RAYMOND JAMES | Steele Wealth Management

First Quarter 2015 – "The World Re-Opens the Tap, Stimulus for All"

21 Central Banks Ease Rates as Asian/European Growth Slows and Oil Prices Weigh

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Oil Prices Pressure Canadian and Gulf Economies While Eurasia Still Stagnates

- The S&P/TSX Composite Total Return Index gained 2.6% during the 1st quarter of 2015.

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

- Oil prices continued to slide in the first quarter, falling as low as US$42 (WTI) and ending at US$48, down from US$53 at the end of Q4. U.S. oil production continued to rise in Q1 despite prices being at a six year low. With OPEC's decision to not intervene in the oil market, the U.S. is seen as the new swing producer and oil prices are likely to remain weak until U.S. production begins to decline. Oil supply is presently growing at a record pace and inventories sit at an all-time high. If U.S. oil supply fails to decline in the near-term, it is expected that North America could run out of oil storage capacity sometime in 2015. Further, Iranian nuclear talks appear to be progressing better than expected. Iranian officials have made it a goal to increase production by 1 million barrels per day within a few months of an agreement to remove Western sanctions on the Iranian economy and targets to increase production even more over time. All in all, it is tough to build a bullish case on oil prices at the present time.

- A new phase of the global monetary easing cycle is underway with 21 countries cutting interest rates in Q1. The European Central Bank (ECB) initiated quantitative easing in the quarter wherein it will buy €1 trillion in asset-backed and sovereign bonds at a rate of €60 billion per month. Most non-EU European countries have also eased monetary policy as a result. The Bank of Canada unexpectedly cut its key interest rate to 0.75% from 1% in January to combat the negative effect of low oil prices. The People's Bank of China and the Bank of Australia cut their benchmark rates in response to slowing growth in Asia and commodity price weakness. Even the U.S. Fed has pushed forward expectations of an interest rate hike as inflation remains below its 2% target and the economic growth outlook, particularly outside of the U.S., is poor.

- Syriza, the far-left, anti-bailout, anti-austerity party, won the Greek election in January and formed a coalition to renegotiate the terms of the Greek bailout and austerity programs. Syriza officials attempted to lobby EU policymakers for support but found little and rather than present EU governments with an ultimatum, both sides agreed to a four month bailout extension in principle, thereby providing more time to discuss changes to the bailout and austerity programs. This extension has yet to be finalized and Greece is expected to run out of money in late April. The odds of Greece leaving the EU and potentially destabilizing the EU economy and currency union as a whole appear to have risen.

- After hiking its key interest rate to 17% in late Q4 in order to stabilize the Ruble, Russia gradually lowered its interest rate in Q1 to ease the pain that a double digit interest rate brings, ending at 14%. Underscored by the assassination of Boris Nemtsov, an outspoken opponent of Putin, Russia is in a state of political unease. The war in Ukraine and the energy market collapse is helping divide the Kremlin and potentially has the power to divide Putin's catch-all party United Russia as it did Yeltsin's government in 1998. Unease will surely increase should oil remain below US$50 (WTI) as inflation spikes, unemployment rises and government budgets shrink. The decline in the Russian economy will be felt throughout Eastern Europe, lowering the odds of a broad European economic recovery in 2015 and beyond.

PIMG Model Benchmarking Disclosures

- The numbers presented on the following two pages reflect those of our two models, Balanced Growth and Balanced Income. As a client of Steele Wealth Management, you may or may not have your account linked to one or both of these models. In our discussions prior to signing your PIMG documentation, we outlined which model(s), if any, your accounts would be linked to. If you are unsure whether your account is linked to one or more of these models, please let us know and we can clarify this for you.

- Model returns presented are those of two individual accounts whose returns 100% reflect that of the model's holdings and transactions and are not impacted by deposits or withdrawals that could impact return calculations. The accounts we use to reflect model performance incur a 1% annual investment management fee, charged monthly, which is also subject to 13% HST, charged monthly, for a total cost of 1.13% annually. Your individual account performance may deviate from the model account based on any differences in fees charged relative to the model account, differences in account holdings relative to the model account as well as any deposits or withdrawals made throughout the reporting periods outlined.

- On January 15th, 2014, we materially changed the composition of our two model portfolios. We renamed our Tactical Taxable and Tactical Registered models to Balanced Growth and Balanced Income and made major changes to model allocations and exposures. The Tactical Taxable and Tactical Registered models were invested in 80%-85% common equity and 15%-20% preferred equity and our exposure was virtually 100% in Canadian dollars and Canadian companies. The Balanced Growth model has an asset allocation of ~75% common equity and ~25% fixed income, of which half is invested in preferred equity, and roughly 40% exposure to non-Canadian securities. The Balanced Income model has an asset allocation of ~50% common equity and ~50% fixed income, of which a third is invested in preferred equity, and roughly 30% exposure to non-Canadian securities. With these changes, our two models now reflect a more universally appropriate choice, in terms of asset allocation and risk, for the vast majority of our clients and investors in general. As a result, we expect these new models will remain in force for the foreseeable future.

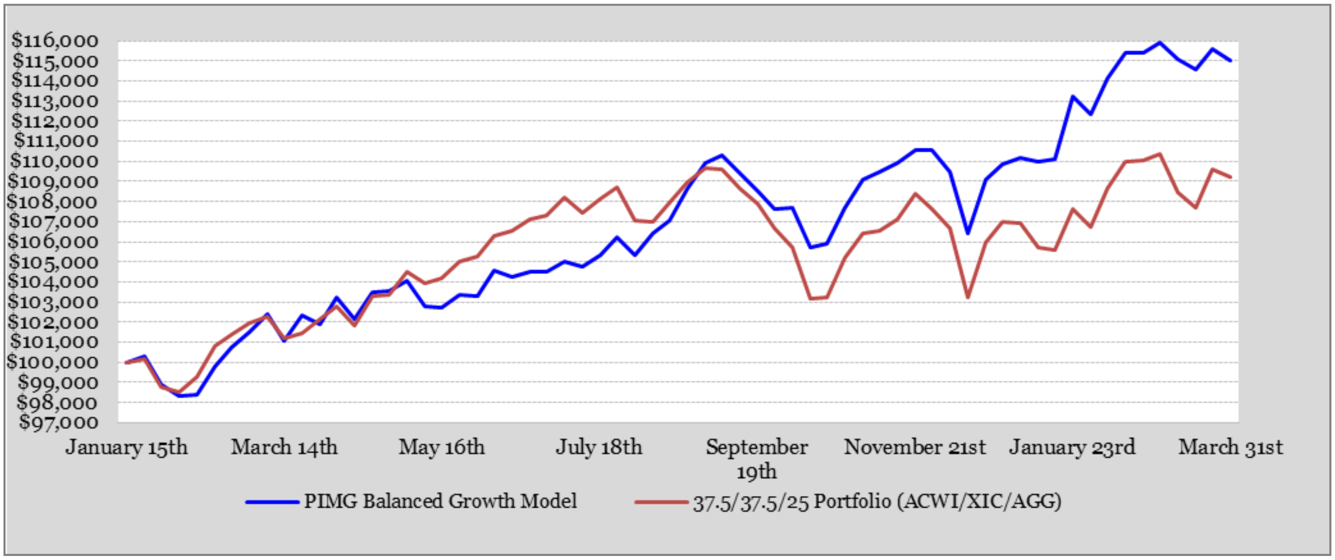
- As a result of the model changes outlined above, we also changed our benchmarks to reflect the new asset allocations and exposures. Benchmark information is detailed in the disclosures at the bottom of the following two pages.

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, 2015



01/15/2014 – 03/31/2015	PIMG Balanced Growth Model	37.5% XIC / 37.5% ACWI / 25% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	15.02%	9.19%	12.15%	6.92%	7.09%
Compound Annual Return	12.42%	7.64%	10.07%	5.76%	5.90%
Standard Deviation	7.19%	7.68%	11.60%	11.53%	3.10%
Sharpe Ratio	1.31	0.60	0.61	0.24	0.94
Largest Monthly Gain	4.16%	3.53%	4.13%	5.51%	2.22%
Largest Monthly Loss	-1.98%	-2.94%	-4.12%	-4.23%	-0.73%
Number of Up Months	10	9	9	9	9
Number of Down Months	5	6	6	6	6
Correlation with Balanced Growth	--	0.89	0.84	0.79	-0.30

PIMG Balanced Growth Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	4.92%	6.72%	9.47%	11.77%	n/a	n/a	n/a	15.02%

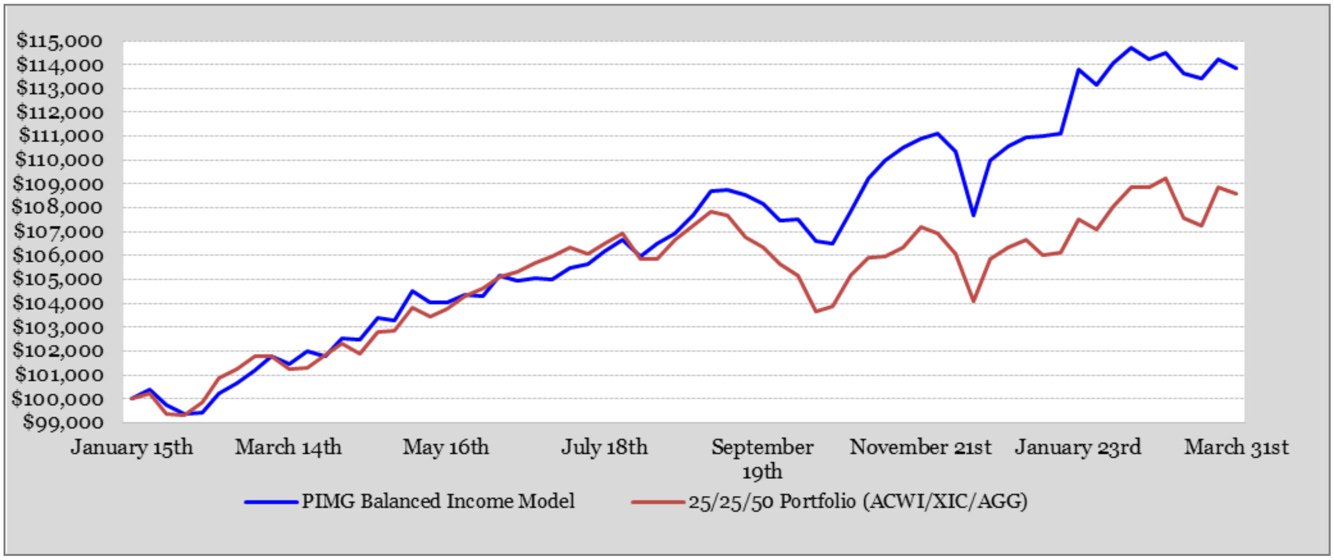
We have assumed a 1% investment management fee plus 13% HST when calculating the returns for our PIMG models. To the best of our knowledge, the ETFs used as benchmarks track the indices they represent though material tracking error and misrepresentation can occur which is beyond our control. The 37.5% 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.

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

<u>vs</u>

The PIMG Balanced Income (BI) Model

January 15th, 2014 (Inception of BI Model) to March 31st, 2015



01/15/2014 – 03/31/2015	PIMG Balanced Income Model	25% XIC / 25% ACWI / 50% AGG	iShares XIC	iShares ACWI	iShares AGG
Cumulative Return Since Inception	13.87%	8.61%	12.15%	6.92%	7.09%
Compound Annual Return	11.49%	7.16%	10.07%	5.76%	5.90%
Standard Deviation	5.06%	4.94%	11.60%	11.53%	3.10%
Sharpe Ratio	1.68	0.84	0.61	0.24	0.94
Largest Monthly Gain	2.49%	2.48%	4.13%	5.51%	2.22%
Largest Monthly Loss	-0.96%	-2.17%	-4.12%	-4.23%	-0.73%
Number of Up Months	11	10	9	9	9
Number of Down Months	4	5	6	6	6
Correlation with Balanced Income	--	0.85	0.84	0.73	-0.22

PIMG Balanced Income Model	3 month	6 month	9 month	12 month	3 year	5 year	10 year	Inception
	3.13%	5.79%	8.05%	11.18%	n/a	n/a	n/a	13.87%

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.

PIMG Balanced Growth Model

Gained 4.92% during the quarter (from January 1st to March 31st)

The model's asset allocation as of March 31st was 1.9% cash, 9.2% bonds, 2.2% convertible debentures, 13.5% preferred equity, 7.4% alternatives and 65.8% common equity.

Top five outperformers in Q1 were:
- AMC Networks (Consumer Discretionary/Media) at +30.16%
- Agrium Inc (Materials/Fertilizers) at +20.76%
- WSP Global (Industrials/Engineering) at +20.38%
- Performance Sports Group (Consumer Discretionary/Branded Sports Goods) at +16.89%
- iShares U.S. Consumer Services ETF (ETF/Consumer Discretionary) at +13.75%

Top five underperformers in Q1 were:
- Legacy Oil + Gas (Energy/Light Oil) at -28.70%
- Enbridge Preferred F (Preferred Share/Fixed Reset) at -15.97% (*very small position)
- Enbridge Preferred N (Preferred Share/Fixed Reset) at -5.52%
- Rogers Communications (Telecom/Diversified) at -5.12%
- Royal Bank of Canada (Financials/Diversified) at -4.05%

During Q3, we bought:

- Fedex Corp (FDX): We purchased a full position in FedEx as it will benefit from much lower fuel prices and potentially more robust U.S. economic growth in the coming year as a result of low oil prices. FedEx trades at a historically attractive valuation of 21x trailing earnings and should trade at well below the market valuation after the effect of lower oil prices flow through to earnings. FedEx has a very low debt load of 0.15x debt-to-market cap and could lever up its balance sheet to buy back stock or grow internationally.

- Fairfax Financial Preferred C (FFH.PR.C): We purchased a full position in Fairfax Preferred C with the proceeds of sale from Fairfax Preferred I. FFH.PR.C reset its dividend yield in December 2014, well before the 5 year Government of Canada bond rate plummeted, and is set to yield 4.92% at $23.22 for five years. FFH.PR.C has a high likelihood of being called at $25 in five years and has a yield-to-call (soft) of 6.4%. The issue has been stable since we purchased it at a time when fixed reset preferred shares are in free fall, reinforcing its quality versus peers.

- WSP Global (WSP): We purchased a full position in WSP Global as its experienced weakness during the energy market selloff despite a limited energy market exposure. WSP's above average exposure to public works and infrastructure leave it primed to take advantage of potentially higher infrastructure spending in North America. We expect infrastructure spending to increase in general due to low levels of infrastructure spending in the recent past as well as in response to the energy market selloff in the form of economic stimulus. WSP also has meaningful market share in Western Europe and we believe a potential resolution of the Greek situation and the start of the ECB's bond buying program will support growth in construction.

- Manulife Preferred H (MFC.PR.H): We purchased a partial position in Manulife Preferred H as it participated in the preferred share market decline despite being issued by a very high quality issuer and having a very high reset rate of 3.13% plus the Government of Canada bond yield. The shares have a yield-to-call of 3.3% and 2 years to retraction.

- Enbridge Preferred F (ENB.PR.N): We added to our position in Enbridge Preferred N twice in the quarter as the shares underperformed the majority of fixed reset preferred shares. The shares yield 4.8% until December 2018 and then reset at 2.65% plus the Government of Canada 5 year bond yield. We believe that if interest rates revert to their still highly depressed 2009-2014 levels, this preferred share will be called at $25 in just under four years and exhibit returns of 9% per year.

<u>During Q3, we sold:</u>

- International Business Machines (IBM): We sold our position in IBM after a few disappointing quarterly reports and management's official abandonment of its turnaround plan in October 2014 along with lowered guidance for the upcoming year. We feel that IBM may forever struggle to adjust to the new cloud based world. IBM has shown no progress since we purchased it and with no sense of direction, we worry about what the company will eventually become. The worst may yet be to come for IBM as it has painted itself into a corner whereby it has to buy, and likely overpay for, very expensive cloud-based companies to grow in the manner they want.

- Fairfax Financial Preferred I (FFH.PR.I): We sold our position in Fairfax Preferred I as it was overvalued relative to FFH.PR.C.

- iShares Emerging Market Dividend ETF (DVYE): We sold our position in iShares DVYE as the ongoing long-term trend of U.S. dollar strength is negative for emerging market liquidity and emerging market equities in general. Further, DVYE has meaningful exposure to Eastern Europe. The economic collapse in Russia as a result of falling oil prices and Western sanctions will reverberate through Eastern Europe likely raising the pace of corporate defaults and pressuring Eastern European stock prices.

- Enbridge Preferred F (ENB.PR.F): We sold our partial position in Enbridge Preferred F to buy the comparably attractive ENB.PR.N.

<u>PIMG Balanced Income Model</u>

Gained 3.13% during the quarter (from January 1st to March 31st)

The model's asset allocation as of March 31st was 0.3% cash, 19.4% bonds, 13.3% convertible debentures, 15.5% preferred equity, 6.8% alternatives and 44.7% common equity.

Top five outperformers in Q4 were:

- WSP Global (Industrials/Engineering) at +21.33%
- Agrium Inc (Materials/Fertilizer) at +20.76%
- iShares MSCI All-Country Low Vol ETF (ETF/Global Low Volatility) at +13.58%
- iShares JP Morgan USD Emerging Mkt Bond ETF (ETF/Emerging Market Bonds) at +12.27%
- Great-West Lifeco (Financials/Insurance) at +9.94%

Top five underperformers in Q4 were:

- Enbridge Preferred F (Preferred Share/Fixed Reset) at -15.97% (*very small position)
- Enbridge Preferred N (Preferred Share/Fixed Reset) at -5.57%
- Royal Bank of Canada (Financials/Diversified) at -4.05%
- BMO Covered Call Banks ETF (ETF/Cdn Banks and Covered Calls) at -4.01%
- Aimia Preferred C (Preferred Shares/Fixed Reset) at -3.90%

<u>During Q3, we bought:</u>

- Enbridge Preferred F (ENB.PR.N): Same reasoning as the Balanced Growth Model.

<u>During Q3, we sold:</u>

- Enbridge Preferred F (ENB.PR.F): Same reasoning as the Balanced Growth Model.

Going Forward:

Despite a relatively strong quarter for both equities and treasury bonds, and a poor quarter for credit sensitive debt (e.g. corporate bonds, preferred shares), the models were able to outperform.

Our consumer-oriented holdings (e.g. AMC Networks, Performance Sports Group, iShares IYC) gave our BG model a major boost while a well-timed buy of WSP Global helped both portfolios. With oil near a multi-year low, we believe consumer-oriented stocks are the place to be. Our underweight position in the Energy sector helped us once again in Q1. We will remain underweight this sector for the foreseeable future as there is little impetus for a rebound until the Chinese economy turns a corner or geopolitical events shift the oil supply outlook. That said, we may look to add special situations in this sector as they arise. Finally, our exposure to U.S. dollars also provided a boost to performance in Q1 as the Canadian dollar fell to $0.79 USD/CAD from $0.86 USD/CAD. We reduced our U.S. dollar exposure slightly in the quarter as we believe the bulk of the decline has been realized and it reduces our risk of material underperformance should oil prices and the Canadian dollar rally significantly.

The preferred share market was in disarray in Q1 as Canadian inflation expectations fell and the Bank of Canada unexpectedly cut its key interest rate. Many of our preferred shares, particularly the fixed reset preferred shares, came under tremendous selling pressure and recorded losses in the quarter. We believe all of the preferred shares we have are of high quality and should eventually revert back to their trading prices seen in early 2014. These preferred shares should exhibit above normal returns going forward and we will look to increase our allocation to this asset class over time when conditions permit. For example, Enbridge Preferred N (ENB.PR.N) has a high likelihood of being called, in our opinion, and has a yield-to-call of 9% for the next 3.75 years. We believe the risk-return tradeoff of ENB.PR.N is definitively better than buying Enbridge common stock which currently trades at a historically high valuation, will likely exhibit much higher volatility and is unlikely to produce returns in excess of 9% over the next four years.

We remain cautious on the equity market as above-average valuations persist. North American equity markets currently trade at their highest level ever on a median price-to-earnings basis while corporate profits remain near all-time highs, hinting at pervasive overvaluation across all stocks. We believe the market could unwind as a stronger U.S. dollar, rising wages and higher interest costs due the end of the U.S. Fed's easing cycle limit U.S. corporate profit growth. As stated above, we have a favourable view of the corporate credit markets (e.g. preferred shares, corporate bonds) as they are historically undervalued. Though we are satisfied with our current equity holdings which are focused in the somewhat less expensive and less cyclical consumer discretionary, consumer staples, telecom and industrials sectors, an unattractive equity market valuation and poor market technicals may push us to shift some of our equity allocation to corporate credit in the coming quarter.

As at the end of Q1, the models yield 2.4% (Balanced Growth) and 3.7% (Balanced Income) from 2.4% and 3.8% at the end of Q4.

Sincerely,

Steele Wealth Management

The information contained in this report was obtained from sources believed to be reliable, however, we cannot present that it is accurate or complete. Information has been sourced from the RJL Bond Desk or RJ Private Client Solutions, unless otherwise noted. Index and sector returns represented in this commentary are measured using the S&P/TSX Total Return Index and S&P/TSX GICS Sector Indices as detailed in Raymond James Ltd.'s *Insights & Strategies: Quarterly Edition*. This report is provided as a general source of information and should not be considered personal investment advice or solicitation to buy or sell securities. The views expressed are those of the author and not necessarily those of Raymond James Ltd. (Member Canadian Investor Protection Fund).

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