CIBC Wood Gundy

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"Tapering", "Don't Fight the Fed"
"Winning Streaks That Don't Go On In Perpetuity"
"Free Money for Younger Kids"

We love trying to come up with **"Catchy Bold Font Titles"** as we try to encapsulate what is going on and to hopefully grab your attention.

After twelve straight months of statement values going up (a rare event as we have about half of total client assets in equities, and the balance in fixed income investments that also fluctuate somewhat price wise), clients saw declines near two percent in the month of June. The decline was mostly precipitated by the U.S. Federal reserve saying that they 'may' begin decreasing its unprecedented monetary stimulus (ie, printing money to buy government bonds with a view to keeping medium and long term interest rates low) by 'tapering back' (the latest of many investment catchphrases -- remember 'fiscal cliff?') The old adage of 'don't fight the Fed' thus characterized the month of June.

As low interest rates have been one of the key drivers behind financial market performance over the past few years, the stock market took this as a reason to sell off, and medium- and long-term interest rates (which are not directly in control of the central bank but, as said, have been influenced down by Fed bond buying), increased. When interest rates increase, bond prices decline. When both these asset classes (stocks and bonds) sell off at the same time (not too common but it happens every once in a while), we see declines in almost all non money market investments, namely most of what we own. Even preferred shares and REITS are affected. Up until June, it was the opposite with interest rates moving down a bit and stock and bond markets trending higher.

The good news is that the Federal Reserve said this potential action is in response to 'improving U.S. economic conditions' (lower unemployment and increasing home values); and one would also hope that they don't keep this unprecedented (at least in the U.S.) 'print more money' strategy going (for too much longer) to keep things rolling. Printing money is not exactly a sign of strength.

The Federal Reserve keeps a close eye on financial markets of course and the market sell off seemed to spook them enough to announce the other day that they intend to keep short-term interest rates very low until 2015. They can and do control short-term rates, and this is independent of the 'bond buying program' which, as said, affects medium- and long-term rates.

The markets liked what the Fed had to say about keeping short-term rates ultra low so that is one of the reasons we are seeing better markets so far in July (but we don't really focus on such short-term results, do we?); well in our era of daily online account access, we guess we do.

Please keep in mind that markets have and will always experience 'ups and downs'. It is typical to see a balanced portfolio move down in value about three or four months out of every twelve months; thus our streak of twelve consecutive 'up months' was on the 'unusual side'.

Longer term, over say a period of five years, we expect one year to perform 'poorly', one year to be 'hot', with the balance of years somewhere in the middle. So try as best as you can to think long-term, which may (as said) be a tad harder these days with easy online access. Client returns over the past five years have been solid.

As even bond prices fluctuate, the only way to assure constant up (monthly) returns is to be in short-term money markets, which will insure a million dollars grows by a whopping $13,000 (pre-tax) in a year -- not exactly our target rate of return.

Where do we see things going from here?

1. Stock market valuations appear fine at close to fifteen times earnings in what appears to us to be a continued low interest environment for the foreseeable future. Governments remain addicted to low interest rates (given excessive debt levels) and the mature western economies need low interest rates to stimulate growth. The Toronto stock market index is almost 2,500 points lower than its peak five long years back and the U.S. stock market is close to where it was five years back so we are not at a very high part of the long-term stock market cycle. That's a plus going forward.
2. We continue to favor corporate bonds over low yielding government bonds, and continue to be careful with issuer quality.
3. High yield (below investment grade) bonds through our two diversified high yield bond funds generate an average net return of close to five percent right now. With respect to our two funds in this asset class (Trimark Advantage Bond Fund and Invesco Power Shares High Yield Corporate Bond Index) one of the most confusing things on client statements is their 'book value vs. market value'. As all interest is paid out via share distributions (that in turn **increases** the book value every month), it appears these investments are going no where; however, while they fluctuate price wise, they are making money over time. We get a lot of questions from clients on this 'confusing book value topic' so please ask us any time to review this with you. We rate high yield bonds about a five out of ten right now-average. Nominal yields are on the low side but there is still a reasonable yield pick up over very low risk free interest rates.
4. Most real estate investment trusts are down about fifteen percent from previous highs a few months back and it looks to us (and our firm's REIT analyst) that there is some short term

snap back potential here. We have added an international REIT and a senior's home REIT (that provides unassisted, assisted and long term care) to our pick list.

5. With respect to our 'index and stock stagey', our overweight in Global stocks and underweight in Canadian and in particular resource stocks strategy has worked quite well over the past few years. Valuations are starting to look very attractive on beaten up base metal and precious metal stocks, but we would not be surprised to see them languish a bit longer, so we will hold off adding some for now. We dipped our toe in the water when we added oil stock Canadian Natural Resources and Teck Resources Limited in late 2012. Stay tuned though as we are close doing more buying in this out of favor area. We have a small position in Barrick Gold (which is now an 'even smaller' position at its current low price). It is the bottom performer of our 30 stocks, but apart from that and Teck Resources (which looks undervalued -- our Wood Gundy analyst has a target price about 100% higher) our other 28 stocks and ETF's (indexes) are performing well.
6. The 'Dogs of the Dow' strategy is also performing well with a huge return so far on our biggest 'dog stock' (Hewlet Packard) which has gone way up since being added to the portfolio late last year. At the moment, it is our leading candidate for our 'Pooch of the Year Award'. We love this buy low, sell high strategy. It is not rocket science and that is probably why it works.
7. Preferred shares are yielding between 4½ to 5 percent right now and remain appropriate for most portfolios. We like buying preferred shares on a 'new issue' basis to save you the buy commission, so if you have money at the bank looking for a home, let us know and we will contact you when we take down our next new issue. We like picking up REITs as well on secondary offerings for the same commission saving reason (we are paid by the issuer, not you) and because the issuer has to price them about 3% lower (than last trade price) in order to sell say a 'couple hundred million dollars worth' of new equity.

Other Sundry Items

Loblaw Companies Limited has made an offer to acquire Shoppers Drug Mart for $12.4 billion in cash and stock. Shoppers was up 26% on the day the offer was announced. The offer is subject to shareholder votes of both companies as well as a regulatory ruling. We expect the offer to be accepted and approved for a late 2013 closing. Clients typically hold Shoppers in our Index & Stock Strategy (ISS) accounts.

In the last federal budget, the government announced a review on the taxation of testamentary trusts. This has been a great strategy for wealthier clients, and some have revised wills to take advantage of this. Stay tuned and we will follow what ever comes out the review.

A number of clients have taken our advice to get or already have an "Enduring Power of Attorney" in place. Good work! They need to be taken out in advance of any need for same.

In February 2013, the British Columbia government announced plans to introduce the British Columbia Training and Education Savings Grant. This is a one-time grant of $1,200 that is paid into a Registered Education Savings Plan (RESP) for an eligible beneficiary. Parents/contributors can only apply for the grant between the child's 6th and 7th birthday. No matching or additional contributions will be required to receive the grant. The basic criteria to apply for the grant will be as follows:

- Child must be born on or after January 1, 2007;
- Child must have an RESP in place before he/she turns 7 years old (for children born in 2007, the RESP must be open by February 28, 2014);
- Child must be a resident of British Columbia when the grant application is made.

The British Columbia government expects to have an administrative process to apply for this grant in place by early 2015, so nothing has to be done right away, but for kids born in 2007, we need to get the RESP open before early 2014. **Please contact us if you have kids born in 2007 and they don't have RESPs yet.**

We hope your enjoying a great summer. We enjoy hearing travel stories and many of you are traveling to interesting paces around the world. We have one client couple who have done 56 cruises, which has to be a Pope Team client cruse record? John and his wife Susan are planning on climbing Mt Cotopaxi (elev. 19,340 feet) in Ecuador in November to raise money for The BC Children's Hospital Foundation with an organization called Summits of Hope. I will be having 'fun' this August trying to cycle up a Maui mountain called 'Haleakala' which I hear is on the high side. BC's Ryder Hesjedal's record climb time of Haleakala is not in any danger. I guess John and I figure the higher up we get, the closer we get to 'divine investment inspiration'.

All the best and as always call or email if we can be of any help what so ever.

Regards,
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Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors.

Yields/rates are as of July 15, 2013 and are subject to availability and change without notification. Minimum investment amounts may apply.

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