

The Opportunity Update – May 24th, 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 Victoria, B.C. on Tuesday, May 24th, 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.

Track #2: The Markets – Central Banker Cocaine – I will start the track by giving you some perspective on just how widespread the use of ‘Central Banker Cocaine’, aka negative interest rates, has become and then address the phenomenon’s impact on investors and how we intend to exploit the madness. I will finish up with my normal course, giving you our take on the near term direction of the global economy, oil, and the Canadian dollar – where you will hear me eat some humble pie. We will wrap it up with some insight on where I expect to find opportunities as we approach the dogs days of summer.

Track #3: The Dividend Value Discipline™ – www.therentcheque.com – I will start with what I thought was a lightbulb moment. Now, my esteemed colleague and business partner Ryan Cramp was maybe a little less impressed, but I did manage to get his blessing on registering the web domain ‘www.therentcheque.com’. Then, I will walk you through the major investment decisions – the buys and sells – within **The Dividend Value Discipline™**, and explain our thinking at the time

of those decisions. If you are a regular follower of our material, you will know that in pursuit of growth, and perhaps more correctly dividend growth, we have been focusing on two kinds of companies: disruptors and aggregators. You are going to see that theme played out as I outline our new investee companies within the program.

Track #4: The Wrap Up – What Might Go Right This Summer – I will present the key takeaways and then counter all the negative media with some insights on where we might find some pleasant surprises as we work our way through summer.

Track #5: Postscript I – This 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 – Again, this is 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. 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, we aim 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: The Markets – Central Banker Cocaine

The addiction to (near zero) lower and even negative interest rates amongst the world's central bankers continues unabated. To give you some perspective, what follows are the interest rates you would receive on a 10-year government guaranteed bond for select countries/regions:

- Canada 1.35%
- U.S. 1.88%
- United Kingdom 1.45%
- Germany 0.17%
- Japan - 0.10%
- Switzerland -0.29%
- Euro Central Bank -0.30%

The Japanese have responded to negative interest rates the way you would expect any rational person to respond to a drop in their income. First you reduce your spending, then you start to hoard your cash, and finally when you are faced with the prospect of locking up your money for ten years and actually getting less back, you opt for cash and you stuff it in your mattress. To wit, Japan is on track to print 1.23 Billion 10,000 yen notes this year (about \$120 in loonies), up some 17% versus last year, just to keep up with the demand for cash. My question for central bankers is: "is this supposed to help?" That said, I am not expecting an audience with Stephen Poloz, Mario Draghi or Janet Yellen any time soon. You may recall that the U.S. Fed was the last significant holdout and actually boosted the U.S. Fed funds rate last December to a whopping 0.50%. Even with that paltry raise, investors sold their local currency and bought higher yielding U.S. bonds, which you must pay for in U.S. dollars, and that drove the U.S. dollar further north... until early February, when Janet Yellen started publically musing about whether or not the U.S. Fed had the authority to move to negative interest rates. As you might expect, the U.S. dollar turned south, which just might have been the underlying objective as the U.S. export market was struggling due to their high currency. In last week's U.S. Fed comments, they further perplexed investors, indicating that a June rate increase is now in the cards, and course the U.S. dollar spiked north. We now refer to them as the 'Fickle Fed'. They have become the global wildcard. Within that spin cycle, it is important to understand that the U.S. cannot be a lone wolf for too long – if all of your competitors are devaluing and you stand pat, you will eventually price yourself out of the global market. So, the more likely course is that the U.S. does not lead us further down the garden path of negative interest rates; instead they become a reluctant follower. Americans are not going to sit idle while China, Europe and Japan devalue.

To give you some insight on how this drives stock prices, consider this: over the last 90 years stocks have averaged about 14.5x price to operating earnings multiple, or put another way you pay \$14.50 for \$1 of earnings. The 1/14.5 equates to an earnings yield of almost 7%. Today the S&P 500 Index is trading at ~21x operating earnings (close to a 5% earnings yield), so stocks look pretty expensive – and yet the analysis should not end there. From another perspective, the market doesn't look expensive at all – to wit, ~55% of S&P 500 stocks are trading with dividend yields in excess of the ten year U.S. bond yield, which again is ~1.88%. 55% is very close to the record high that spans the last 40 years. Are stocks expensive? Compared to bonds yields, absolutely not!

There are two obvious questions: when does this phenomena change, and what should we do with our money in the interim? Historically, trends tend go on for far longer than you think they can. You may be aware that we had a similar income starved populous after World War II, and the trend of increasing dividends and higher stock prices went on until the late 60's before the market buckled. Our take is that we are a long ways from making the turn north in global interest rates, notwithstanding the U.S. Fed's comments last week. Realistically, they are talking about moving the U.S. Fed funds rate from 0.50% to 0.75% in June – shortly after that and they will be in the U.S. Election window where they have been historically reluctant to take any action until the presidency is decided. Where to invest is a little easier to answer – if rates are going to continue to go south or stay flat then anything we buy today that pays a sustainable income, or better yet has the ability to grow that income, will become increasingly attractive. I cited several examples of companies in the “disruptor and aggregator” themes in the May edition of The Strategist. We see these companies as having the ability to grow their dividends in virtually any economic environment. If you missed it, it is archived on our website at <http://www.chrisraper.com/the-strategist.aspx>.

Shifting gears, our major global economic indicators are pointing to a softening bias. The emerging market economies have certainly been helped by the weaker U.S. dollar but with last week's indications out of the U.S. Fed and the resulting spike in the U.S. greenback, we saw a big reversal in all things emerging market. Our favourite indicator for the emerging markets, the price of copper, is roughly \$2.07 per pound versus \$2.27 on our last recording. My favourite leading indicator for the developed economies, the Philly Semiconductor Index (\$SOX), is currently at 680, up a little from our last recording which on its own gives a slightly more optimistic tone. That said, when I sat down with our lead analyst, Alex Vozian, last week and we went through our 40 plus point economic review, there was little to suggest that we were on the edge of a significant global expansion. It is important to

note that much of the optimism that fueled Canada's market in the March and April timeframe was due to the rally in commodities, with the biggest contributor being the gold miners. As of market close on Friday, May 20th, the gold mining index made up about 40% of the TSX Composite Index's 7.0% year-to-date return, so if you owned the TSX minus the gold miners you would be a little over 4% on a year-to-date basis.

Question: was the U.S. Fed merely trying to talk down the greenback with its negative rate talk? It is entirely possible. What is unmistakable is that there was a big shift in sentiment last Wednesday and the U.S. dollar is now back to a bullish trend. That is a significant headwind for anything related to commodities. Regarding the energy complex, our thoughts and prayers are with the people of Fort McMurray as we applaud their resilience. It seems with every tragedy the best comes out of people and anyone who has followed the story can point to some real blessings amongst the disaster. Turning to the price of oil, I am surprised it is not a lot higher than it is. Just think this through with me – the U.S. is currently producing about 8.8 million barrels per day, down almost a half a million barrels from this time last year. You have a wildfire that knocks out well over a million barrels per day of Canadian production and, when we turn our eyes globally, Nigeria's producers have just announced Force Majeure as rebels attack pipelines knocking out almost a quarter of a million barrels per day, you can easily get another half million per day in supply constraint from China, Columbia, Venezuela, Mexico and Libya. Yet somehow amongst all of that the total U.S. Crude inventories are near record highs. In our minds, the lack of a violent price spike points to a persistent oversupply issue and just how easy it will be to ramp production back up. During the last three months we noted a huge surge of capital raises in the energy space. I am amazed at the number of secondary offerings that were quickly bought up by eager investors. These are the same companies that have evaporated shareholder capital over the last three years, and slashed dividends while their share prices dropped like a stone. For us, there are still too many investors willing to bet that "the bottom is in". Most of that new found money is going to chase after \$50 oil and when they do, production ramps up once again. Only when investors and bankers refuse to give the oil producers any more money will we start to see the legs of a sustainable recovery. In the meantime, we proceed with extreme caution. By now you have figured out we are not bullish on oil and therefore it is difficult to be bullish on the Canadian dollar. For those not in the know, April is the seasonally strongest month of the year for our loonie, whereas May is the weakest. There is no question – I was just plain wrong with my comment on our last recording, *"Like oil, I see the loonie's rally as short term in nature and I can't see it getting much above the .76 level versus the .75 as I speak."* Talk about humble pie. Thus far, May has been a little kinder to me – we are currently at 0.762, off some 4.75% from the recent .80 high pegged on May 2nd. Pushed for a

decision today as to where I would sell U.S. dollars to buy loonies over the next 90 days, my answer is sell half at ~.75 and look to trade the rest around the .72 mark. Please understand that the comment is static and markets are not – I could change my thinking tomorrow. Please call if you are intent on making that trade.

Wrapping this track up, most listeners will be aware that summer months tend to be flat to negative and that can create some opportunities for us, so it is not all bad news. I will be focusing on the 'Fickle Fed' – if they don't raise rates in June, then I expect the U.S. dollar to fall and the commodities complex to rally. That would effectively force us to increase our Canadian holdings with a focus on the energy and gold complexes. If they do raise, then we are pretty well positioned as we speak. I am gunning for a big opportunity as we lead up to the Brexit vote with two UK based yet global companies in our sights. My expectation is that UK stocks get cheaper as the vote approaches. In the longer term the companies we have in mind will experience a minimal impact regardless of which way the vote goes. The final thought I will leave you with is we are seeing tremendous value in some select healthcare stocks right now, but we are seeing very little in terms of investor interest. If that starts to change, you will see some buys in that space. We are now off to Track #3.

Track #3: The Dividend Value Discipline™ – www.therentcheque.com

In our parlance, rent cheques are dividends and interest payments. We like them and we like them even better when they grow. Dividends tend to do that – interest payments do not. In Canada, we get the dividend tax credit on our eligible dividends and that can boost the effective pre-tax income by 30% or more. That's just terrific. As I was preparing for this recording, it struck me that we should register the domain name www.rentcheque.com so I searched it only to find that it was for sale... for \$250,000.00 U.S. dollars! If you know me on a personal level, you know that there was no way that was going to happen. What to do? Part of our culture here is to have a name for almost everything we do and it usually starts with "The", so getting to www.therentcheque.com and www.therentcheque.ca was pretty easy, all for less than \$100.00. Bottom line, if you search either of those domains you will be immediately redirected to our recently re-launched website. I invite you to check it out. Most clients will be aware that you can access all of your accounts, both current and historical, including all tax documents, after you have registered for access. If you are new to us and are merely interested in learning more or getting on our monthly distribution list, you can do that there too.

On with the major decisions since the March 7th recording. If you caught the last edition of *The Strategist*, you will be aware that we are focusing on companies that can grow their dividends – aka rent cheques – in virtually any economic environment. The "disruptors" are those companies that are reinventing how business is done in their industry. Think Walmart of 20 years ago and Amazon today. The "aggregators" are those companies that grow by tuck in acquisitions, buying smaller competitors and then integrating them with their corporate culture and systems thereby achieving even greater economies of scale. You will see both themes played out as I outline our new acquisitions.

Getting the "sell all" decisions out of the way, the subtitle of this track on the last recording was *Beyond Oil* which was a bit of therapeutic self-talk. Like most Canadian investors, I too had become overly obsessed with oil and how to catch the next rally. Allow that to go on within the context of a bear market and you end up missing a lot of good opportunities elsewhere. Being aware that April is one of the strongest months of the year for Canadian energy stocks, we made the decision to part ways with fracking company **Canyon Services Group Inc** (FRC on T), exiting at \$4.67 per share. For those of you participating in the program in May of 2015, we pegged a loss of ~20%. What tipped us over the edge given our high regard for FRC's management group and the recent run up in crude? First, for reasons already mentioned, we don't see the oil rally as sustainable. Second, FRC no longer pays a dividend and thus is disqualified from any further purchases. It was time to move on.

We also eliminated the **Vanguard FTSE Europe ETF** (VGK on US), selling it in late April just shy of US\$50 per share. We pegged a loss just north of 10%, most of which was currency related, i.e. the surge in the Canadian dollar. Our European aspirations have not materialized, and given the upcoming additional risks with the UK Brexit vote we opted for cash expecting better bargains to present themselves as we get closer to the vote. In a similar vein, our purchase of BCE the day before the 1995 Quebec referendum turned out to be a really great decision. Everybody came away happy – it would be nice to get a repeat.

Turning to the buys, in early March we bought the exchange traded fund **Market Vectors Gold Miners ETF** (GDX on US), which is designed to shadow the NYSE Arca Gold Miners Index. In a nutshell, the index is used to track the overall performance of companies involved in the gold mining industry. As mentioned, we see the potential for negative U.S. interest rates as the game changer. That pushed investor sentiment to the bullish camp for the gold complex and given the pain of the industry over the last three years, the asset class is very much “under owned”. Accordingly, buying begets more buying. Is it risky? On its own, yes. As a small part of a balanced portfolio, it acts as ballast and tends to lessen the pain of volatile markets.

Moving to the disruptor category, we bought the industrial supply company **W.W. Grainger, Inc.** (GWW on US) – think recurring revenue, the Holy Grail for long term business prosperity. Our take is that Grainger is a great company in a still fragmented industry. They have disrupted the industrial supply business. With almost 40% of its sales via e-commerce, it is now the 15th biggest e-retailer in the U.S. Our senior analyst, Alex Vozian, describes them as the “rent cheque champion” with 44 years of consistent dividend increases. Obviously, management is getting a few things right. Our intention is to buy more. Other companies within the program that we see as disruptors include: Dollarama, TJX (Winners, HomeSense, Marshalls), and Intuit (Turbotax/Quickbooks).

Turning to the “aggregator” category, we made some great progress over the quarter. First up is a Canadian name you have probably never heard of, **CCL Industries** (CCL.B on T), which is headquartered in Toronto but has to be seen through a global lens. This specialty packaging company has over 13,000 employees operating 119 manufacturing facilities across North America, Latin America, Europe, Asia, Australia and Africa – there aren’t many continents left, are there? CCL is a growth by acquisition story. They mitigate the risk by sticking to things they know, keeping the balance sheet strong and successfully integrating newly acquired divisions into their corporate culture. Its economic moat is driven by its scale, being three times the size of its nearest competitor

and commanding a 25% global market share. Culture and management-wise, CCL achieved one of the highest Corporate Culture scores we have ever witnessed. Rent cheque wise, they recently announced a 33% increase in their dividend and the 3 year dividend growth rate is almost 27% per annum. Bring it on!

Another aggregator, we purchased self-storage operator **Cubsmart** (CUBE on US) in late April. They are U.S. based and the 4th largest company of its kind. The strategy is own, operate, manage, acquire and develop for both the consumer and business end markets. CUBE owns 440 facilities in 20+ states – some 30 million rentable square feet. We like the fact that the self-storage business is a fragmented industry with lots of Mom and Pop facilities which will turn over as the original owner retires. Furthermore, the recovery in the U.S. economy is driving occupancy rates higher and we see the move to downsizing and downtown living as secular tailwinds. CUBE performs in the top of its peer group, due to disciplined management and a narrow economic moat that is driven mainly by its large scale focus on customers, and flexible revenue management systems. By making small "tuck in" acquisitions, CUBE can gain efficiencies on the human resource and technology fronts which enables them to grow profits and more importantly dividends! The rent cheque (dividend) has grown at almost 25% per annum over the last three years. If you are quick on your mental math you know that means it has doubled over that time frame. Wowsa!

Still yet another aggregator, we purchased an initial stake in apparel distributor, **VF Corp.** (VFC on US). No doubt an unfamiliar name, yet you will recognize their brands: Lee, Vans, Nautica, Timberland and North Face, to name a few. Suffice to say, they have got you covered ☺. A serial acquirer of “cash cows” when brands stop giving milk, they send them to the packing plant. The corporate culture runs deep – hiring from within is the norm and the median tenure of the current executive team is 18 years. Their moat is wide due to their scale and brand advantages. Finally, another rent cheque champion with 43 consecutive years of dividend increases.

The final acquisition of the quarter was **Bank of Nova Scotia** (BNS on T). Compared to its other Canadian based peers, BNS is an outlier. It displays both disruptor characteristics, i.e. their recent acquisition of fast growing digital bank Tangerine, which already serves over 2 million clients, and aggregator characteristics, with its long history of buying related businesses both here at home and becoming a major player in Mexico & Latina America. Their culture is driven by a willingness to think outside the box. Management hires from within, with the median tenure being 26 years. The rent cheque has not grown a lot over the last three years (about 7% per year), but the decline in the stock

price has translated to an attractive dividend yield of ~4.5% on our original purchase. When we factor in the dividend tax credit for non-registered accounts, it pushes the interest equivalent yield north of 6% – not bad.

That wraps up the new acquisitions and with that we are off to Track #4.

Track #4: The Wrap Up – What Might Go Right This Summer

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 the winners run.

Track #2: The Markets – Central Banker Cocaine – Yes, I find the global push towards negative interest rates to be wrong-headed monetary policy and I also accept the fact that I cannot change it. We must play the cards we are dealt. The low interest rates will continue to push investors into buying dividend paying stock as a replacement for bonds and that can go on for a very long time, just as it did after WWII.

Our leading economic indicators have a southbound bias. The Fickle Fed has put the U.S. dollar back to a bullish trend and that is a big headwind for anything commodity related. We are generally bearish on oil and the Canadian dollar. If the 'Fickle Fed' does not raise rates in June, then we will have to quickly adjust to the new reality.

Opportunity-wise, we are expecting bargains to come our way as we get closer to the Brexit vote, and closer to home we are seeing some great value propositions in select healthcare stocks. As yet, there is little evidence of increasing investor appetite in this space. When that starts to change, we intend to buy.

Track #3: The Dividend Value Discipline™ – www.therentcheque.com – Yes, I talked Ryan into letting me spend the money on the domain name and we intend to make the pursuit of growing rent cheques a life-long process. The best path to those growing rent cheques in our minds is by pursuing the disruptors and aggregators of our time. We have made some great progress on that front over the last 6 months, notwithstanding our meagre 1% year-to-date returns. Our stocks have actually done quite well – it was the squeeze of the Canadian dollar up until the end of April that hurt us. Thus far, May has been true to form, the weakest month of the year for our loonie.

Track #4 – What Might Go Right This Summer – One of the things that gives us confidence for the future is the amount of worry there is imbedded in investors' minds. As of last week the American Association of Individual Investors pegged in with 19% of those surveyed bullish and 34% bearish – those are the kind of numbers where good things happen. As we look towards summer, here are a few things that just might go our way:

1. There is much talk in the investment community about the current “earnings recession”, yet history shows us that after earnings take a big tumble, as they have now, the market actually leads the earnings recovery – it tends to be a forward looking animal.
2. Financial stocks tend to lead us out of market funks and if the now expected U.S. Fed rate increase actually happens, it is a big shot in the arm for most banks and insurance companies. Post last week's Fed minutes, the financials immediately caught bids to the upside, including our newly acquired BNS.
3. Historically, the 6 months leading up to and after U.S. elections have been strong. Maybe the craziness of this year's election Trumps the Fickle Fed.

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. Thank you for taking the time to listen. By keeping current on these recordings, it allows us to spend more time on issues that are specific to your family when we do meet. Until next time, this is Chris Raper from Victoria BC, wishing you good day and may God bless, on Tuesday, May 24th, 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:

- 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 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”.