REVIEW AND COMMENTARY
2ND QUARTER 2014

Huffed and puffed but couldn't blow the equity market down.

IF the market corrects relatively soon, it will be the best advertised retracement in recent memory. Admittedly, recent memory may not be that long compared to the history of equity markets but long enough to know that most corrections are rarely as widely predicted as this one will have been. There will be a 'correction' but we aren't convinced, barring an unforeseen geo-political event or shock to the system, that it will happen imminently because equity values are not overextended. Central banks around the globe appear determined to wait until irrefutable evidence that economic strength has taken hold before they start raising interest rates. If they maintain this view, a much stronger economy should lead to better earnings, increased dividends and share buybacks, increased employment and wages, which in turn should lead to higher equity prices. Alternatively, if North American economies fail to grow there would be little motivation for Central Banks to increase interest rates either. Thus, we believe it is best to continue to allow the central banks to provide an investing environment where equities should continue to perform comparatively better than other major asset classes, namely cash and bonds.

So far in 2014 the SP500 hit all-time highs more than 20 times. The TSX/SP index finally eclipsed it's all- time high and this is without the material and energy indexes, both highly weighted in the index, reaching new highs. 'Summer doldrums', 'sell in May and go away', even concerns of the solvency of a European bank at the time of writing appear not to have enough influence to scare equity investors to the sidelines. China continues to slow and will do so as it moves from the second largest economy to the largest but part of this is simply the law of large numbers. China still anticipates growth exceeding 7% this year- not exactly bearish news. Of course, there are concerns regarding real estate values, shadow banking- all real issues for most major economies.

The US economy is gaining traction but remains in the 'goldilocks' stage- not too cold, not too hot. We think the equity markets reflect this. As we said in previous quarterlies, what would happen if North American economies were better than 'OK'- might make present equity levels look more than reasonable especially with a Federal Reserve that remains unflinchingly accommodative. But investors remain uncertain and cautious. According to the Investment Company Institute, as of the last week of June 2014, investors have spent the previous two months pulling over $20 billion dollars from US equities and putting them back into the 'safety' of bonds. With interest rates at historic lows and equity prices at historic highs it will be interesting to see which holds more risk over the next 5 years, bonds or equities. We believe bonds do and continue to support buying and holding high quality equities.

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