This dispatch is broadcast in nature and is intended for participants (and interested parties) of

The Dividend Value Discipline™.

The most proactive wealth advisory team on Planet Earth!

As part of our continuing efforts to keep you informed, this note will give you an update on where my head is at regarding five big events that have taken place over the last two weeks: Switzerland's effective shorting of the Euro on January 15th, the Bank of Canada's rate cut on January 21st, the European Central Bank's quantitative easing (interest rates↓) announcement on January 22nd, a leftist Greek Prime Minister elected on January 26th, and, finally, record high U.S. crude production/inventories announced on Wednesday, January 28th. Yes, 2015 is kicking off in a volatile fashion!

First up, let's address our core investment program, **The Dividend Value Discipline™**, which makes up ~75% of the assets that we manage. At the close of business on Wednesday, January 28th, most accounts had returns of ~+3% since December 31st, 2014; i.e. on a year-to-date basis. We have withstood the current market sell-off reasonably well. Our larger than normal mix of cash/bonds, U.S. equity exposure, and small (but increasing) precious metals exposure, have all helped. For the record, as I write on the morning of January 29th, we are at ~37% cash/fixed income and 63% equities (with the lion's share in the U.S. and minimal oil & gas exposure).

"Okay Chris, I feel a little better, but what is your take on the five big events you outlined above?"

1. **Switzerland**

   By decoupling their currency from the Euro, the Swiss have issued a huge vote of no-confidence for the Euro, especially when you consider what it has cost them in the near term. Their currency has soared, making them far less competitive on the world market; they were already in a deflationary mode, and their now skyrocketing currency pushes it in the wrong direction. They have severely penalized their savers with their 10-year bond yields now being negative – that's right, you now pay the government to keep your money safe…for 10 years! Yet, somehow, they thought the price was worth the pain. If they chose to maintain the peg, their only option was to sell their Francs to buy Euro-denominated bonds, and thereby weaken their currency. Let's keep in mind that they have historically been the smartest central bankers on the planet. My take? Euro Crisis 2.0 is certainly in the cards, if it is not happening already.

2. **Bank of Canada Rate Cut**

   The surprise nature of the rate cut tells me that Governor Poloz is very worried about the future direction of the Canadian economy. A glut of oil supply, high personal debt loads, and pending layoffs are coming to roost. My read is that the rate cut was designed to significantly weaken our loonie and thus make us more competitive globally – on that point, mission accomplished!

3. **European Central Bank Quantitative Easing**

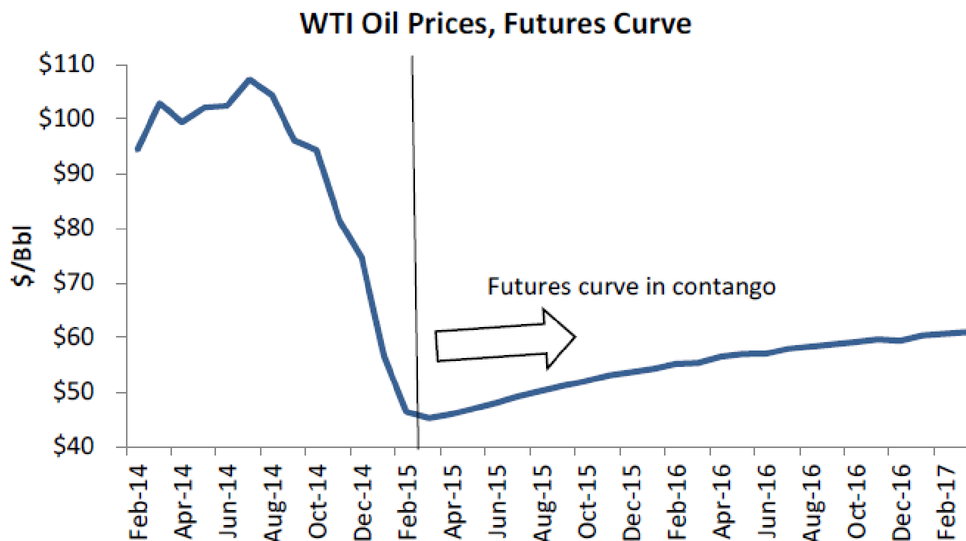
   This can best be understood by examining exactly what they are doing…buying €60B worth of bonds each month to drive bond prices up, so that interest rates come down. When you reduce interest rates, your currency falls (witness Poloz above), thereby making you more competitive. Of course there are some downsides, the worst of all being the severe penalty you hand to savers/pensioners. Of special note in this case is that the ECB does not represent one country, rather 28 of them, each with different priorities and cultural norms. Voters at home are becoming disillusioned with the centralist integration, a further tip of the hat to Euro Crisis 2.0.

4. **Greece**

When your first two initiatives as Prime Minister are to (a) meet Vladimir Putin's Ambassador, and (b) symbolically tell the Germans and their European allies to effectively "stuff it", things just don't bode well for Greece or the European Union (EU), and by extension, the Euro. My read is that, in time, Greece will leave the EU and others will eventually follow suit. Long term, I still don't see the EU surviving, as members will become increasingly fractured, and political opportunity will be ripe for the picking as Prime Minister Tsipras has clearly demonstrated. Others will follow his lead.

5. **Oil**

The U.S. Department of Energy's Petroleum Inventories Report, which was released on Wednesday, January 28th saw a record surge in crude oil inventories with U.S. production also at records and still growing. As of the report date, the U.S. was producing 8.7 million barrels per day; up 1.2 million barrels from this time last year. Of note is that drilling rigs are starting to fall out of the sky like ducks on the first day of hunting season. So yes, I expect to see North American production start to fall. The wild card is what happens to production outside of North America. Thus far, OPEC's stance has been, "let's pump". Below you will find the current futures curve on oil; essentially it tells you that the market believes that within two years we will be back to $60 USD oil. However, if you are looking for work in Alberta right now, two years seems like an eternity.



In conclusion, it is not hard to see why the U.S. dollar has been on an absolute tear, nor is it hard to see why the gold complex is rallying. The market is becoming increasingly focused on the waning economic data, currency headwinds, and a plethora of geopolitical events. I expect the markets to get softer in the weeks ahead; by how much is unknowable. My intentions are to adjust as the evidence changes. This should not scare us – much like the last Euro crisis, there was opportunity in the making for those that had the courage to act. Thankfully, we were among them.

Yours truly,

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