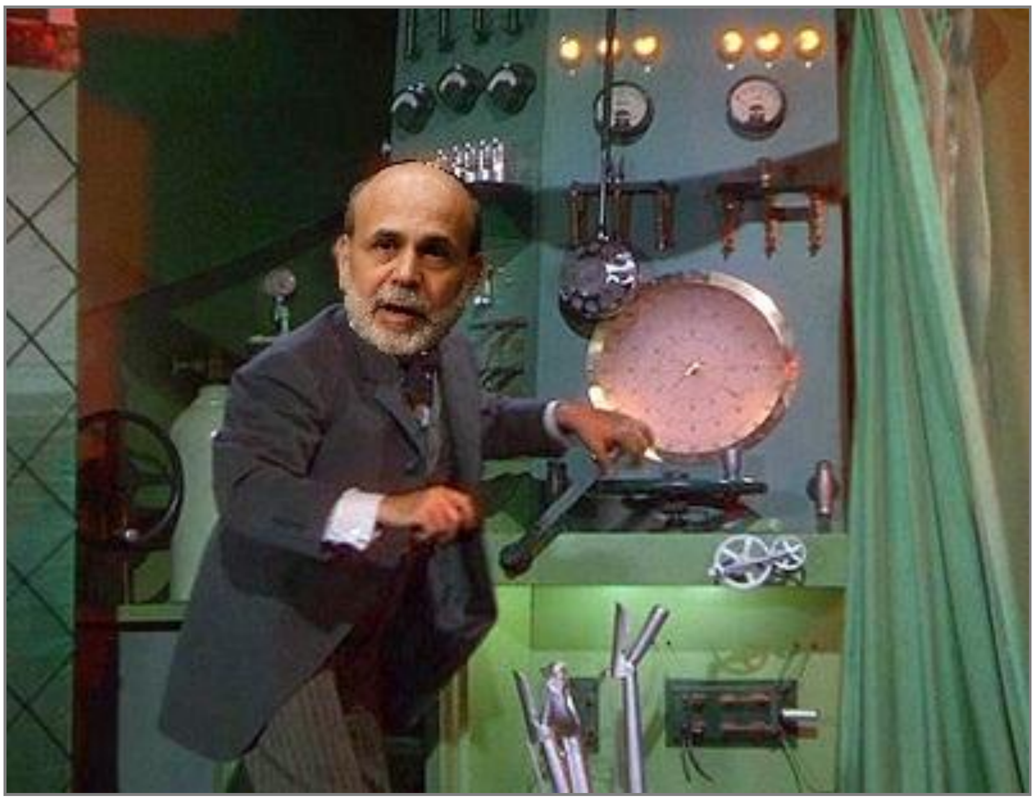
RAYMOND JAMES

Steele Wealth Management

Third Quarter 2013 – "Ben Bernanke: The Wizard of Wozzhington"

Investors Focused on the Man Behind the Curtain and Are Buying & Selling Accordingly



The Team:
Brian Steele, CA, CPA, CFA
Laura Prust, CPCA
Jeannine Campbell
Kelly Townsend
Matthew Bell, CFA

Is Tapering Good or Bad? Depends on Who You Ask; The Goldilocks Economy Still Reigns

- The S&P/TSX Composite Total Return Index gained 6.3% during the 3rd quarter of 2013.

- The more aggressive sectors – Energy, Consumer Discretionary and Financials – led the TSX Composite Index in the quarter while the more defensive sectors – Utilities, Telecom, Consumer Staples, Health Care, IT, Materials and Industrials – trailed.

- Global stock markets resumed their ascent following a rough May to June period which saw interest rates rise rapidly on expectations that the U.S. Federal Reserve would begin to taper its bond purchases and as other central bankers appeared less intent on adding more stimulus. Following its September meeting, Fed Chairman Bernanke stated that the Fed will not taper its purchases due to limited employment growth and rising bond/mortgage rates and for investors to disregard previous employment targets as a catalyst for tapering and/or interest rate increases. Equity, bond and commodity markets all spiked following this announcement as it was seen as being very accommodative. Though the market clearly made a collective decision that "no tapering" is good, the consensus is murky as some view tapering as good (due to economic improvement) and some see it as bad (due to less stimulus).

- The global growth accelerated throughout the quarter with the JP Morgan Global Purchasing Manager's Index (PMI) hitting a 2.5 year high. Eurozone economic activity turned positive in the quarter, led by improvement in the historically poor performing economies of Spain and Italy. U.S. and Japanese economic activity was also strong hitting a 2.5 and 3 year highs, respectively. That said, these PMIs are not as good as they seem as current activity remains well below the average historical rate and thus the world economy remains a "Goldilocks Economy" (not too hot or too cold). Emerging market economic activity was weak as U.S. dollar strength and low growth led to capital flight in several emerging economies. Chinese growth and activity remains near cycle lows, Brazilian economic activity hit new cycle lows and Indian and Indonesian economic activity hit 48 and 15 months lows, respectively.

- Chinese markets and businesses saw a boost in confidence following Chinese Premier Li Keqiang's statement "the bottom line for economic growth is 7%, and this bottom line must not be crossed". This statement radically increased the odds of further economic stimulus following a long period of low perceived odds due to Chinese policymakers' stance against further appreciation of its expensive real estate market.

- Oil prices spiked in the quarter as rising tensions in Syria and Egypt and supply disruptions in Libya raised market worry about Middle East oil supply. Oil prices hit all-time highs in Japan, India and Indonesia and were near all-time highs in the Eurozone putting pressure on those economies. Oil prices subsequently fell as Syrian tensions cooled following a Russia brokered agreement to collect and eliminate all of Syria's chemical weapons.

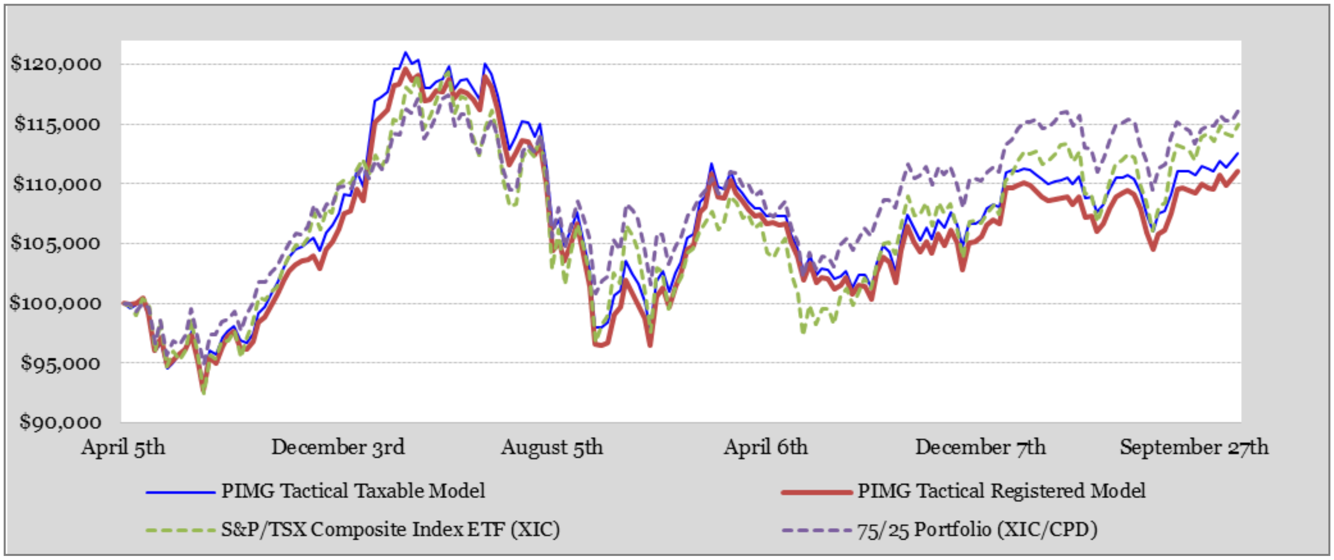
- The Canadian economy experienced slow growth in Q3 and the jobs market was volatile. The Canadian housing market continued to perform better than expectations with a sales activity reflecting a normal environment. Many forecasters predict slow housing markets in Canada and U.S. as higher mortgage rates lower the number of prospective buyers.

The S&P/TSX Composite Total Return Index

vs

The PIMG Tactical Taxable & Tactical Registered Models

April 5th, 2010 (Inception) to September 30th, 2013



	PIMG Tactical Taxable Model	PIMG Tactical Registered Model	S&P/TSX Composite Index ETF (XIC)	75% XIC / 25% CPD
Cumulative Return Since Inception	12.54%	11.09%	15.02%	16.18%
Compound Annual Return	3.45%	3.06%	4.09%	4.39%
Standard Deviation	9.88%	9.97%	13.52%	10.34%
Sharpe Ratio	0.05	0.01	0.08	0.13
Largest Monthly Gain	7.87%	7.80%	6.48%	10.63%
Largest Monthly Loss	-9.89%	-10.21%	-9.12%	-8.01%
Number of Up Months	22	21	23	26
Number of Down Months	20	21	19	16
Correlation with Tactical Taxable	--	0.99	0.86	0.87

We have assumed a 1% performance fee when calculating the returns for our PIMG models. To the best of our knowledge, the ETFs used as benchmarks track the indices they represent though material tracking error and misrepresentation can occur which is beyond our control. The 75% XIC / 25% CPD index is an index consisting of 75% iShares XIC (S&P/TSX Compositie Index ETF) and 25% iShares CPD (S&P/TSX Preferred Share Index ETF). Volatility and correlation data are calculated from weekly returns. For the purpose of calculating Sharpe ratios, a risk-free rate of 3% is assumed. All returns presented for the PIMG Models and the ETFs used for comparison are in Canadian dollars. Data used to calculate returns are derived from Market-Q (for ETFs) and Dataphile (for the Models). All returns presented are "total returns", meaning they include all dividend payments, interest payments, etc.

PIMG Tactical Taxable Model:

- Gained 4.83% during the quarter
- The model's asset allocation as at September 30th was 6.3% cash, 25.0% preferred equity and 68.7% common equity.

PIMG Tactical Registered Model:

- Gained 4.98% during the quarter
- The model's asset allocation as at June 30th was 2.2% cash, 3.8% convertible debentures, 25.3% preferred equity and 68.7% common equity.

The top five outperformers in this quarter were:

- Legacy Oil + Gas (Energy/Light Oil) at +29.09%
- Shopper's Drug Mart (Consumer Staples/Pharmacy & Retail) at +22.68%
- Teck Resources (Materials/Diversified) at +21.58%
- Progressive Waste Solutions (Industrials/Waste Removal & Storage) at +20.08%
- Suncor Energy (Energy/Diversified) at +17.58%

The top five underperformers were:

- TransAlta (Utilities/Diversified) at -5.56%
- TEVA Pharmaceutical Industries (Health Care/Generic Drugs) at -2.57%
- Fairfax Financial Preferred C (Preferred Share/Fixed Reset) at -2.13%
- Fortis Inc (Utilities/Diversified) at -1.96%
- Bird Construction (Industrials/General Contractor) at -1.69%

During the quarter we bought:

- Enbridge Inc.: We purchased a full position in Enbridge following the U.S. Federal Reserve announcement that it will not taper its bond purchases despite the market consensus that it would. We see this announcement as being particularly positive for interest rate sensitive equities as it allows for greater bond market support (i.e. interest rate support and lower bond yields) and greater equity market support benefitting interest rate sensitive equities twice over. We believe Enbridge will be the first to see price support as it is the largest, most stable pipeline company in Canada and its proposed pipeline (Northern Gateway) faces little resistance relative to the more controversial Keystone XL and Energy East pipelines.

- TransForce Inc.: We purchased a partial position in TransForce as it continues to trade at a sizeable discount to its larger peers UPS and FedEx. We believe the discount is unjustified as TransForce has a much greater opportunity for accretive acquisitions and can become more efficient over time, relative to UPS and FedEx. TransForce should eventually close the valuation gap between it and its peers as well as participate in rising U.S. economic activity.

- Algoma Central Corp: We purchased a partial position in Algoma as we think the company is undervalued relative to its diversified asset base. Algoma should experience solid earnings growth over the next 2-3 years as shipping rates improve in line with growth in North American economic activity and as its new, larger and more efficient ships arrive and help push operating costs down. Additionally, we believe Algoma could spin out its real estate holdings and use the proceeds to make acquisitions, pay down debt, buy back shares or increase its dividend, actions that we believe would boost Algoma's share price. We believe the market is completely ignoring Algoma's real estate holdings.

- Emera Inc.: We purchased a partial position in Emera to maintain an overweight utilities exposure following the sale of TransAlta. Emera trades at a discount to its peers (~18x trailing earnings and ~4x EV/Sales) and has a lower risk profile with a sector leading debt to market cap ratio of 1.1x (versus 1.3-1.6x typically). We believe Emera's Lower Churchill and Muskrat Falls projects will provide solid earnings growth in the coming years and that Emera will be able to boost its already lofty 4.65% dividend further.

<u>During the quarter we sold:</u>

- Canadian Tire Corp: We sold half of our position in Canadian Tire. We purchased the shares on the prediction that the company would spin out its real estate portfolio similar to Loblaw. As the company has since laid out its plans to spin out its properties and the shares have appreciated as a result, the shares no longer trade at a major discount to peers and further gains will be driven by improvement in the company's operating business. Canadian Tire's earnings came in better than expected for the past two quarters so we will continue to hold a small position in the stock to participate in this positive earnings momentum.

- TransAlta Corp: We sold our position in TransAlta as operating issues (plant failures, outages, etc) continue to depress TransAlta's earnings and free cash flow and we believe the lack of progress has raised TransAlta's cost of capital and put its dividend at risk. In addition, the Canadian corporate credit environment remains weak and investors continue to punish companies with poor operating performance, high debt levels and high dividend yields. The longer TransAlta's operations flounder, the higher the probability that TransAlta will face a credit shock similar to that experienced by Atlantic Power this year (Atlantic Power is a heavily indebted utility company and is down ~60% year-to-date following a poor earnings release). We believe TransAlta is at the tipping point between a large cap value company and a small cap speculative company and any negative surprise could tip the company over the edge and send its shares reeling.

Going Forward:

The models' sizable cash and preferred equity weightings combined with overweight positions in anticyclical and somewhat interest rate sensitive sectors (Telecom, Consumer Staples, Utilities) led to underperformance in the quarter as global economic growth picked up and the more cyclical sectors led equity markets higher due to China's "7% growth is a bottom line" comment. Though we believe this comment has given a boost to sentiment, we do not believe much actual stimulus will come out of it as China still faces an incredibly expensive real estate market wherein most citizens cannot afford to own property. We remain confident that being overweight anticyclical sectors is the most prudent choice as the equity market rally appears to be losing some steam going into the sixth year of economic recovery and as systemic issues remain, particularly in Europe and emerging economies.

Following the interest rate spike seen in the May to August period, Utilities, Telecom, REIT and Consumer Staples stocks are looking more attractive. We added a large position in Enbridge following a 13% decline from its 2013 high. U.S. economic data improved throughout the quarter making Canadian Industrials with U.S. exposure attractive (as they typically do not react to improvements in U.S. data as quickly as U.S. Industrials). We purchased small positions in TransForce and Algoma Central to gains exposure to improving U.S. economic growth. Cash levels are down to ~6% and ~3% in our Taxable and Registered models respectively, but we maintain a defensive positioning via sector weightings. We will continue to scour the Utilities, Telecom, REIT and Consumer Staples sectors for more ideas that offer potentially outsized returns with little perceived risk as well as look for undervalued small cap ideas similar to TransForce and Algoma Central.

The expected yield in our Models rose to 3.8% (Taxable) and 4% (Registered) from 3.7% and 3.8% at the end of Q2. The yield improvement was the result of cash deployment into common equities. This is compared to the S&P/TSX Composite at a 2.8% dividend yield.

Though the spike in economic activity likely removes the risk of a selloff in the near-term, we remain skeptical of the economy's ability to reach a self-sustaining growth rate. Even with record levels of economic stimulus, global economic growth is near recessionary levels. As equity markets rallied strongly after the U.S. Federal Reserve's "No Taper" announcement, we can only assume that markets will not perform well when tapering comes to fruition. Moreover, should economic growth falter naturally while the Fed is in full-steam stimulus mode, doubts will be raised about the Fed's ability to guide markets and control interest rates. Additionally, we believe capital flight in emerging markets could eventually spillover to Western markets. As a result, our willingness to increase equity exposure is limited but in the case of Algoma Central and TransForce, we continue to find and allocate toward small undervalued companies with what we see as limited downside.

Sincerely,

Steele Wealth Management