CIBC Wood Gundy

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2014 Performance Report and year ahead review

Enclosed is your performance report for the one-year and five-year periods ending on December 31, 2014. The report shows the value of your accounts on a combined basis.

'Inflows' is defined as how much money came into your accounts, including amounts transferred from other CIBC Wood Gundy accounts. 'Outflows' is defined as funds withdrawn from an account, including transfers to other CIBC Wood Gundy accounts. The difference between 'inflows' and 'outflows' is the net amount you saved (or took out) from your accounts.

Revenues are defined as total distributions, dividends and interest paid into your accounts (and does not include any change in share prices). Profit is a combination of revenue and change in security prices. The percentage profit on a five-year basis is the average annualized (per year) return for the past five years.

The report also shows a comparison of how your accounts performed against various indices. The first index is the Canadian bond index. The second is the global stock market index (currency adjusted). The third is the Canadian stock market index.

In our 'Index and Stock Strategy' we have been conprised of about 2/3 global equity and 1/3 Canadian equity over the past five years. This has helped client returns as global stocks have outperformed Canadian quite handily over the past five years.

Overall, almost all clients have experienced returns that are quite strong in comparison to these index average returns on a five year basis. This past year was our first in the past five where we saw some reasonable variations in client returns, and while many earned a decent return in 2014, some saw returns a bit below our expectation.

Clients that expressed a desire for a very safe portfolio that includes little to no stock exposure (and in some cases very good liquidity as well through the use of money market funds) have done fine on a five-year basis, but did not fare too well in 2014 due to low interest rates. While the Canadian bond market (see DEX bond index on the performance report) performed reasonablely well in the past year, the only material money made in the bond market was in very long term (20- to 30-year bonds) where bond prices move substantially up or down given changes in long term interest rates. In 2014, long-term interest rates declined much more than expected, causing a large increase in long-term bond prices. Our approach bond wise has been to roll maturing bonds into the safer six- to eight-year timeframe where we can make better than (very) low short-term interest rates without taking too much bond price risk.

With the stock market performing better than short- to medium-term bonds in 2014, the greater the percentage in equity, the greater the returns. As said, while this past year saw many accounts earn reasonably good returns, some accounts underperformed our expectations if they had oil and gas investments (namely Argent Energy and Eagle Energy). Both were big disappointments price-wise and knocked a few percentage points off our yearly return. We have not had many ‘duds’ like these over the years, but these are two stocks I wish I had never met. In reviewing all current holdings, the likelihood of any similar situation in 2015 is low.

In 2014, we continued our focus on increasing fixed income quality and being relatively defensive in terms of the nature of most of the stocks we own. We are quite cognizant of the fact that we have not seen a down year in the stock market for six years, and that we have experienced pretty good returns in corporate fixed income; thus we have been inclined to ‘decrease’ rather than ‘increase’ risk at this stage of financial market cycle. To deal with fixed income risk, we are decreasing client exposure to ‘high yield bond funds’ by switching at no cost into a safer (more ‘asset backed’) monthly income fund from PIMCO ; and we have bought a number of safe ‘investment grade bonds’ in recent years.

On the stock side, we continue to add a bit of defense and diversification (in our ‘index and stock strategy’) by adding a small amount to beaten up resource stocks at attractive stock prices and we continue to use the successful ‘buy low, sell high’ ‘Dogs of Dow strategy’- where we annually rotate and own the ten highest dividend paying stocks out of the thirty stocks in the Dow Jones industrial average.

In terms of our return expectations going forward, I would give the stock market about a ‘five out of ten’ going forward. Valuations on stocks are a bit expensive at about 17 times earnings (an earnings yield therefore of about 6%); but on the positive side, this earnings yield looks ok when compared to the main competitor for stocks (bonds) as indicated by today’s paltry 1.8% ten-year government bond yield.

In terms of where we are with regards to the ‘stock market cycle’, an average of all Canadian, U.S., European, and Asian stocks trades at about 12% higher than the previous market high (eight years back, prior to the big downturn in 2008/09). Typically, markets peak anywhere from 30 to 100 percent above previous market highs; so as we are well below those levels, we do not expect to see a large decline in stock prices. Ten to fifteen percent corrections – even if markets continue their upward trend – should be expected though, as they typically occur once or twice per year.

In fact, we had two separate ten percent stock market corrections in the later half of 2014, which clients who check their accounts daily online (you know who you are, ha ha) noticed much more than clients who just look at their monthly statements. Even a 30 day period tends to even out a reasonable amount of market volatility, and given our somewhat defensive stance, monthly volatility in account values has remained on the low side.

Add this all up and our best guess going forward is normal longer-term returns on equities (inflation plus ~4.5% over ~5 years), with volatility returning to normal (which means about double the low volatility we have experienced in the past five years).

In terms of investment process, we are as confident as ever that utilising our low cost, high quality, diversified equity approach, combined with appropriate levels of bond related investments will prepare us well for whatever markets throw at us.

We will continue to look at our 're-balancing process' in all client meetings to potentially decrease equity should the stock market continue to move upwards, and continue to add defense with respect to the types of bond and stock related investments we use throughout 2015, if markets perform nicely for us.

If markets get 'ugly' (and they will one day), our low yielding but liquid and safe bonds will play their role in terms of capital preservation and provide potential 'buying ammunition' to take advantage of bargain stocks.

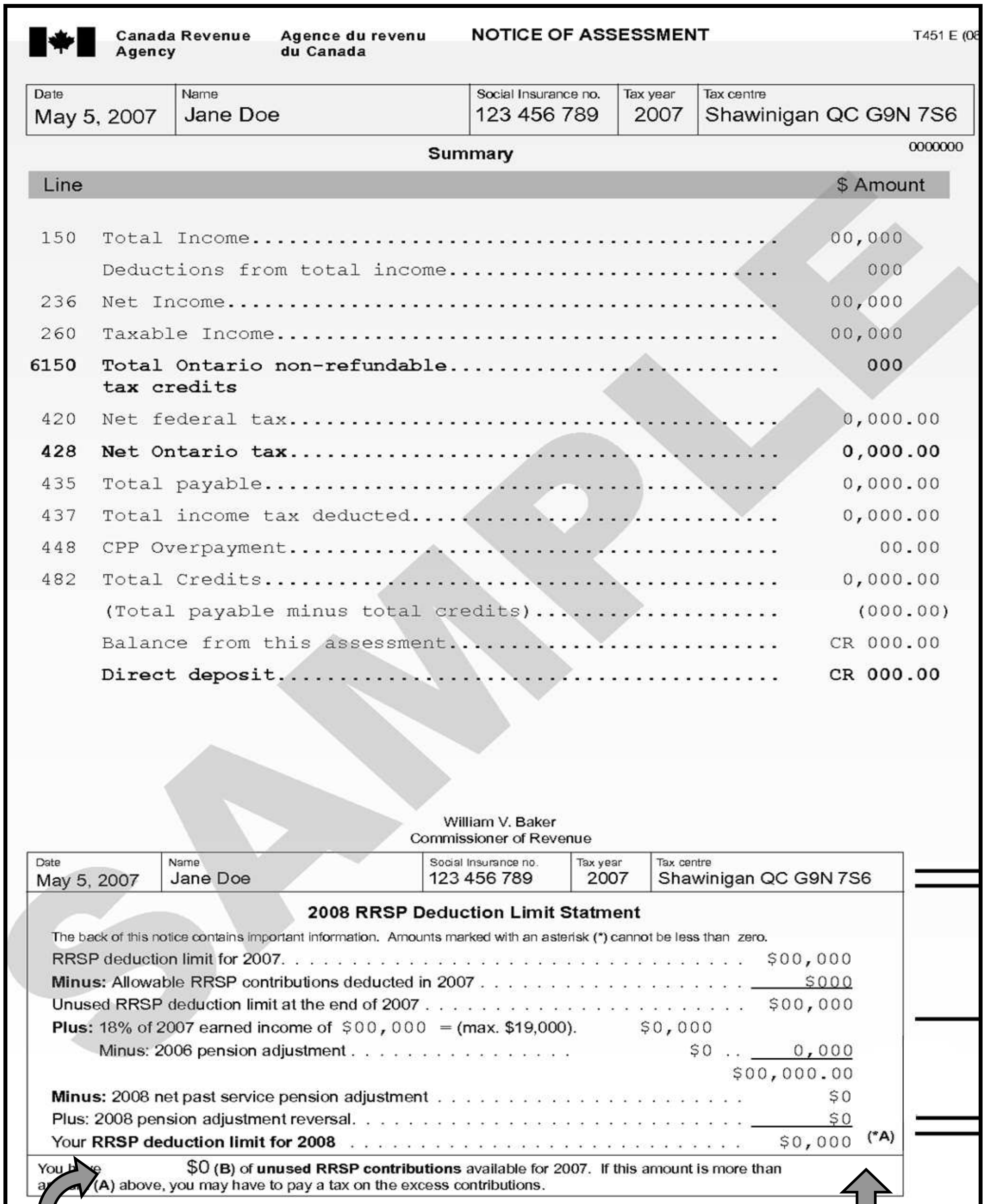
Our average client (64 years old, these days) has about 45% in bond and bond related investments. This means we will at times lag some 'brother in laws' with mostly equity mutual fund portfolios, but that's ok to us as we know from experience that those high cost, and somewhat risky portfolios eventually have their 'comeuppance'.

TFSAs and RRSPs

(Tax Free Savings Account & Registered Retirement Savings Plan)

We have spoken to most clients in advance about how they wish to fund TFSA contributions for 2015 and are proceeding with a number of 'in kind' contributions right now. We will endeavor to contact all remaining clients over the upcoming months, but please do not hesitate to contact us, particularly if you are making the contribution from your existing Wood Gundy funds, and not by sending a cheque. We now begin year seven of TFSA contributions and the limit is $5,500 for 2015. Please note that CRA is almost one year behind in tracking your TFSA contributions, so if your CRA Notice of Assessment says you did not make a contribution in 2014, that might not be current.

It is also RRSP time. Your limit is eighteen percent of trailing net earned income (plus net rental income) to a maximum of $24,270 for 2014 (and $24,930 for you early bird 2015 contributors). If you are in a pension fund, your RRSP limit is lower. Check your Notice of Assessment for your deduction limit—see Amount (A). Also shown on your Notice of Assessment is any RRSP contributions done but not yet deducted—see Amount (B). The form can be a bit confusing and sometimes overcontributions can be mistakenly made so please pay special attention when Amount (B) is anything but $0. As said, this is 'RRSP money contributed but not yet deducted.' If that is the case, please let us know and we will probably suggest using that amount towards your RRSP this year.



Canada Revenue Agency | Agence du revenu du Canada

NOTICE OF ASSESSMENT

T451 E (06

Date	Name	Social Insurance no.	Tax year	Tax centre
May 5, 2007	Jane Doe	123 456 789	2007	Shawinigan QC G9N 7S6

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Summary

Line		$ Amount
150	Total Income	00,000
	Deductions from total income	000
236	Net Income	00,000
260	Taxable Income	00,000
6150	**Total Ontario non-refundable tax credits**	**000**
420	Net federal tax	0,000.00
428	**Net Ontario tax**	**0,000.00**
435	Total payable	0,000.00
437	Total income tax deducted	0,000.00
448	CPP Overpayment	00.00
482	Total Credits	0,000.00
	(Total payable minus total credits)	(000.00)
	Balance from this assessment	CR 000.00
	Direct deposit	**CR 000.00**

William V. Baker
Commissioner of Revenue

Date	Name	Social Insurance no.	Tax year	Tax centre
May 5, 2007	Jane Doe	123 456 789	2007	Shawinigan QC G9N 7S6

2008 RRSP Deduction Limit Statment

The back of this notice contains important information. Amounts marked with an asterisk (*) cannot be less than zero.

RRSP deduction limit for 2007		$00,000
Minus: Allowable RRSP contributions deducted in 2007		$000
Unused RRSP deduction limit at the end of 2007		$00,000
Plus: 18% of 2007 earned income of $00,000 = (max. $19,000).	$0,000	
Minus: 2006 pension adjustment	$0	0,000
		$00,000.00
Minus: 2008 net past service pension adjustment		$0
Plus: 2008 pension adjustment reversal		$0
Your **RRSP deduction limit for 2008**		$0,000 (*A)

You have $0 (B) of **unused RRSP contributions** available for 2007. If this amount is more than amount (A) above, you may have to pay a tax on the excess contributions.

SAMPLE

Amount (B) **Amount (A)**

As income splitting on RRIF income is now allowed, spousal RRSPs are not as important as they were in the past; however if one spouse will be in a materially lower income tax bracket in retirement, spousal RRSPs can still be advantageous.

It is ‘New Year’s Resolution Time’, so we encourage all our working age clients to start (or add to) monthly saving plans. Canadians used to save about 10% of disposal income, and today save they less than 3%. Believe it or not, high income earners often have the hardest time saving enough to retire when they would really like to. Setting up an automatic monthly savings plan will fix this.

With a signed form, we can now set up ‘inbound electronic transfer’ from any Canadian financial institution. Also, if you are a CIBC client and do online banking, you can add your CIBC Wood Gundy account as a ‘bill payee’. Search for ‘CIBC WG’, type in your eight-digit CIBC Wood Gundy account number and presto, you can add funds to your account here with a click of a button.

Taxes – uggh!

This is a busy time of year and tax time is also around the corner. Cheryl is our team’s ‘tax info expert’ and knows as much as anyone out there in terms of calculating fun things like ‘return of capital (ROC)’ and ‘phantom distributions.’ Call Cheryl or any team member for information you may require.

Clients that have online access to their accounts already have the option to suppress your monthly statements. You will soon be able to suppress your trade confirmations as well. Please check your account settings online in a month or two to look for this feature, or call us to find out more. This might be of particular interest to our ‘snowbird’ clients as these features allow you to eliminate mailings while you are away, and turn these back on when you return home.

Thanks to all clients who have referred someone to our practice in the past. It is really appreciated. We will always to do our very best for any new and existing client.

We continue to add clients to our practice but our new account minimum remains on the high side at around $1 million. However, we are prepared to make some exceptions and we are always pleased to help anyone you know with some general advice over the phone (regardless of how much they have to invest); and we always welcome any direct family members regardless of account size. This includes ‘little Johnny’ who has saved up a few hundred dollars. We start kids off by buying (at no commission) whatever stock they wish to buy. Most pick stocks like Apple, McDonald’s, and Disney. From there, they ‘learn by doing.’

Please call us if you have any questions whatsoever, including any stemming from your review of this performance report. All the best in 2015 and it’s a pleasure to be of service!

Regards,
CIBC Wood Gundy

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Yields/rates are as of January 12, 2015 and are subject to availability and change without notification. Minimum investment amounts may apply.