RAYMOND JAMES

Steele Wealth Management

First Quarter 2013 – "Monetary Stimulus Party"

U.S. and Japanese Policymakers Host Party, Only U.S. and Japanese Markets Show Up

The Team:

Brian Steele, CA, CFA
Laura Prust, CPCA
Jeannine Campbell
Kelly Townsend
Matthew Bell, CFA

Stimulus Fueled Markets Skyrocket, All Else Lag; U.S. Sequestration Cuts Kick In

- The S&P/TSX Composite Total Return Index gained 3.1% during the 1st quarter of 2013.

- The "America-sensitive sectors" – Industrials, IT, Consumer Discretionary, Consumer Staples, Telecom, Financials and Health Care – led the TSX Composite Index in the quarter.

- The mostly "emerging market-sensitive" sectors – Materials, Energy and Utilities – trailed the TSX Composite Index in the quarter.

- U.S. and Japanese stock markets led the pack in Q1 rising 10.5% (S&P 500) and 19% (Nikkei), respectively, both assisted by an unprecedented level of monetary easing. The Nikkei logged its best two quarter performance since 1972 (+36%). The monetary easing that led to positive performance for the U.S. and Japanese markets did have its share of casualties. Emerging markets felt the brunt of the monetary easing with the MSCI BRIC Index falling 3.2% on the quarter. Emerging market declines were led by declines in Chinese and Korean exporters, whose profitability is under attack by Japan's newfound objective of weakening the Yen and increasing Japanese exporter competitiveness.

- The global growth outlook splintered somewhat in Q1. While Q4 data exhibited a broad increase in global economic activity, Q1 data indicated solid growth in the U.S., UK, Japanese, German, Brazilian, Russian and Indian economies and decline/stagnation in the French, Chinese, Spanish, Italian and Korean economies. Considering China's policy stance set to reign in its property market and the Eurozone's reluctance toward further stimulus due to signs of inflation in Northern Europe, it appears the most economies facing the most obstacles (France, Spain, Italy and China) will receive little help from their governments.

- In March, the Troika (European Commission, ECB and the IMF) and Cypriot parliament found it difficult to agree on a bailout structure for Cyprus eventually settling on a "bail-in" involving a 40% tax on uninsured deposits in Cyprus's two largest banks (Bank of Cyprus and Laiki Bank) and the liquidation of Laiki Bank, thereby forcing a loss onto Laiki Bank shareholders and bondholders. The decision to tax deposits caused a selloff in global markets and stirred debate about its grounds. Many investors now fear that "bail-ins" may become the template for bank restructurings going forward in the Eurozone and abroad.

- The U.S. economy appears to have weathered the Fiscal Cliff well, exhibiting strong growth following the expiry of the 2% Payroll Tax Cut in January and the start of the Sequestration budget cuts in March. Although growth has been encouraging, the true test will come several months from now when the budget cuts have time reverberate through the economy.

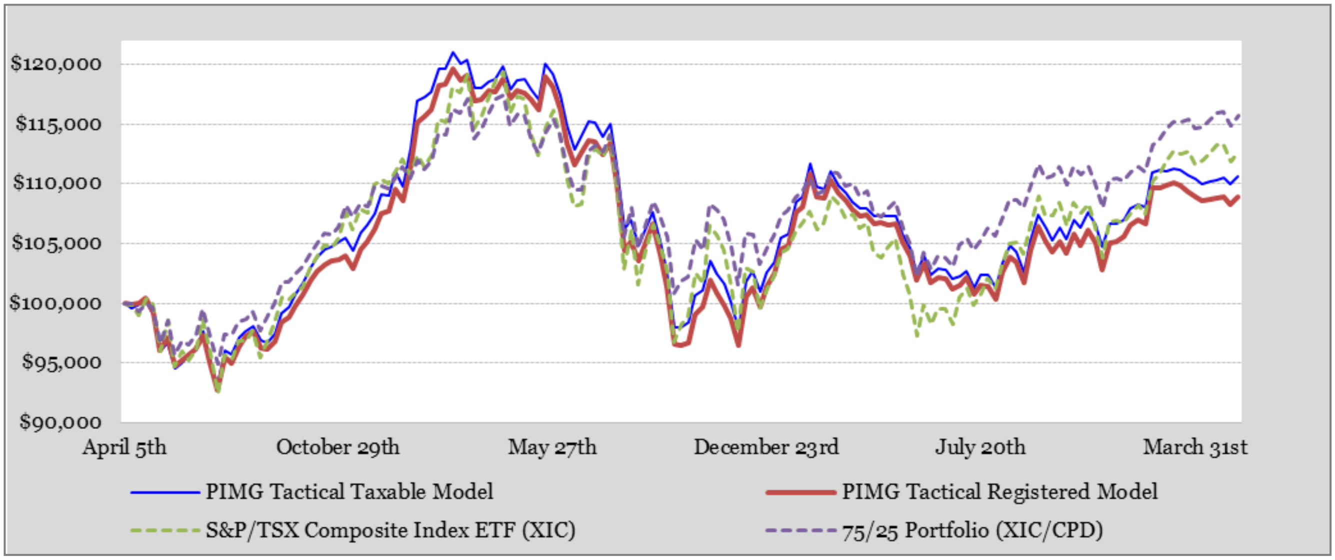
- The Canadian economy had a disappointing Q1 with the RBC Manufacturing PMI, an indicator of Canadian manufacturing activity, dropping to its lowest level in two and a half years and signaling that the Canadian manufacturing is contracting for the first time since the 2008-2009 recession. In addition, Canada's job engine sputtered in Q1 with overall employment falling by 26,000 and March job losses coming at a 4 year high. Housing market sales activity remained poor and national prices continue to decline at a slow pace.

The S&P/TSX Composite Total Return Index

vs

The PIMG Tactical Taxable & Tactical Registered Models

April 5th, 2010 (Inception) to March 31st, 2013



	PIMG Tactical Taxable Model	PIMG Tactical Registered Model	S&P/TSX Composite Index ETF (XIC)	75% XIC / 25% CPD
Cumulative Return Since Inception	10.66%	8.86%	12.75%	15.74%
Compound Annual Return	3.45%	2.88%	4.10%	5.02%
Standard Deviation	10.33%	10.41%	14.00%	10.65%
Sharpe Ratio	0.04	-0.01	0.08	0.19
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	18	17	19	22
Number of Down Months	18	19	17	14
Correlation with Tactical Taxable	--	0.99	0.86	0.86

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 Composítie 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 1.14% during the quarter
- The model's asset allocation as at March 31st was 24.9% cash, 26.8% preferred equity and 48.3% common equity.

PIMG Tactical Registered Model:

- Gained 0.70% during the quarter
- The model's asset allocation as at March 31st was 20.7% cash, 3.6% convertible debentures, 27.1% preferred equity and 48.6% common equity.

The top five outperformers in this quarter were:

- SNC-Lavalin (Industrials/Engineering & Construction) at +19.04%
- Rogers Communications (Telecom/Diversified) at +15.87%
- Canadian Natural Resources (Energy/Oil & Gas Extraction) at +14.16%
- BCE Inc. (Telecom/Diversified) at +12.66%
- Sun Life Financial (Financials/Life Insurance) at +10.35%

The top five underperformers were:

- Eldorado Gold (Materials/Gold) at -23.59%
- Copper Mountain (Materials/Copper) at -21.99%
- Teck Resources (Materials/Diversified) at -19.64%
- New Millennium Iron (Materials/Iron Ore) at -17.24%
- iShares S&P/TSX Capped Materials Index ETF (Materials/Diversified) at -10.26%

During the quarter we bought:

No purchases were made during the quarter.

During the quarter we sold:

- SNC-Lavalin: We sold our position in SNC-Lavalin following a strong run-up in the stock which brought the company's valuation in-line with its peers. As we expect that negative news flow regarding the bribery scandal will continue to cause acute selloffs in the stock, we felt that selling SNC at a valuation comparable to its peers' was appropriate. We expect SNC shares to be more volatile and risky than its peers' going forward and thus should trade at a discount.

- Finning International: We sold our position in Finning as we turned bearish on the Chinese and Canadian economies mid-quarter and looked to sell stocks strongly reliant on growth in these economies. Finning's valuation at the time was fair, trading at 12.5x trailing earnings, its average over the past several years.

- Sun Life Financial: We sold our position in Sun Life Financial following gain in excess of 50% in less than six months. We anticipate a continuation of the low interest rate environment and as a result believe Sun Life and other insurers will find it difficult achieve consistently profitable results and raise dividends. Also, since Sun Life's dividend yield fell from 6.5% when we first purchased the shares to below 5%, the downside protection provided by the sizable dividend had diminished. A stagnant yield of less than 5% for a company in retrenchment mode is not attractive by any means.

- Copper Mountain: We sold our position in Copper Mountain as we turned bearish on the Chinese economy mid-quarter. As a result of lackluster Chinese and European (though lesser so) data, we felt it was prudent to rid our portfolios of anything that could experience total loss in an adverse economic scenario. If economic conditions deteriorated markedly, Copper Mountain's high operating cost may cause the company to run out of cash and its material debt load may restrict its access capital markets.

- New Millennium Iron: We sold part of our position in New Millennium as the seasonal upswing in global, and particularly Chinese, manufacturing activity failed to transpire. Though we hold out some hope that the upswing may just be delayed, recent Chinese anti-cyclical policy actions hint at slow demand growth for bulk commodities in the coming year.

- WestCoast Preferred J: We sold the rest of our position in WestCoast Preferred J as the shares are now callable. If called by the company, we were set to instantly lose about 2% of the value of our shares.

- Aimia Preferred A: We sold part of our position in Aimia Preferred A at a price that implied a negative yield-to-call. Essentially, someone was willing to buy these shares from us at a price that would guarantee them a loss.

Going Forward:

We saw a respectable performance in our models in the first quarter despite the models being tilted towards Chinese growth that never surfaced. Though our overweight position in the worst performing sector (Materials) weighed down our quarterly performance, our overweight positions in some of the best performing sectors (Industrials, Consumer Staples and Telecom) offset much of this underperformance. We have since pared back our overweight position in the Materials sector as a result of stagnating Chinese growth as well as continued deterioration in the Eurozone economy. We continue to value dividend paying equities but currently seek to avoid companies with cyclical exposure as economic data are beginning to show signs of deterioration, particularly in Canada.

Toward the end of the quarter, we made a major shift in our asset allocation to reflect our more cautious stance. With ~25% and ~21% cash in our Taxable and Registered models respectively, we are close to the maximum levels of cash we are comfortable holding. Depending on how our view of economic conditions evolves over the next 2-6 months, we will either look to redeploy this cash into common equity (if we regain optimism about global growth) or high quality retractable or fixed-reset preferred equity (if we wish to hunker down and defend our capital). For the time being, holding cash in money market funds seems to be the most prudent.

The greatest risk to global economic growth and credit market stability is uneven growth between Eurozone economies. Though Spain and Italy continue to be the main topics of discussion and worry, the French economy is deteriorating rapidly with recent economic data consistent with GDP declines of 4-5% annually. Should France’s economy continue on this path, the Eurozone’s willingness and ability to provide intra-union bailouts will be doubt and U.S.-Japanese style fiscal and monetary stimulus may be the only near-term solution (something that German official have fought against tooth-and-nail).

The lack of follow-through in the December-April seasonal economic bounce concerns us deeply. As we approach the seasonally weak period for equities (May to October), we are concerned that with little positive economic data to rely on (outside of the U.S.), equities may come under acute selling pressure. Furthermore, weakness in commodities (particularly gold and base metals) and emerging markets hint at a weakening in credit conditions and can often precede weakness in developed markets.

The expected yield in our Models fell to 3.5% from 3.7% at the end of Q4. This decline in yield is minimal considering our cash positions increased by 16-18%. When our market stance is solidified, we expect that the model yields will rise as we deploy capital towards dividend paying common and/or preferred equities.

Sincerely,

Steele Wealth Management