REVIEW AND COMMENTARY- 2014

Our forecasting record was certainly challenged in 2014. While we were not surprised that Canadian and US broad equity indices' provided above average returns in 2014, we were surprised at the exceptional performance of the long term bonds. In Canada and the U.S., long bonds provided returns in excess of 20% (just under 30% in the U.S.). Though in both markets over a third of the annual return was achieved in the last quarter, the drive to quality and safety was due to concerns regarding geo-political tensions. The U.S. dollar was an outlet for this uncertainty and was partially responsible for the downward pressure against other currencies (such as the Canadian Loonie) and commodity prices such as oil, gold, copper which generally are denominated in U.S. dollars. Equity performance did considerably better in Canada compared to mid and short term bonds, however, the U.S. long bond was by far the shining star among choices from the major asset classes.

To review, our predictions for 2014 were:

Equity returns will provide the better returns than long term bonds and cash combined.

Long bonds in Canada and the U.S. will be down marginally, providing a total return close to 0%.

Global economies will continue to grow but interest rates will not move up significantly.

The Canadian dollar will end the year close to or better than present levels.

The TSX-SP Index posted gains of 10.6% while the SP 500 (U.S. Dollars) gained 13.7%, an above average long term historical return for these indices. While the U.S. economy did, and continues to gain strength, we thought this would be accompanied by renewed strength in other major countries' economies. This did not materialize. While China still grows at a significant rate, there are pockets of inconsistency. China continues to try and cautiously tweak their economy towards higher growth and remains confident, at least outwardly, in exceeding 7% GDP growth. Japan's quantitative easing has yet to take hold but Prime Minister Abe's determination to continue to reform their economy should yield better results. With the geo-political tensions increasing in the later part of the year in the Ukraine and the Middle East, coupled with uncertainty surrounding growth resuscitation of the Eurozone, the U.S. dollar and

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U.S. Treasuries became a safe haven. As well in the last quarter of 2014, the Saudi's stated that they were more interested in maintaining market share rather than price levels which started a rapid unravelling of crude prices that continue at the time of writing. Not only was the supply side of the crude equation increasing, the demand side was not able to keep pace. Thus the rapid sell off in crude prices, which we did not forsee, we anticipate being temporary and should be higher than present levels by the end of 2015. It is important to remember that crude prices at present levels will add trillions of dollars of stimulus into major developed industrialized countries which in turn should add to the potential for increased global economic growth.

Interest rates did not move up, indeed, from the return numbers it was clear that they went in the opposite direction. Of all our predictions this was our most accurate. Not a great year for prognostications but we were pleased that equities continued to provide a sound return and dividends among the majority of the holdings we endorsed increased in 2014.

We expect the following for 2015:

Canadian and U.S. equities will provide a better return that long bonds and cash combined (repeat of 2014).

Crude prices will end the year higher than the presently reside ($48 U.S./barrel WTI).

Interest rates in Canada and the U.S. will not go lower.

The U.S. Dollar will peak against the Canadian dollar by the third quarter 2015.

Last year we discussed the possibility of much of the money parked in bond and money market funds would make its way into equities. While this did happen to some extent, international funds seeking a safe haven overwhelming favoured bonds. We don't see this happening again, barring either geo-political turmoil or an economic shock to any of the major economies. Despite what most likely will be a more volatile year for equities relative to 2014, equities should provide comparatively favourable returns to other major asset classes.

Thank you for your continued confidence in us and all our best in 2015!