RAYMOND JAMES | CHRIS RAPER & ASSOCIATES

The Opportunity Update – Tuesday, December 13th, 2016

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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 sunny Victoria, BC on Tuesday, December 13th, 2016. 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.

On **Track #2: The Markets – OPEC…The New Santa Claus**! I will start the track with a page 13 story – the thing that is important and that nobody is talking about. Before I get to OPEC, enter Dr. Copper and our usual briefing on the latest economic indicators. Then we will get to the November 30th OPEC announcement of oil production cuts and what that portends for investment opportunities within the energy complex, and its overriding influence on the Canadian dollar. From there I will wrap it up with some specific comments on interest rates and sector-wise opportunities heading into the New Year.

On **Track #3: The Dividend Value Discipline™ – The Elephant in the Room**, I will start by addressing our lacklustre performance this year – yes, the elephant in the room. I will speak to some of our challenges, but more importantly, the progress we have made in acquiring great businesses that are compounding their dividend growth at double-digit rates. Post that discussion, I will follow my usual course and walk you through the major investment decisions – the buys and sells, and explain our thinking at the time of those decisions.

On **Track #4: Breaking Through After Two Long Years**, I will present the key takeaways and then highlight the secular shift in markets which bodes so well for 2017.

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: Postscript II is 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. It is an inevitable part of this business. It is also important to recognize 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, our intent is 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 the team will let me know, usually with considerable gusto!

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

Track #2: – OPEC…The New Santa Claus!

And before we go there, here is the page 13 story that I just have to share with you. Regular listeners will know that we see Dr. Copper (the price of copper) as one of our key leading economic indicators, especially as it relates to the emerging economies. Why? Because copper goes into almost every manufactured good you can think of. A rising price trend speaks to increasing demand and the current trajectory is impressive. Here's the timeline for 2016: we saw it bottom in February at $1.95 per pound, by the time we hit the May 24th recording we were at $2.07 per pound, on the September 6th recording it was struggling to fog up a mirror at $2.08, and today we are at an impressive $2.58, and have recently pegged an 18 month high. Please recall that the market is a forward looking animal and it is currently seeing better economic times ahead. My favourite leading indicator for the developed economies is the Philadelphia Semiconductor Index (SOX if you are into the charting bit). Why? Our developed economies tend to be dominated by industries like engineering, finance, medical technology, and the raw materials for those industries are human ingenuity and semiconductors. With that in mind, here's the clip for the SOX in 2016: we saw a February bottom at approximately 550, on the May recording it was at 680, by the September recording we were at 80o and last week it broke 900, which is the highest level we have seen in 15 years. Bottom line – we look at the Philly as a great weather vane for what is happening in the developed economies and right now that weather vane is pointing north. We are seeing a similar pattern for most of the 30 leading indicators that we track on a monthly basis.

Moving to the November 30th announcement from the Organization of Petroleum Exporting Countries (OPEC) – for those curious, the official member states are Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. When I think about the leaders of those countries, I remain skeptical of promises made. Furthermore, it was Russia's Vladimir Putin that strong armed the "deal" that is supposed to curtail OPEC production by approximately 1 million barrels per day to a ceiling of 32.5 million barrels per day. Apparently the rest of the world is not as skeptical as I am, because right after the announcement the price of oil leaped from $45 to $52 over the span of four days. And how did North America's oil producers respond? They started forward-selling their oil for delivery in 2017 and 2018, like people lined up at Best Buy for the Black Friday sale. Actions speak louder than words – producers were preselling that oil because they know they can make money at the mid $50 level and they aren't confident that the price is going to stick. The obvious question is what happens to the oil supply as producers crawl on that bandwagon? It goes up! Here's my take: OPEC is full of people that are going to continue to tell half-truths and untruths to one another. As our massive shale oil deposits get developed, the influence that OPEC can have on price becomes less and less. The surge in forward-selling we saw post the November 30th announcement speaks volumes to that very point. In my mind, OPEC just gave a very large gift to North American oil producers – they are the new Santa Claus, and what are our producers going to do in return? They are going to hand OPEC a large lump of coal in the form of increased oil supply. The absurdity of this dance came home to me last

week as I read about Russia's sale of a 19.5% stake of their largest oil producer, Rosneft, to commodity trader, Glencore PLC, and Qatar's sovereign wealth fund for a cool $11 billion. Obviously, this begs the question, why would Putin sell if he believed he could engineer a significant increase in the price of oil? Was his press on OPEC merely a means to offload Rosneft? As we see it, other than short term gyrations, the OPEC announcement will have very little impact on long term oil prices. For us to get sustainably higher prices we have to see more demand from an improving economy and, thankfully, the evidence is pointing in that direction. We continue to see the energy complex in transition – yes, we are seeing evidence of a bottoming process. For Canada, the Trump presidency means that Keystone will likely get built, and Canada's two pipeline announcements are positive in the very long term. Those positives have to be balanced with the fact we have to compete with U.S. producers that have no carbon taxes as well as massive lands that Trump has promised to release for development. Bottom line, we are cautious and we do expect to up our exposure on major pullbacks.

That takes us to the Canadian dollar, where we have seen a pattern of lower lows and lower highs since the last recording. Seasonally, the months of December and January are negative and that statement is true for oil as well, yet it is not just oil that is pressuring our loonie – the U.S. Fed will almost certainly raise short term interest rates tomorrow and the U.S. longer term interest rates have already moved; their ten year government guaranteed bond is currently yielding approximately 2.5%, whereas in Canada, we are at approximately 1.70%. So, which one would you choose: rising currency and higher yield, or weakening currency and lower yield? For you snowbirds, in the very short term I am a seller of our Canuck-buck at anything north of $0.75 U.S. or of you prefer it the other way around, a buyer of U.S. at $1.33 CAD or better.

You have no doubt heard much about the Trump Bump – pre-election, the overwhelming consensus was that if Trump won the markets would implode, and that was true until the markets opened on the day following the election. We have hit a series of new highs almost every day since then. Investment guru Peter Lynch was fond of saying "there is far more money lost preparing for the correction than during the correction". His comments seem apropos.

How much of the current market rally is attributable to the Trump policies is unknowable. What is clear is that more investors have embraced the change than not. We have seen a massive shift in sector rotation during the lead up and post the election result. U.S. financials have surged due to the reality of higher long term interest rates. Industrials have taken on a new shine due to the infrastructure promises. Technology continues to hit above its weight. What have performed poorly are the consumer staples and utilities – the defensive names that you would want to own if you were entering a recession. Again, the market being a forward looking animal, it is saying we are not going there anytime soon.

With that, we are now going to Track #3.

Track #3: The Dividend Value Discipline™ – The Elephant in the Room

…also known as our lacklustre performance thus far this year, and yes, we are rapidly running out of runway. Let's start by reiterating the objectives for **The Dividend Value Discipline™.** They are:

- Income every month
- Buy only those securities which become attractive on a go-forward basis
- Absolute returns of +8% net to you each and every year

Please note, they are objectives – they are not guarantees. You should expect us to outperform in down markets and underperform in up markets. The last two years are great case in point. For 2015, the TSX Composite Index lost about 11%, whereas most of **The Dividend Value Discipline™** accounts were positive, in the 4% to 5% range. Currently, we are sitting at roughly 2.5% year to date, whereas the TSX is up some 17.5%, most of which is due to energy and materials rally – the very things that eviscerated investors last year, and for the most part, we avoided it. Furthermore, 1/3 of the TSX's energy stocks and ½ of the TSX's materials stocks do not pay dividends – respecting our rent cheque requirement, we can't own them. Bottom line, we are not the TSX and we have no intention of changing the objective of the program to "beat the TSX".

Another big challenge we have faced this year is the currency headwind, which has been a drag of approximately -3% on performance, given that 60% of our portfolio is U.S. dollar-denominated.

Be that as it may, the buck stops with me. It was me that made the final decision on what to buy and what to sell. The market forces notwithstanding, I have to confess that our execution throughout 2016 has been mediocre at best. While you might have given me a B+ last year, I definitely deserve a D this year. None of us on the investment team are happy with our short term performance. That said, we are really encouraged with our longer term prospects – here's why:

As we exited 2015, it became evident that if we were going to deliver the 8% in future years, we were going to have to make a transition to owning companies that are capable of growing far faster than the overall economy. Naturally, we are rent cheque-centric, so we started looking for companies that were growing their dividends at double-digit rates. To illustrate why dividend growth is so important, let's think about the rule of 72. We take that magic number and divide it by the annualized dividend growth rate to roughly figure out how many years it will take the dividend to double, i.e. a stock with a current dividend yield of 2%, that is growing its dividend at 15% per annum will take approximately five years before the 2% will become 4% and five more years for the 4% to become 8%. Of course, any company that is capable of doing that on a sustainable basis is not going to go unnoticed. Investors are going to

bid up the stock price, so we get paid to wait with an increasing rent cheque and we capture the capital appreciation.

As we searched for such companies, what we found was that most of them that were capable of growing their dividends at double-digit rates were either disrupting the industries they operate in and/or they were growing by aggregating smallish tuck in acquisitions. Accordingly, we went looking for even more "disruptors and aggregators" and as per the table below, "Rent Cheques That Grow".

Rent Cheques That Grow

	Years to Double (based on 3y)	Company	Annual Rent Cheque	Current Yield	1-Yr Div. Growth	3-Yr Div. CAGR	5-Yr Div. CAGR	Years of Consecutive Increase
1	2.5	CCL INDS INC	$2.00	0.92%	33.3%	32.5%	23.4%	16
2	2.8	AMPHENOL CORP	$0.64	0.95%	20.8%	28.0%	84.4%	6
3	2.9	LOWES COMPANIES	$1.40	1.88%	37.3%	27.2%	22.9%	53
4	3.0	HORMEL FOODS CORP	$0.68	1.96%	36.0%	26.0%	21.6%	51
5	3.1	INTUIT INC	$1.36	1.17%	29.5%	24.8%	55.4%	6
6	3.3	TJX COMPANIES INC	$1.04	1.34%	29.2%	23.7%	23.6%	19
7	3.3	CVS HEALTH CORP	$1.70	2.14%	21.4%	23.6%	27.7%	13
8	3.4	EXPEDIA INC	$1.04	0.87%	23.8%	22.9%	13.2%	7
9	3.4	VF CORP	$1.68	3.02%	26.3%	22.5%	20.8%	43
10	3.5	CUBESMART	$0.84	3.27%	21.7%	22.2%	24.6%	7
11	3.7	CANADIAN NTL RAILWAY	$1.50	1.69%	19.8%	20.4%	18.2%	12
12	4.0	AMERISOURCEBERGEN CORP	$1.46	1.88%	20.7%	19.1%	26.0%	11
13	4.0	SHERWIN WILLIAMS	$3.36	1.25%	25.4%	18.9%	18.1%	37
14	4.3	BANK OF NOVA SCOTIA	$2.96	3.86%	8.2%	17.6%	7.3%	6
15	4.4	MICROSOFT CORP	$1.56	2.51%	20.9%	17.2%	18.1%	12
16	5.1	DOLLARAMA INC	$0.40	0.40%	14.3%	14.7%	34.8%	5
17	5.1	PEYTO EXPLORATION	$1.32	3.86%	0.0%	14.5%	17.1%	0
18	6.0	MARSH & MCLENNAN COS	$1.36	1.96%	15.3%	12.3%	9.6%	8
19	6.3	CASEYS GEN STORES INC	$0.96	0.80%	14.3%	11.6%	11.0%	13
20	6.8	GRAINGER W W INC	$4.88	2.04%	6.3%	10.8%	14.1%	44
21	17.4	GREAT WEST LIFECO INC	$1.38	3.91%	6.1%	4.1%	2.4%	6
22	N/A	ARC RESOURCES LTD	$0.60	2.49%	-50.0%	-20.6%	-12.9%	-
	4.45	**Average**			**17.3%**	**17.9%**	**21.9%**	**17.05**

The table ranks all of our current equity holdings based on their three year compound annual dividend growth rate. We have also estimated the time to double the dividend using the rule of 72, which assumes the company will continue to grow at a similar rate. What I hope is apparent to you is just how fast some of these companies are growing their rent cheques.

Headlining the crowd is CCL Industries Inc., where the current yield is a pretty modest 0.9%, but they have grown that dividend north of 32% per year for the past three years while making numerous accretive tuck in acquisitions. This aggregator is on track to double its dividend every three years and assuming that turns out to be true, what do you think is going to happen to its stock price? Suffice to say, we are keen to own a portfolio of such businesses.

"Chris, does this 'aggregator/disruptor' theme denote a change in direction?"

Great question – I am glad you asked. Long-time investors will know that we started the program back in the fall of 2002 and those original accounts have compounded at about 7.5% per annum, even when you factor in our underwhelming performance this year. We see that long term performance number as pretty respectable and accordingly, there are some things that we are just not going to change. We will continue to focus on the rent cheque – if the security in question does not pay an income, it is not even going to make our study list. We will continue to spend inordinate amounts of time and resources studying, scoring, and selecting those companies with superior corporate culture. All companies encounter difficulty from time to time, but those companies with great leaders (and I said leaders, not leader) figure out how to get back on track. Companies with no soul just fall apart. Similarly, we will continue to study, score and select companies that are difficult to compete with. This is what Warren Buffett refers to as the moat – the strategic advantage that allows the company to provide superior returns on invested capital over long periods of time. We believe we will do better by investing in such companies as opposed to the flavour of the day. Bottom line, we see the "aggregator/disruptor" theme as a layering on, as opposed to a change in direction. Throughout 2016 we have acquired a stable full of great businesses that have demonstrated their ability to grow their rent cheques at double digit rates. That bodes well for our longer term prospects.

Okay, moving the elephant out of the room, let's get on with the major investment decisions since the last recording – the buys and sells, and explain our thinking at the time of those decisions. You will notice that this quarter has seen far fewer transactions. The read-through is the transition is in its final stages and you can expect us to have slower turnover in the future.

Turning first to the eliminations, we sold our nominal position, a 1% weighting in **Kaiser Aluminium Corp.** in mid-September after a hold period of three short months, notching a loss of 3.6%. Our rationale for selling was driven by the need for cash to fund an increased position in Casey's General Stores, a company where we were seeing better upside and more consistent growth.

The only other "sell all" decision was that of **Rockwell Automation Inc.** on September 19th, at a gain of 9.36%. Rockwell was approaching a price point close to what we believed it to be worth. Accordingly, we took the cash.

Turning to the buys, **Canadian National Railway Co.** was added to the portfolio in mid-September. Management wise, the CN group scored a 5 for 5 on our proprietary rating system. We found they walk the talk of "continuous pursuit of operational and service excellence”. Moat-wise, they are the only transcontinental railway in North America, with service from coast to coast and into Mexico, where manufacturing is growing and thus, shipping is growing. Rent cheques have grown for the last 20 years compounding at 17% per annum and we expect the future to look much the same.

We also acquired a stake in **Constellation Software Inc.**, a provider of enterprise software solutions for industry specific applications – read: sticky clients. They have some 125,000 customers in over 100 countries and their exposure to both the public and private sectors offers a hedge against economic cyclicality. Culture-wise, we find the management humble yet highly effective – the best we have studied since 2013. The CEO, Mark Leonard, is sometimes dubbed the “Warren Buffett of software” for his candid talk and incessant ability to compound capital. Moat-wise, their strategy of aggregating “industry specific” software companies (and doing it with excellence) has allowed them to acquire over 250 companies in the last 10 years while compounding shareholder returns at eye popping rates.

Next up was **Peyto Exploration & Development Corp.**, a company we have long admired. They score well on our “great culture” screens and we are impressed with their relentless efforts to drive down cost per 1,000 cubic feet of gas produced. If a commodity producer can have a moat, Peyto’s lies within its land base and production know-how. The result is the lowest cost/most efficient producer in Canada’s natural gas industry. The rent cheque continues to grow at a healthy clip and any uptick in gas prices will only augment the same.

And finally we purchased **Expedia Inc.**, which is disrupting its way to growth with travel brands, including Hotels.com, Orbitz Worldwide, Trivago and Travelocity. Culture wise, the CEO has led the firm for the last 18 years and the median executive tenure is 11 years, which is pretty strong given the company’s short history. We like the fact that insiders own a lot of stock and are continuing to increase their holdings. Moat wise, it is difficult for new entrants to gain a toehold in the online travel booking market. The cost of systems and advertising bars most new participants from entering, thus leaving the “oligarchs” to divide up the expanding market. Brand recognition is critical as is the scale to advertise, and Expedia is delivering on both.

That completes the major transactions and we are off to Track #4.

Track #4: The Wrap Up – Breaking Through After Two Long Years

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. Please recognize 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 the winners run.

Track #2: OPEC…The New Santa Claus! – From our perspective, the new highs in the price of copper and the SOX is far more noteworthy than the recent news flow out of OPEC. Cartels have a long history of getting weaker over time as outsiders chip away at their fortress. The secular change in oil production – directional drilling and fracking in shale beds – has thrown a new curve ball at OPEC's diminishing influence. The growth rate of the economy which has taken a recent turn north will be the bigger factor governing oil prices.

We see the Canadian dollar trending lower, given the seasonal weakness and higher interest rates offered state-side.

The Trump presidency seems to be adopting policies comparable to the Regan era – that's positive for growth. What is clear is that more investors have embraced the change than not. We have seen a massive shift in sector rotation during the lead up to and post the election result. U.S. financials have surged due to the reality of higher long term interest rates. Industrials have taken on a new shine due to the infrastructure promises. Technology continues to hit above its weight. What have performed poorly are the consumer staples and utilities – the defensive names that you would want to own if you were entering a recession. Again, the market being a forward looking animal, it is saying we are not going there anytime soon.

Track #3: The Dividend Value Discipline™ – The Elephant in the Room – The message is simply this: the movie isn't over. 2016 has been challenging as we made the transition to "disruptors and aggregators" as those are the companies capable of growing their dividends at double-digit rates. What has not changed and what will not change, is our preference for companies where great culture runs deep and that have strategic advantages that make them difficult to compete with. For the most part, that transition is now complete. We have no intention of trading said companies for flavour of the day stocks and we fully expect to be rewarded appropriately in due time.

Track #4: The Wrap Up– Breaking Through After Two long Years

If you have been frustrated with returns over the past two years, it may be small comfort that you are not alone. At yesterday's close of 15,287, Canada's TSX Composite Index remains some 2% below its closing high of 15,658 pegged on September 3rd, 2014, 26 months ago. That is the kind of market that requires a lot of patience. Even when we look state-side, it was only back in July that the S&P 500 bested its closing high, set 15 months previous. Both observations point to exhausted investors coupled with markets that are now poised to grind higher. Whether you admire or disdain Trump, investors have embraced his pro-growth policies. The winds are shifting in our favour – global growth has recently turned north and, markets are making new highs while the recession stocks are getting whacked. If it quacks like a duck, it's a duck. 2017 is apt to be a rewarding year.

That concludes our key takeaways. If you are a potential client being introduced to us by way of this recording, please take the time to listen to Tracks #5 & #6.

To our clients, thank you for taking the time to listen and thank you for your patience and support throughout this entire year. In many ways, 2016 feels like 2008, the only difference is we are still positive on the year. We have poured our blood sweat and tears into this transition and thus far it seems we have very little to show for it. We now need the intestinal fortitude to see it through so we can reap the rewards.

On a personal note, as we approach Christmas – the season of love, peace and hope, I want you to know that all of us Chris Raper & Associates are extremely grateful for the opportunity to serve. We are blessed beyond measure – we get to work with great people, we see families grow, and we have been in the business long enough that helping families from generation to generation is an ever growing part of our practice. Thank 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 from Victoria, BC on Tuesday, December 13th, 2016.

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 this core 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 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 takeaway 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:

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

On September 27th, 2015, we marked our 13-year anniversary, with account #1 pegging in with net-to-client return of +8.48%, 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 31st, 2015, we are at a meet or a beat in nine of the past thirteen 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. Another yardstick is 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, 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 isn'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 third 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 is 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 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".

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