RAYMOND JAMES

Steele Wealth Management

First Quarter 2014 – "Cold War, Cold Weather & Cold China"

World Equity Markets Stall As Ukraine Turmoil and China Slowdown Grab Headlines

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Markets Fear Russian Sanctions or Worse; the S&P/TSX Rallies as Gold and Energy Shine

- The S&P/TSX Composite Total Return Index gained 6.06% during the 1st quarter of 2014.

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

- Russia annexed the Crimea region of Ukraine following protests and a referendum led by the Russian ethnic majority. The referendum and annexation were both considered illegal by the West and as a result the West has applied sanctions on the Russian economy and trade as well as select Russian and Ukrainian individuals. These sanctions have the potential to meaningfully slow Russian (and in turn European) economic growth. Tensions are high as two other Ukrainian regions (Transnistria and Donetsk) have shown interest in being annexed by Russia in a similar fashion. This uncertainty led to a spike in gold prices as investors feared a Ukrainian-Russian war but worries of near-term conflict have since cooled. Energy prices also spiked as Russia supplies Europe with ¼ of Europe's natural gas needs, ⅔ of which flows through Ukraine. Russia also supplies Europe with much of its oil and fertilizer.

- Chinese growth slowed dramatically in the quarter with the HSBC Purchasing Manager's Index showing contraction since January and falling to an eight-month low in March. Slowing Chinese growth resulted in steep price declines for copper, iron ore and other industrial metals. To add to the worry about the Chinese economy, China experienced its first corporate bond default ever in the quarter and Chinese officials stated that further defaults are likely. The default helped lift yields on most bonds and high yield bonds in particular. This default has been dubbed as China's 'Lehman Moment' by some analysts, and has already had a major impact on the Chinese psyche. In late March, a bank run on a regional Chinese bank occurred despite an implicit government guarantee that depositors' funds are safe.

- The coldest winter in North America in about 20 years resulted in poor retail sales and home sales numbers as well as unusually slow employment growth. Year-over-year earnings growth was virtually flat with many companies, particularly those in the transport and retail sectors, highlighting poor weather as the culprit. U.S. equity markets fared poorly as a result.

- As confirmed in December, the U.S. Federal Reserve began to taper their bond purchases in January and continued to do so throughout the quarter despite relatively weak economic data and rising tensions abroad. Bond purchases have gone from $85 billion annually to $55 billion annually by quarter-end. The continuation of tapering was mostly expected and provides little fodder for equity market bulls.

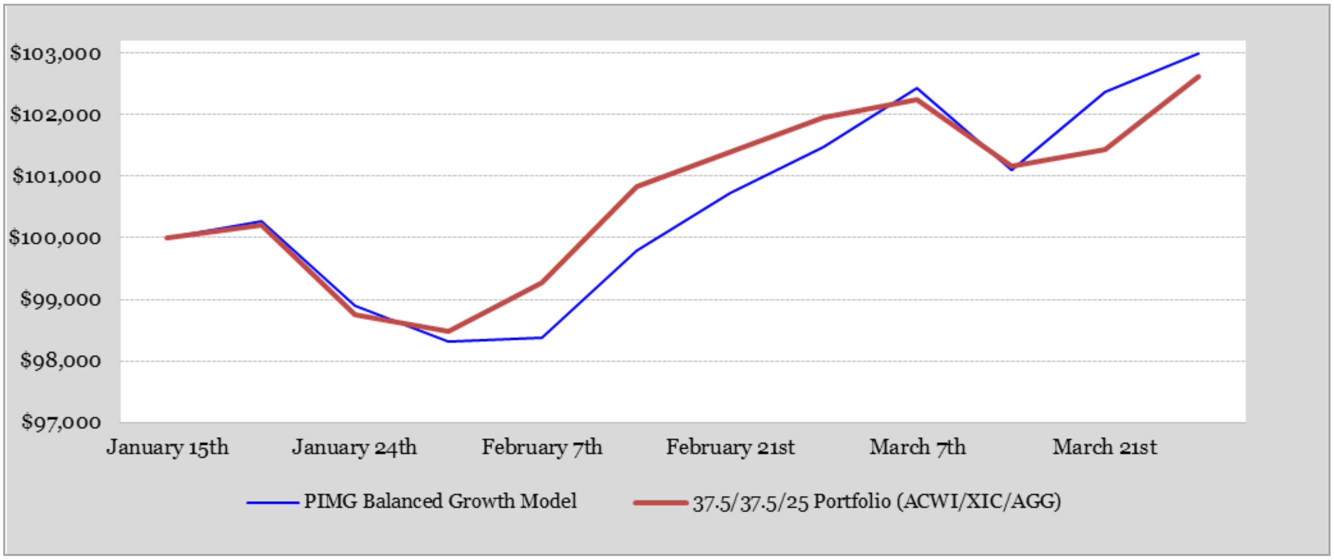
- The Canadian equity market led the pack in the quarter as the energy sector rallied to a two year high and rising gold prices pushed the materials sector higher after several quarters of decline. The extremely cold winter briefly pushed natural gas prices to a 5-year high giving a boost to natural gas producers listed on the TSX. Oil prices were roughly flat throughout the quarter but the Canadian dollar continued to decline providing a boost to Canadian oil producers who sell their oil in U.S. dollars.

Benchmark of iShares XIC/ACWI/AGG (37.5%/37.5%/25%)

vs

The PIMG Balanced Growth (BG) Model

January 15th, 2014 (Inception of BG Model) to March 31st, 2014



01/15/2014 – 03/31/2014	PIMG Balanced Growth Model	iShares XIC	iShares ACWI	iShares AGG	37.5% XIC / 37.5% ACWI / 25% AGG
Cumulative Return Since Inception	3.00%	4.74%	1.32%	1.28%	2.62%
Compound Annual Return	Insufficient Data – Minimum of 1 year required				
Standard Deviation					
Sharpe Ratio					
Largest Monthly Gain	3.22%	3.97%	5.20%	1.05%	3.53%
Largest Monthly Loss	-1.68%	-0.46%	-4.23%	-0.16%	-1.50%
Number of Up Months	2	2	1	2	2
Number of Down Months	1	1	2	1	1
Correlation with Balanced Growth	--	0.77	0.87	-0.61	0.85

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 37.5% XIC / 37.5% ACWI / 25% AGG index is an index consisting of 37.5% iShares XIC (S&P/TSX Compositie Index ETF), 37.5% of iShares ACWI (All-Country World Index ETF) and 25% iShares AGG (Barclays Aggregate Bond Fund). 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.

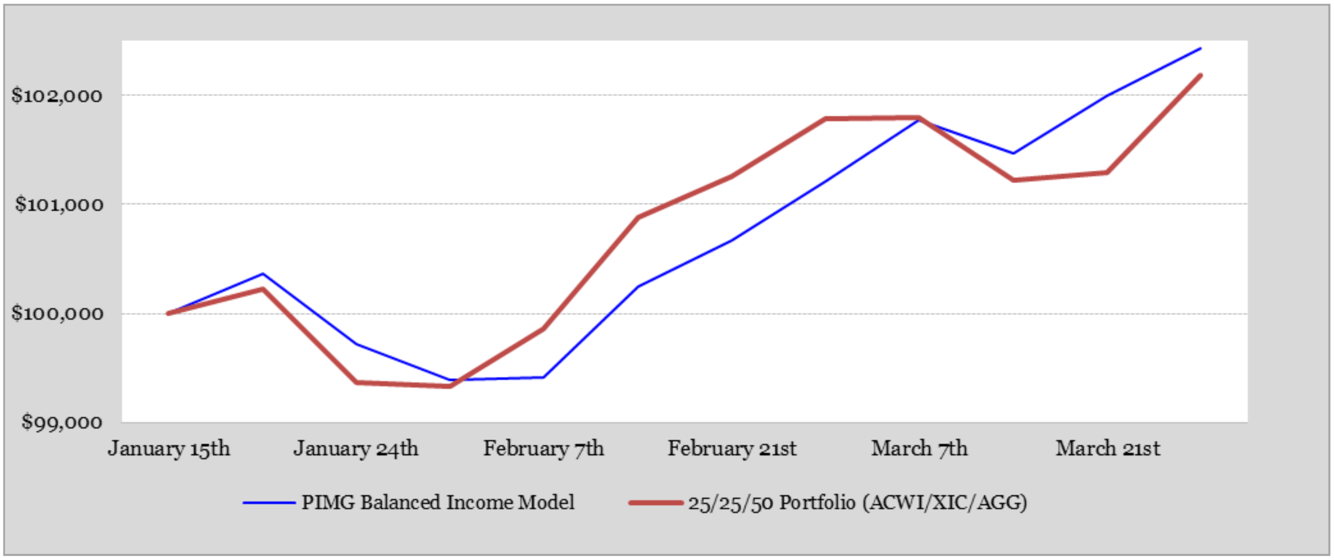
On January 15th, 2014, we materially changed the strategy and holdings of the Tactical Taxable (now Balanced Growth) model. As a result, past performance and benchmark data is not meaningful to the model as it currently stands. The data above are for the January 15th, 2014 to March 31st, 2014 period.

Benchmark of iShares XIC/ACWI/AGG (25%/25%/50%)

vs

The PIMG Balanced Income (BI) Model

January 15th, 2014 (Inception of BI Model) to March 31st, 2014



01/15/2014 – 03/31/2014	PIMG Balanced Income Model	iShares XIC	iShares ACWI	iShares AGG	25% XIC / 25% ACWI / 50% AGG
Cumulative Return Since Inception	2.43%	4.74%	1.32%	1.28%	2.18%
Compound Annual Return	Insufficient Data – Minimum of 1 year required				
Standard Deviation					
Sharpe Ratio					
Largest Monthly Gain	1.83%	3.97%	5.20%	1.05%	2.48%
Largest Monthly Loss	-0.61%	-0.46%	-4.23%	-0.16%	-0.65%
Number of Up Months	2	2	1	2	2
Number of Down Months	1	1	2	1	1
Correlation with Balanced Income	--	0.81	0.83	-0.52	0.79

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 25% XIC / 25% ACWI / 50% AGG index is an index consisting of 25% iShares XIC (S&P/TSX Compositie Index ETF), 25% of iShares ACWI (All-Country World Index ETF) and 50% iShares AGG (Barclays Aggregate Bond Fund). 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.

On January 15th, 2014, we materially changed the strategy and holdings of the Tactical Registered (now Balanced Income) model. As a result, past performance and benchmark data is not meaningful to the model as it currently stands. The data above are for the January 15th, 2014 to March 31st, 2014 period.

PIMG Balanced Growth Model:

- Gained 4.47% during the quarter (from January 1st to March 31st)
- The model's asset allocation as at March 31st was 1.4% cash, 8.8% bonds, 5.1% convertible debentures, 9.7% preferred equity, 4.6% alternatives and 70.4% common equity.

PIMG Balanced Income Model:

- Gained 3.68% during the quarter (from January 1st to March 31st)
- The model's asset allocation as at March 31st was 1.4% cash, 18.9% bonds, 10.0% convertible debentures, 19.5% preferred equity, 4.6% alternatives and 45.5% common equity.

The top five outperformers in this quarter were:

- Pason Systems (Energy/Energy Services) at +23.09%
- Legacy Oil + Gas (Energy/Light Oil) at +18.60%
- Enbridge (Energy/Pipelines) at +18.50%
- Saputo (Consumer Staples/Dairy) at +15.56%
- Agrium (Materials/Fertilizers) at +11.69%

The top five underperformers were:

- TransForce Inc (Industrials/Transport) at -6.24%
- Algoma Central (Industrials/Shipping) at -4.16%
- Rogers Communications (Telecom/Diversified) at -3.80%
- Consolidated Water (Utilities/Desalination) at -3.01%
- North West Company (Consumer Discretionary/Retail) at -2.54%

During the quarter we sold:

As part of our rearrangement of the models, we sold the vast majority of our holdings.

We sold all or some of the following securities to focus on growth-oriented securities in the Balanced Growth (BG) model and income-oriented securities in the Balanced Income (BI) model.

- Suncor Energy Inc. (SU) – all
- Canadian Natural Resources (CNQ) – all
- Teck Resources (TCK.B) – all
- Toronto Dominion Bank (TD) – some
- Royal Bank of Canada (RY) – some
- Progressive Waste (BIN) – all
- Intact Financial (IFC) – some
- Enbridge (ENB) – all in BG, some in BI
- Dundee Pf C (DC.PR.C) – some
- Dream Pf A (DRM.PR.A) – all
- Aimia Pf A (AIM.PR.A) – all
- Yamana Gold Inc. (YRI) – all
- Student Transport (STB) – all
- Legacy Oil + Gas – all in BI
- Algoma Central (ALC) – all in BI
- Emera Inc. (EMA) – all
- BCE Inc. (BCE) – all in BG, some in BI
- Shoppers Drug Mart (SC) – all
- Saputo Inc. (SAP) – some
- SNC-Lavalin (SNC) – all in BI, some in BG
- Loblaw Pf A (L.PR.A) – all in BG, some in BI
- Fortis Inc. (FTS) – all in BG, some in BI
- Fairfax Pf I (FFH.PR.I) – all in BI, some in BG
- Dundee Pf B (DC.PR.B) – some
- Bird Construction (BDT) – all
- Agrium Inc. (AGU) – some
- Weston Pf D (WN.PR.D) – all
- New Millennium Iron (NML) – all
- TransForce Inc. (TFI) – all in BI
- Rogers Comms (RCI.B) – all in BI

During the quarter, in the Balanced Income Model we bought:

- Student Transportation Debenture C (STB.DB.C): This debenture has a solid yield-to-maturity of 6.25% and a 5 year term to maturity. We believe Student Transportation's steady revenue and earnings streams mean this debenture is undervalued.

- North West Company (NWC): North West operates stores primarily in Western and Northern Canada. The majority of their stores face limited competition as they are situated in small but growing communities and at 19x trailing earnings and a sustainable yield of 4.6%, the shares appear attractive.

- iShares MSCI All-Country Low Volatility Index ETF (XMW): This ETF provides exposure to lower risk stocks across the world and adds exposure to Europe, the U.S. and emerging markets and adds a degree of diversification to the portfolio.

- iShares J.P. Morgan Emerging Market Bond Index ETF (EMB): This ETF provides exposure to emerging market sovereign bonds which has an attractive yield of 4.6% and adds diversification to our basket of fixed income holdings.

- H&R REIT Debenture H (HR.DB.H): This debenture has a yield-to-maturity of 4% and matures in 4.5 years. We view this debenture as being undervalued relative to the risk taken.

- Fortis Preferred E (FTS.PR.E): This preferred share has a 3.5% yield-to-retraction and is retractable in 2.5 years. We view this preferred share as being undervalued relative to the risk taken.

- First Asset Morningstar Momentum Index ETF (WXM): This ETF uses factors to invest in high momentum stocks, on both fundamental and technical grounds. Having exposure to a momentum based strategy adds diversification to our mostly value-driven approach.

- Fairfax Financial Preferred K (FFH.PR.K): This preferred share has a 5% running yield and resets in 3 years at a reset rate of 3.51% plus the 5-year Government of Canada bond rate. As we believe this reset rate is well above a fair reset rate, we believe these shares will be called in 3 years at $25 and provide investors with a 5% yield in the meantime.

- Crescent Point Energy (CPG): Crescent Point is one of the Canada's lowest cost oil producers with light oil operations focused in the Bakken shale formation. Crescent Point offers a high and sustainable dividend yield of 6.9% and is expected to continue to grow its production, providing the capability to further boost its dividend in the coming years.

- Rogers Sugar Debenture D (RSI.DB.D): This debenture has a yield-to-maturity of 5% and 5 years to maturity. Rogers Sugar has a long track record of profitability and we believe this debenture is undervalued when considering Roger Sugar's stability and the barriers to entry and limited competition in its business.

- RioCan Preferred C (REI.PR.C): This preferred share has a running yield of 4.6% and resets in 3 years at a reset rate of 3.18% plus the 5-year Government of Canada bond rate. As we believe this reset rate is well above a fair reset rate, we believe these shares will be called in 3 years at $25 and provide investors with a 4.6% yield in the meantime.

- Manulife Preferred A (MFC.PR.A): This preferred share has a 2.7% yield-to-retraction and is retractable in 2 years. We view this preferred share as being undervalued relative to the risk taken.

- iShares U.S. High Dividend Equity Index ETF (XHD): This ETF invests in U.S. high dividend yielding large cap stocks. The ETF yields 2.7% and provides a high income from a market that is not known for high income.

- iShares Investment Grade Corporate Bond Index ETF (XIG): This ETF invests in U.S. investment grade corporate bonds. This ETF yields 3.8% and lays a low risk foundation to the Balanced Income model.

- Horizons Seasonal Rotation ETF (HAC): This ETF invests based on a seasonal investing strategy. Seasonal investing involves the recognition of seasonal trends which tend to reoccur year-after-year. Such trends include the "January Effect" (where small caps outperform from December to March), "Sell in May and Go Away" (where stocks tend to underperform from May to October) and the "Late Summer Gold Rally" (where gold tends to outperform from July to September), among others. This ETF trades based on these historic patterns and has a decent track record of success. This ETF provides our portfolios with a mostly uncorrelated exposure to many markets and asset classes similar to a hedge fund.

- BMO Covered Call Banks ETF (ZWB): This ETF invests in the six major Canadaian banks and writes slightly out-of-the-money covered calls on these positions to generate additional income. This ETF has a yield of 5.1% versus a comparable bank ETF at 3.1%. We believe the extra 2% in income is worth giving up a little bit of upside, especially in an income-oriented model.

- Aimia Preferred C (AIM.PR.C): We purchased a full position in Aimia Preferred C as it was issued at a major discount to Aimia's other preferred shares, Aimia Preferred A (AIM.PR.A). The purchase was effectively a switch between our previous holding in AIM.PR.A to AIM.PR.C. We believe investors will receive AIM.PR.C's 6.25% running yield and that the shares will be called at $25 in 5 years.

- First Capital Realty Debenture F (FCR.DB.F): This debenture has a 5.1% yield-to-maturity and 5 years to maturity. We believe this debenture is greatly undervalued considering First Capital Realty's size and the stability of its business. We believe the debentures yield more than most comparable debentures as it pays interest in First Capital Realty common shares. As all of our client accounts do no pay trading costs, this is not a deterrent for us.

- Lysander Corporate Value Bond Fund (LYZ801A): Lysander CVBF invests primarily in fixed income securities with "deep value" traits. Lysander's size and reputation provides it with access to many deals that are unavailable to most bond funds such as the highly successful Blackberry convertible bond issue. The fund has a yield-to-maturity of 3.9% and a duration of 3.7 years but the fund has consistently provided returns far in excess of this due to its active nature and willingness to partake in unique opportunities. This fund adds a unique element to the model similar to that of the Horizons Seasonal Rotation ETF (HAC).

- AGF Floating Rate Income Fund ETF (AGF4076): AGF FRIF invests primarily in U.S. floating rate notes issued by businesses with fair to poor credit ratings. These notes are senior to all other forms of debt (bonds, debentures, etc) and provide companies with short-term financing used for acquisitions, in bankruptcy or as part of their standard financing package. The AGF FRIF is uncorrelated to equities and only slightly correlated to bonds providing a good deal of diversification to the model.

<u>During the quarter, in the Balanced Growth Model we bought:</u>

For similar reasons to those given above, we purchased the following securities in the Balanced Growth Model:

iShares MSCI All-Country Low Volatility Index ETF (XMW)
First Asset Morningstar Momentum Index ETF (WXM)
Horizons Seasonal Rotation ETF (HAC)
Aimia Preferred C (AIM.PR.C)
First Capital Realty Debenture F (FCR.DB.F)
Lysander Corporate Value Bond Fund (LYZ801A)
AGF Floating Rate Income Fund ETF (AGF4076)

- TransForce Inc. (TFI): We purchased more TransForce in order to bring its weighting up to 2.5% of the portfolio.

- Rogers Communications (RCI.B): We purchased more Rogers in order to bring its weighting up to 2.5% of the portfolio.

- Legacy Oil + Gas (LEG): We purchased more Legacy in order to bring its weighting up to 2.5% of the portfolio.

- Canadian Tire Corp (CTC.A): We purchased more Canadian Tire in order to bring its weighting up to 2.5% of the portfolio.

- Algoma Central Corp (ALC): We purchased more Algoma in order to bring its weighting up to 2.5% of the portfolio.

- Consolidated Water Co (CWCO): Consolidated Water operates desalination plants in the Caribbean. CWCO has virtually no debt and trades at a reasonable valuation of 22x trailing earnings (16x when removing the effect of abnormally heavy rainfall in the past six months). CWCO offers exposure to the rapidly growing water sector and is attractively valued considering the potential for growth in the sector (especially if temperatures continue to rise in the Western hemisphere).

- Sysco Corp (SYY): Sysco, North America's #1 food distributor, recently announced its intention to purchase U.S. Foods, North America's #2 food distributor. The deal is expected to bring annual cost synergies of $600 million. The deal will also likely help the combined entity's margins as it puts a squeeze on customers in the face of lower competition. With the shares trading at 21x trailing earnings and plenty of room for synergies, we believe the shares are undervalued.

- Pason Systems (PSI): Pason is the leading supplier of oil instrumentation systems for oil and gas drilling operations. Pason trades at 25x trailing earnings, has no debt and has grown at a 10%+ pace for several years. Pason's valuation is quite reasonable relative to other oil services companies (when debt is considered) and appears attractive relative to technology companies, many of which trade in the area of 30-50x earnings. With a strong long-term outlook for the shale oil and gas industry globally, we believe Pason shares will fare well.

- iShares Russell 2000 Index ETF (IWM): This ETF replicates the performance of the Russell 2000 Index which is the world's most popular small cap index. This index provides exposure to a well-diversified basket primarily consisting of small health care, technology and industrial stocks that complement our Canadian holdings.

- iShares Emerging Market Dividend ETF (DVYE): This ETF provides exposure to high dividend paying emerging market stocks. Investing in dividend paying stocks is even more important in emerging markets than it is in Canada as the payment of dividends reduces the risk of the misrepresentation of financial statements and outright fraud. This ETF primarily consists of companies in the Telecom, Financials and Materials sectors and has minimal exposure to trouble countries China and Russia. This ETF complements our other holdings well and should reduce long-term model volatility.

- International Business Machines (IBM): IBM is a leading vendor of networking and server hardware and software and operates one of the largest IT consulting businesses globally. IBM's earnings and share price have stagnated for two years as its exposure to European and U.S. businesses limited growth. IBM expects revenue to rebound in late 2014 as European and U.S. growth rebound. IBM trades at 11.5x trailing earnings and 9x management guidance earnings. WE believe IBM's discount to the market valuation of 17x trailing earnings is excessive considering IBM's earnings quality.

- Chemtrade Logistics Debenture (CHE.DB): This debenture yields 4.65% at a price of $129 and is currently in the money trading at around a fair conversion price. We like the downside protection that this debenture presents (e.g. no downside past 22% down as long as the company remains solvent), the opportunity to partake in the upside in the shares and the above average running yield of 4.65%. Chemtrade provides chemicals to the petroleum, lumber and mining industries and we believe it can continue to grow at a meaningful rate, particularly when considering the potential for major acquisitions, which it has shown it is successful in making (e.g. General Chemical, Marsulex).

- AMC Networks (AMCX): AMC owns the cable channels AMC, IFC, WE tv, and SundanceTV as well as the widely popular shows The Walking Dead and Mad Men and the exclusive licensing rights to Breaking Bad. AMC trades at a reasonable valuation of 17x trailing earnings considering its larger peers trade at ~20x trailing earnings and AMC's content is much stronger. The Walking Dead has the highest viewership of any drama series in TV history and is likely to run for quite some time. We believe AMC should trade at a premium to peers based on its ability to create wildly popular series' with intermarket opportunities.

- iShares Dow Jones Canadian Select Growth Index ETF (XCG): This ETF is comprised of Canadian equities with common long-term growth characteristics. This ETF adds another layer of identifying and owning growth-oriented equities beyond our own methods.

- iShares S&P 500 Index ETF (CAD Hedged) (XSP): This ETF replicates the performance of the S&P 500 Index and provides the model with low-cost exposure to a diversified basket of U.S. equities. We will trade in and out of this ETF depending on the attractiveness of U.S. equities and the U.S. dollar.

Going Forward:

We have rearranged the models to be more diversified by asset class, geography and even strategy. This should lower model portfolio volatility going forward and should limit the downside in a bear market or market crash. The Balanced Growth model has been geared towards common equities with moderate earnings stability and above average growth rates and fixed income securities with above average yields and room for capital appreciation. The Balanced Income model has been geared towards common equities with high dividend yields, high earnings stability and average or better growth and fixed income securities with very low volatility and high income predictability.

We have added more traditional fixed income securities to the models. With this comes lower tax efficiency but we believe the only way to meaningfully lower model portfolio volatility going forward is to add traditional fixed income securities. We have added a number of low cost ETFs and a couple of mutual funds to our holdings which further diversify beyond individual equity and fixed income holdings and provide a layer of active management on top of our own. The changes to the models will allow us to participate in the performance of most securities around the world, not just those within Canadian borders. A country's securities can underperform other countries' for a long time and missing out on gains elsewhere can result in missing your retirement savings goal. We believe diversification away from Canada is especially important now as it appears the commodity supercycle may be ending, potentially setting up Canada for a long period of underperformance.

The addition of more traditional fixed income securities also appears timely as the bull market is beginning to look tired and many data points hint that equity market weakness may be on the way. Record high margin debt, flat year-over-year earnings growth, a high market bull to market bear ratio (highest since October 2007), near record high cyclically adjusted earnings multiple due to record high corporate profit margins and bubble valuations in biotech and internet stocks all are past indicators of a market top. Holding some traditional fixed income should help soften the blow of a declining equity market and provide additional capital to invest following a market decline.

We believe there is still a strong case for holding a majority of the portfolios in high quality common and preferred equities with past volatility below that of the general market. Though there are some signals pointing to market overvaluation, we believe many sectors are still attractive (e.g. Agriculture, Financials, Industrials, Energy, Consumer Staples, Telecom, Retail) and that investors will be rewarded owning stocks in these sectors, relative to cash and bonds, over the long-term.

After the rearrangement of the models, their expected yields now sit at 2.6% (Balanced Growth) and 3.9% (Balanced Income) from 3.6% and 3.8% at the end of Q4. This compared to the S&P/TSX Composite at a 2.7% dividend yield.

Sincerely,

Steele Wealth Management

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