

The Strategist

A Quarterly Report for Friends, Clients and Associates of Chris Raper



Chris Raper & Associates caters to the entrepreneurially-minded. We start by seeing the world as you see it – the things you want to do, the things you want to have, the legacy you want to leave. Our mission is to keep your most challenging financial decisions consistent with those goals. The result we seek is appreciative clients who are increasingly confident about their futures.

The Dividend Value Discipline™, our core investment program, was founded in September of 2002, with the three-fold objectives of income every month, buying only those securities which become attractive on a go-forward basis, and an 8% net return each and every year. You will find the process innovative, rational and refreshingly transparent. Our fees are **“asset-based”**. Our research is **“in-house”**. **We own what our clients own.**

Our services will appeal to people who want to be involved from a **“big picture”** perspective and are prepared to delegate the day-to-day responsibilities.

New clients come almost exclusively by way of introduction from our existing great clients. Generally speaking, they will have in excess of \$1.0 million in investible assets or a credible plan to get there.

You can find a profile of our people and our processes at www.chrisraper.com.

Chris Raper & Associates – the most proactive wealth advisory team on Planet Earth!

Suite 1000 – 1175 Douglas Street
Victoria, BC V8W 2E1
Local Phone: (250) 405-2434
Toll Free: 1-877-655-5580

The Power of Pref's

...which, in industry parlance, means preferred shares – those strange securities that are attributable to the equity side of a corporate balance sheet, yet they behave more like bonds. The “fixed reset” category of preferred shares (which now comprises close to 60% of the Canadian preferred share market) became incredibly cheap earlier this year due to the surprise Bank of Canada 0.25% rate cut back in January.

So what exactly are “fixed reset” preferred shares? Shareholders receive a set dividend until the “reset date”, which is typically 5 years after the shares are issued. On the reset date, the issuer decides whether or not to redeem the shares at the issue price (usually \$25). If they choose not to, the life of the shares are extended for another 5 years and the dividend is set at a new rate, one that reflects the current interest rate environment; typically a predetermined spread above the Government of Canada 5-year bond yield.

By way of live example, initial purchasers of the Bank of Montreal (BMO) Series 25 Preferreds paid \$25.00 per share back on August 25, 2011. The annual dividend was set at \$0.98 per share (an annual yield of 3.92%, which is ~5.2% on an interest equivalent basis, based on B.C.'s top marginal tax bracket) until August 25, 2016, but what happens then? BMO has to decide whether or not they want to redeem the shares at \$25.00, and if not, the dividend rate for the next 5 years is set at the Government of Canada 5-year bond yield, plus an additional 1.15%.

It is likely that the purchasers of the above security were not imagining a scenario where the 5-year government bond yield would be less than 1%, yet when the Bank of Canada cut rates back in January, it dipped all the way down to 0.6%! This put tremendous pressure on the fixed reset space, with the above-noted BMO Series 25 Preferreds trading to a low of \$21.55, thus creating a great buying opportunity.

With further rate cuts now not looking as likely as they were in February, the 5-year government bond yield, as well as the prices of many fixed reset shares, have recovered somewhat. However, there are still select issues that we view as attractively priced. If you have excess non-registered cash that you are not interested in tying up in fully taxable GIC's that are yielding less than 2%, our take is that these shares may offer an attractive risk/reward proposition. Please contact us to learn more.

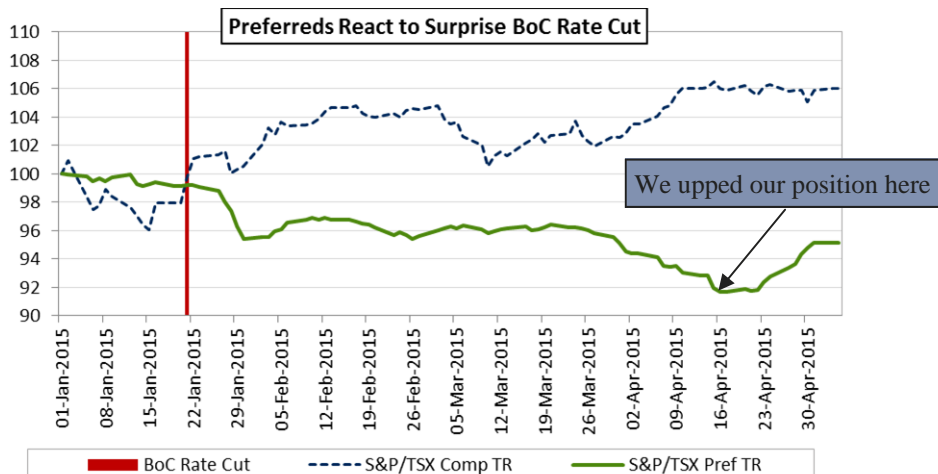


Chart courtesy of Phil Kwon, Fixed Income specialist at Raymond James Ltd.

As an FYI, and with a tip of the hat to Phil Kwon, Fixed Income Specialist at Raymond James Ltd., we added significant weight to the preferred share space within **The Dividend Value Discipline™** program via exchange-traded funds (ETF's) on April 16th. Our thinking was when the fear is palpable, so is the opportunity.

Family Foundation “Lite”

by Ryan Cramp

Has the thought of making a large charitable donation and/or creating a family foundation ever crossed your mind? Are the associated costs and administrative burdens putting you off? If so, we have a solution for you. It is called a “Donor Advised Fund” (DAF) account through the Raymond James Canada Foundation, and here’s how it works:

1. You open a DAF account (similar to opening any other investment account with us) and make an initial irrevocable charitable donation, for which you will receive a tax receipt. The minimum initial investment is \$100,000, but please remember that you can carry forward donation tax credits for 5 years.
2. Each year, you direct a minimum of 3.5% of the account value to one or more Canadian charities. You can change which charities you choose to support each year, or keep them the same. This is an excellent opportunity to get family involved in philanthropic decisions and teach them about investments at the same time.
3. The money can be invested in many medium risk-type investments (even **The Dividend Value Discipline™**), should you wish to create a longer lasting legacy.

Other important things to know:

- ⇒ If you make an “in-kind” donation using securities that are in gain positions, you will avoid paying the capital gains tax on those holdings (unlike if you sold them and donated the cash).
- ⇒ We can set up DAFs for corporations and allow third party donations.
- ⇒ There can be more privacy than when you create a family foundation.
- ⇒ You can appoint a successor advisor in case of death or disability, either when you open the DAF or within your will.

There are many other details associated with the DAF concept (too many to list here), but if you like what you hear so far and want to learn more, please contact us. Chris has already set up and funded his own DAF account, so he has first-hand knowledge of the process. You can also find more information online at: <http://www.rjcfoundation.ca/donor-advised-funds/donor-advised-funds>

Update on the Team

by Brianna McKeage

Well, it finally happened - Chris Raper & Associates is now on Facebook! Chris had his doubts about it - he thinks that being popular on Facebook is like being ‘rich’ at Monopoly - but gaining 40 followers within a couple of weeks dismantled the skepticism. It’s a scrapbook of our hard working team, our expertise, and how we interact to bring value to you. We have lots of great team photos and articles up there so feel free to check it out!

At the time of writing, we have just returned from our annual team trip. This year, we headed up to Tofino, B.C., where we enjoyed a breathtaking boat ride to Hot Springs Cove, fish stew in the forest, nightly board games, kayaking to Meares Island, and Chris’ culinary skills. Taking the team out of the office and putting them in close quarters for a few nights really brought out the zany energy and witty banter - no one is safe in this crowd! We left Tofino with a renewed energy and connectedness, and we couldn’t wait to get back to the office.



In other news, 2015 is shaping up to be a major year in professional development for our team. John finished the Canadian Securities Course in late February, and both John & Alex passed the Conduct and Practices Handbook Course in April. Additionally, Brianna is writing her first Canadian Securities Course exam next month, and Allie is sitting for her CFA Level II exam in June as well. Chris is even getting in on the action; in June, we will be shipping him off below the 49th Parallel to write his Series 7 exam...who says you can’t teach an old dog new tricks?



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