thinking exercises that will take us through that process.

Next we will walk you through an a la carte menu of our services that are most applicable to you. We'll also outline how we will report to you and who the key relationship people will be. You will also have a very clear picture of the costs involved.

Before you leave we'll outline how we see our program fitting with your situation, or not. We will not ask you for a go/no go decision at the meeting and quite frankly, we don't want to be pressed for a decision that day either. We'll schedule a meeting of the minds call, say a week out, and then mutually agree on the best course of action from there.

At the end of the day, we are in the business of keeping our client's most challenging financial decisions consistent with their life goals. Our mission is ongoing progress towards those goals, and the result we seek is appreciative clients who are increasingly confident about their future.

So… if that process sounds engaging, I invite you to call and book some time. If you'd like further information, including access to our quarterly communication pieces, you can check us out on the web at www.chrisraper.com and send us an email from there.

This concludes "Is There a Fit".