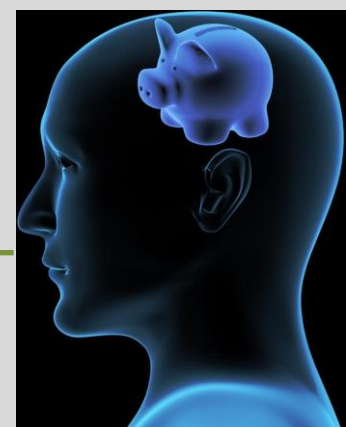




Mind over Markets



Steele Wealth Management
of Raymond James Ltd.
featuring Andy MacLean

November 15th, 2011

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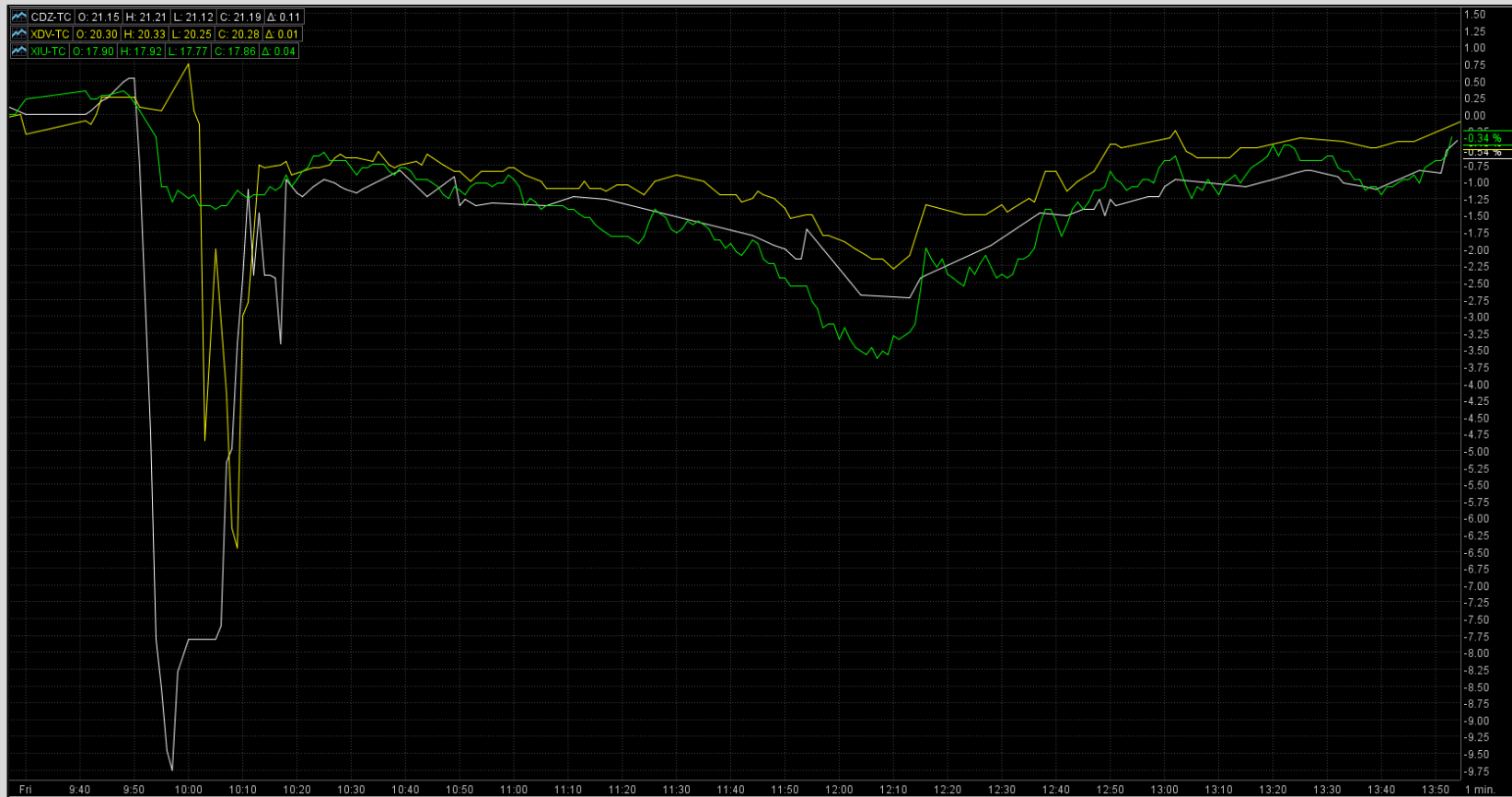
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The Market as a Pricing Mechanism

- The market price of a security is a real-time measure of perceived risk
- Markets are generally rational and efficient but can experience periods of irrationality
- These moments occur most frequently during heavy, unexpected news flow and when a large percentage of investors quickly become risk averse
- This quick change in an investor's sense of risk aversion can lead to selling at illogical prices and present opportunities for committed buyers
- This irrationality can affect all types of stocks, even ETFs and preferred shares

Efficient Market in SR? CDZ v. XDV v. XIU (08/05/11)



- CDZ, XDV and XIU are typically highly correlated ($> +0.83$)
- In early trading the dividend ETFs, CDZ and XDV fell 9.7% and 6.5%, respectively, whereas XIU only fell 1.5% around that time

Efficient Market in LR? RY.PR.B (2006-2011)



- RY was touted as one of the world's strongest banks in 2008
- Preferred share yields rose despite significant drops in interest rates

What Ails You?

- Biases and heuristics affect investor emotions and behaviour
- Common Biases and Heuristics:
 - Myopic Loss Aversion and Reference Dependence
 - Investors with a disproportionately high sensitivity to losses relative to gains are said to have myopic loss aversion
 - Investors mark-to-market (MTM) their portfolios and individual investments
 - Investors feel MTM gains and losses the same way as actual gains and losses
 - Recency Bias and the Utility of Money after 2008
 - Crash of 2008 still fresh in investors' minds
 - The perception of value of money remains elevated since 2008 due to the fact that economic conditions have stagnated
 - Speed by which investors sold equity funds in August 2011 is proof of this
 - Representative Bias and Irrational Trading
 - A well- (poorly-) performing stock is not necessarily a good (bad) stock (Tversky/Kahneman, 1974)
 - Dow 30 “Winners & Losers” Study: Past outperformance leads to future underperformance and vice versa (DeBondt/Thaler, 1985)

Who Ails You?

- The media constantly tempts investors by reporting on news that fuels these biases and heuristics
- This is especially true with regards to recency bias:
 - In 2011, media focused on comparisons to 2008
 - In 2008, media focused on comparison to the Great Depression
 - Pictures and descriptions of the worst of times can incite fear, causing a flood of “fight-or-flight” neurochemicals to the brain
 - This can cause you to lose focus and make rash decisions
- The media tends to focus on transitory phenomena such as credit crises, recessions and Fed action resulting in too much investor attention paid to these items (Klibanoff, 1999)
- High levels of media pessimism induce downward pressure on market prices in the short-term but only when pessimism levels are extreme (Tetlock, 2007)

Is the Media Right?

- As stated on the previous slide, extreme media pessimism can induce downward price pressure in the near-term
- But, the same study also confirms that these pessimism-induced declines are reversed within a few days, implying that downward price pressure as a result of high media pessimism is a bullish sign for equities
- A study/book by the same author “Expert Political Judgement” (Tetlock, 2006), concluded that the more media mentions a pundit received, the worse were his or her predictions
- In financial media, the most bearish pundits often get the most press (i.e. Dr. Doom, Rosenberg, Paulsen, Whitney)

Myopia/Referencing and You

- The best way to avoid it is to separate yourself from the day-to-day swings in your portfolio's value and focus on your goals
- Treat your portfolio like real estate – imagine your house value had a real-time ticker, would you buy and sell more often?
- The utility you receive from living in your home equates to the dividend stream from your portfolio
- Take two investors:
 - Bill (Age 50)
 - Makes \$100k/year and maximizes RRSPs and TFSAs
 - Asset Allocation of 60% equities and 40% fixed income
 - John (Age 70)
 - Retired
 - Asset Allocation of 40% equities and 60% fixed income
 - Common assumptions
 - Both have \$1 million in assets (\$400k registered, \$600k non-registered)
 - Both are targeting or have targeted retirement at age 60
 - Both receive maximum amounts of CPP (at age 60) and OAS (at age 65)
 - Annual rate of return of 6% for equities and 4% for fixed income
 - Inflation is set at 2% and both have planning horizons of age 90

Bill, Age 50

- Starting at age 60, Bill is expected to receive \$69,000 after-tax, in today's dollars, until age 90
- How would a 20% drop in equities affect Bill's investment portfolio and projected cash flow?
- Bill's investment portfolio will drop by 12%, or \$120,000
- Bill's after-tax cash flow will only be reduced by \$6,000 and this assumes no boost in equity returns following the downturn
- Although a ~9% drop in after-tax income will have an affect on discretionary spending, it is unlikely that it will have a devastating affect on lifestyle

John, Age 70

- At age 70 and going forward, John is expected to receive \$61,500 after-tax, in today's dollars, until age 90
- How would a 20% drop in equities affect John's investment portfolio and projected cash flow?
- John's investment portfolio will drop by 8%, or \$80,000
- John's after-tax cash flow will only be reduced by \$4,000 and this assumes no boost in equity returns following the downturn
- Although a ~6.5% drop in after-tax income will have an affect on discretionary spending, it is unlikely that it will have a devastating affect on lifestyle

Conclusion

- Try to ignore the day-to-day fluctuation in portfolio value and stick to your vision
- Understand that the media is trying to get a rise out of you by comparing the day's market action to the extremes of the past
- If you can pinpoint an article or program that roused fear, try not to make any decisions while loaded with neurochemicals
- Note that poor market performance following extreme media pessimism is often the best time to buy equities
- Focus on your balanced portfolio:
 - You will have losers and you will have winners
 - Try not to see the losers as bad and the winners as good
- Understand how your return is derived – distributions which tend to be constant plus changes in investment value which tend to be variable

Market Outlook: Summary

I. Near Term Volatility:

- Euro Crisis
- Slowing Growth & Recession Fears

II. Longer Term Issue:

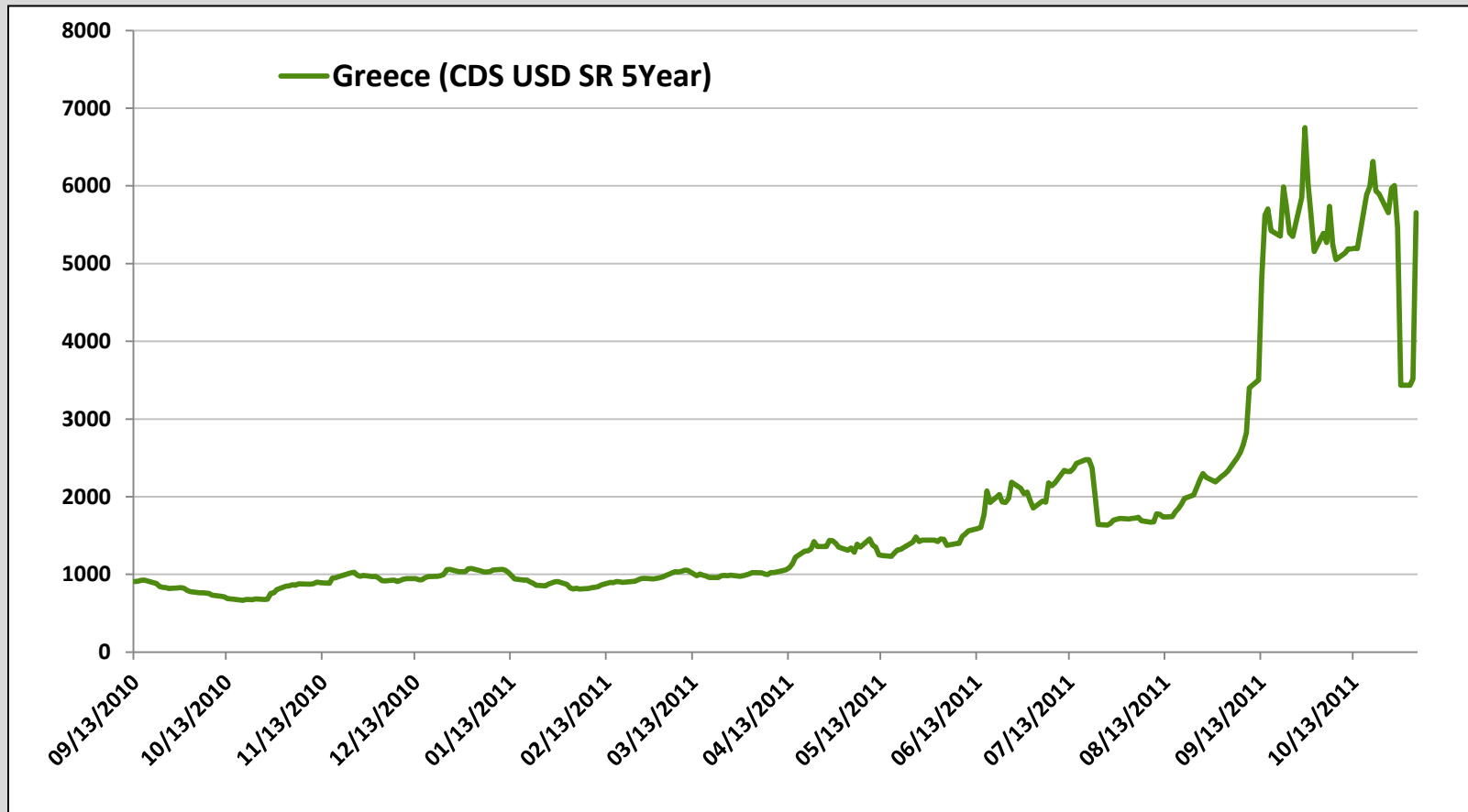
- Rising Debt Levels & Deleveraging

III. Themes and Ideas:

- Asset Rotation
- Low Interest Rates & Negative Real Interest Rates
- Steady Growth with Global Exposure & Share Buybacks
- Long-term Consumption, particularly that of emerging markets

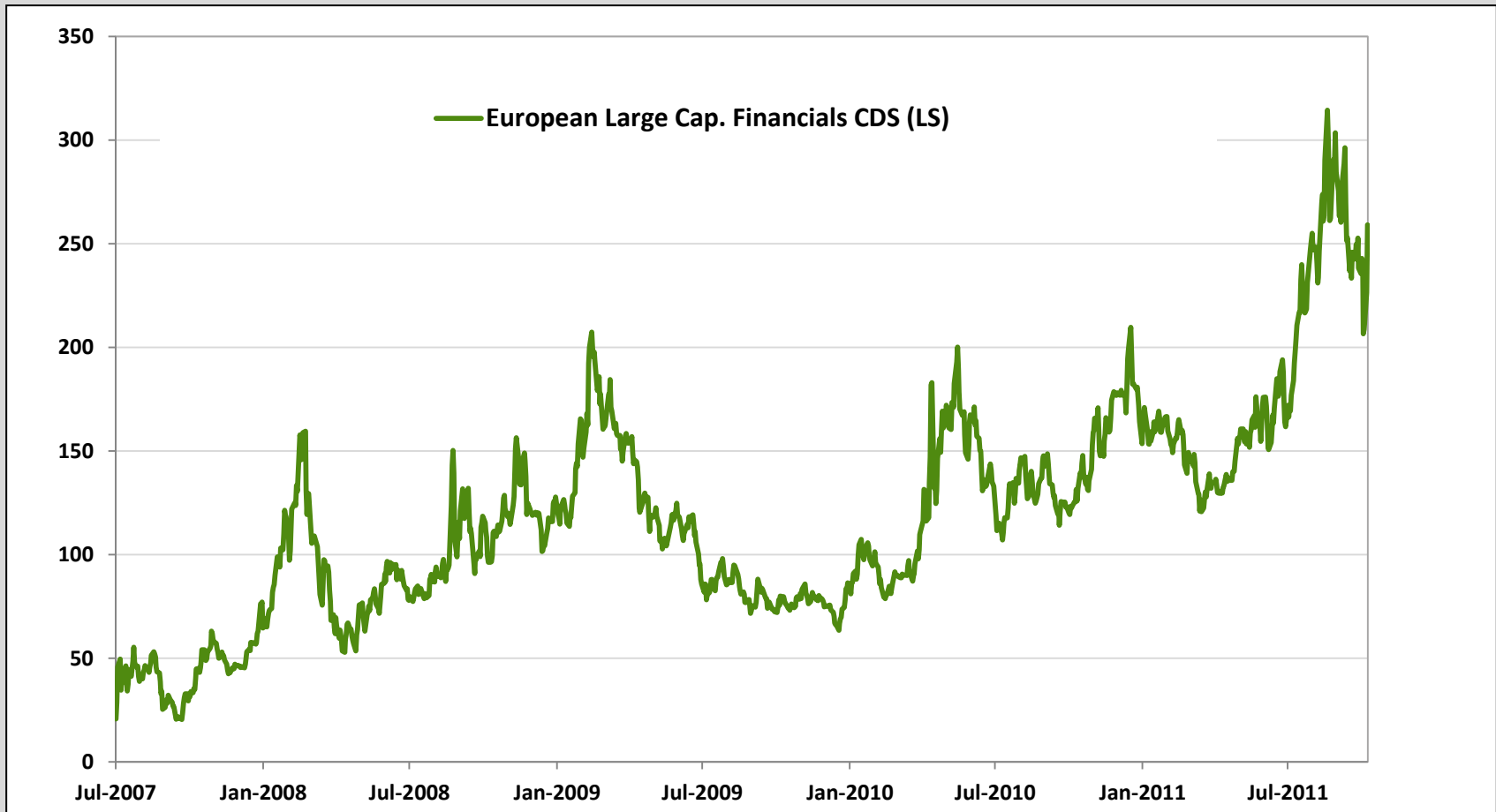
Near Term Concerns: Euro Crisis

- Probability of Greek default at 100%
- Only question that remains is will it be controlled or not



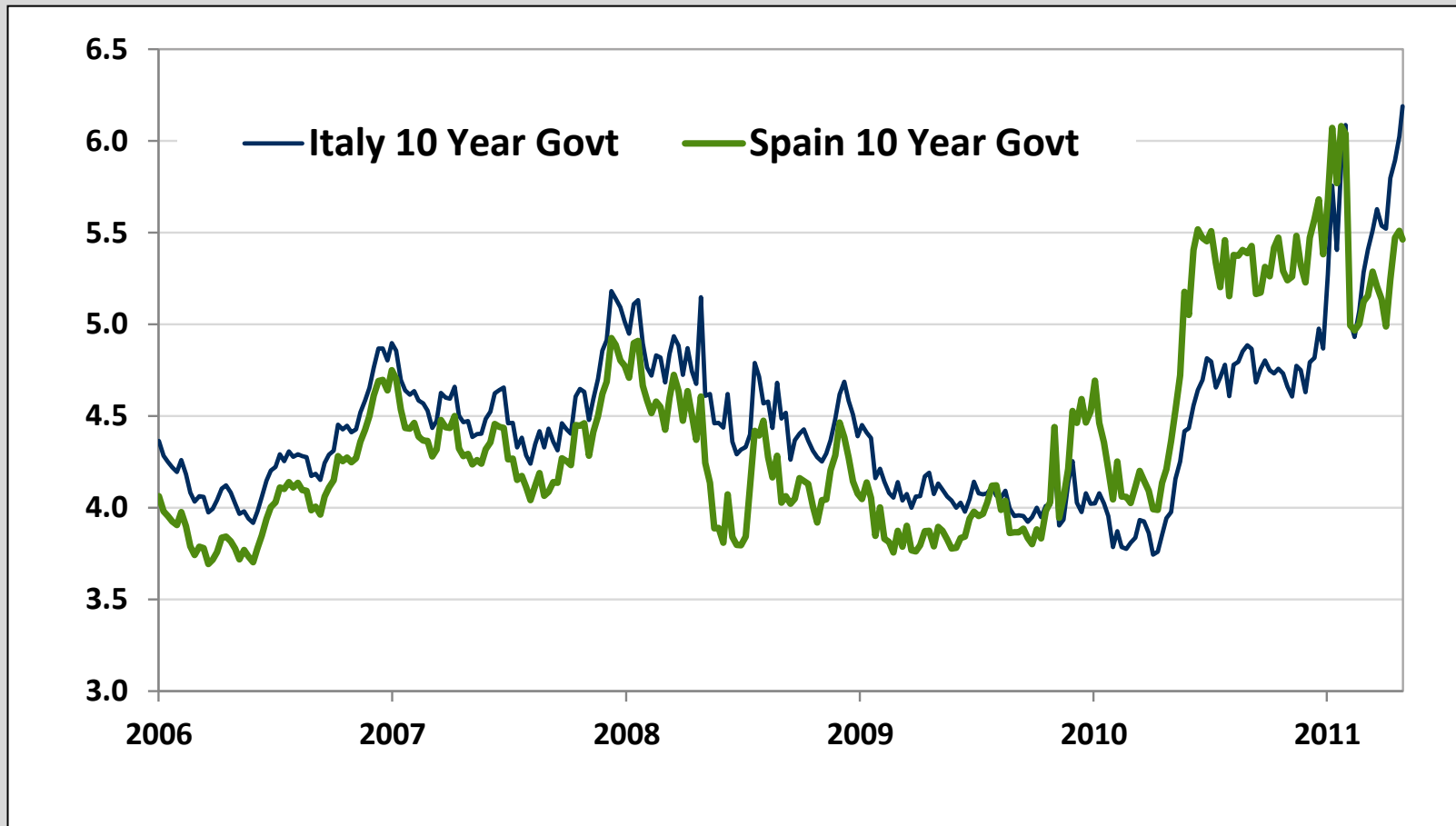
Near Term Concerns: Euro Crisis

- Bank Credit Default Swaps gaping out underscores continuing risks



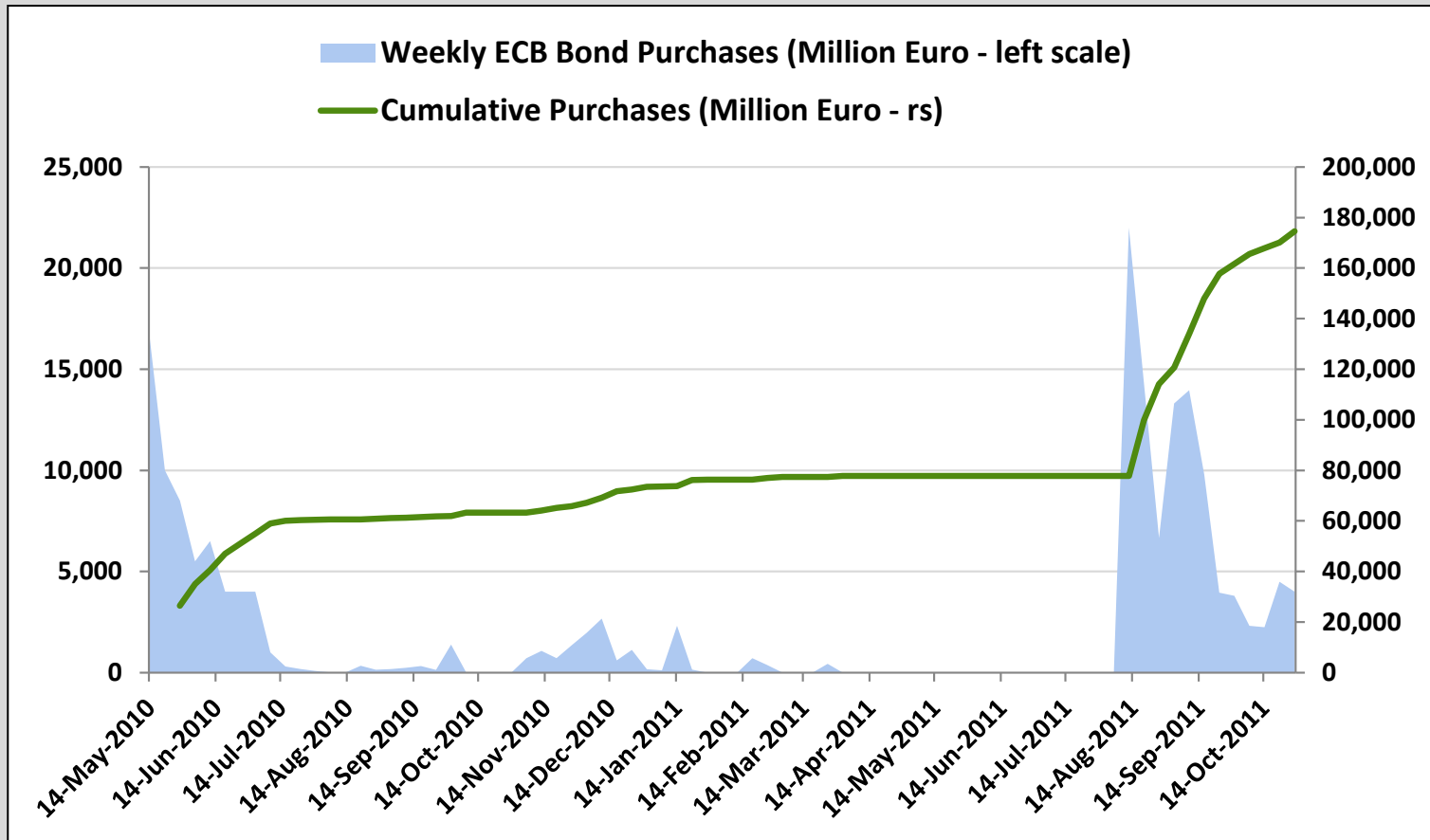
Near Term Concerns: Euro Crisis

- Contagion spreading to Italy and Spain with interest rates gapping to dangerous levels



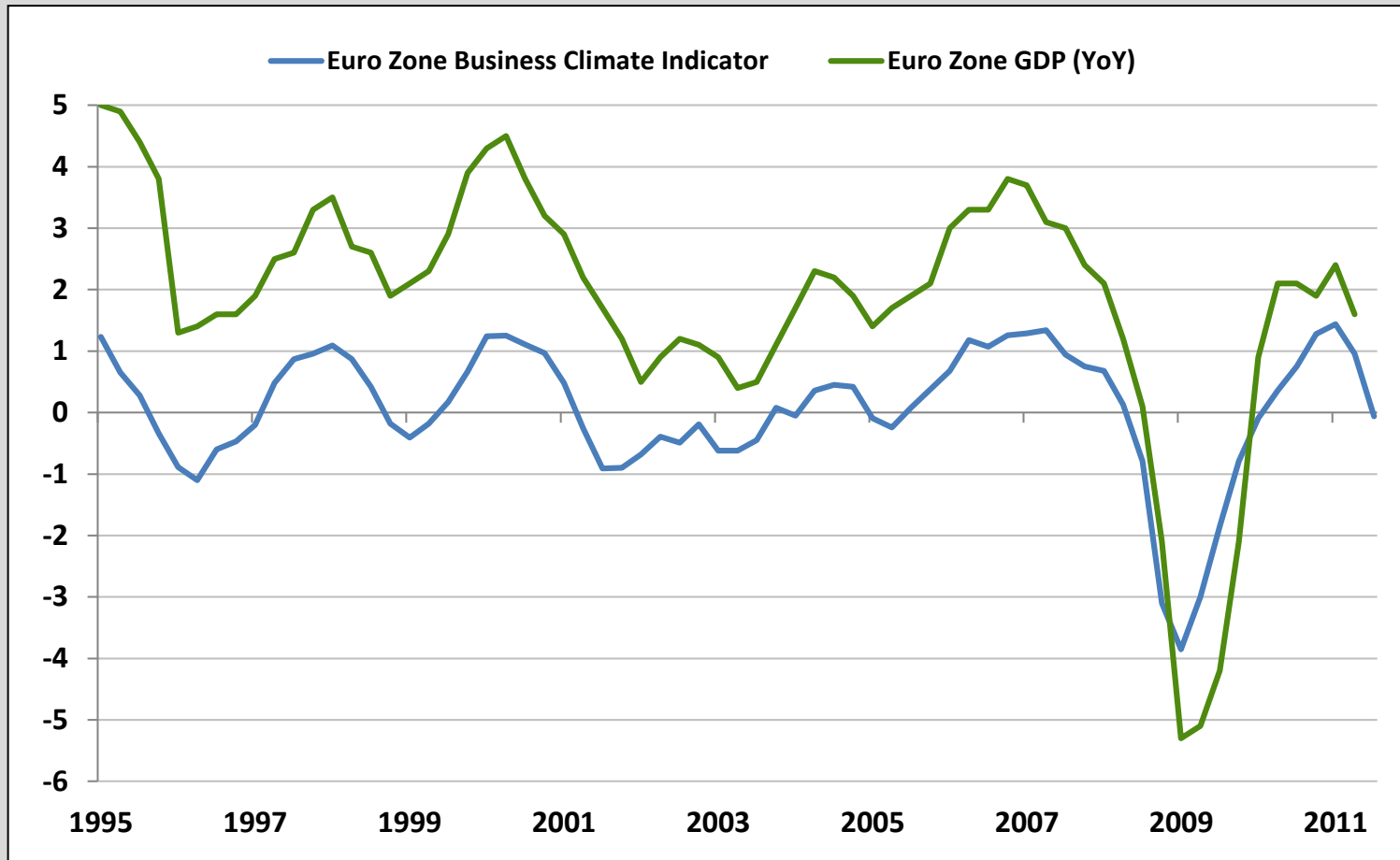
Near Term Concerns: Euro Crisis

- ECB could step in and ramp-up support for both banks and sovereign debt of Italy and Spain



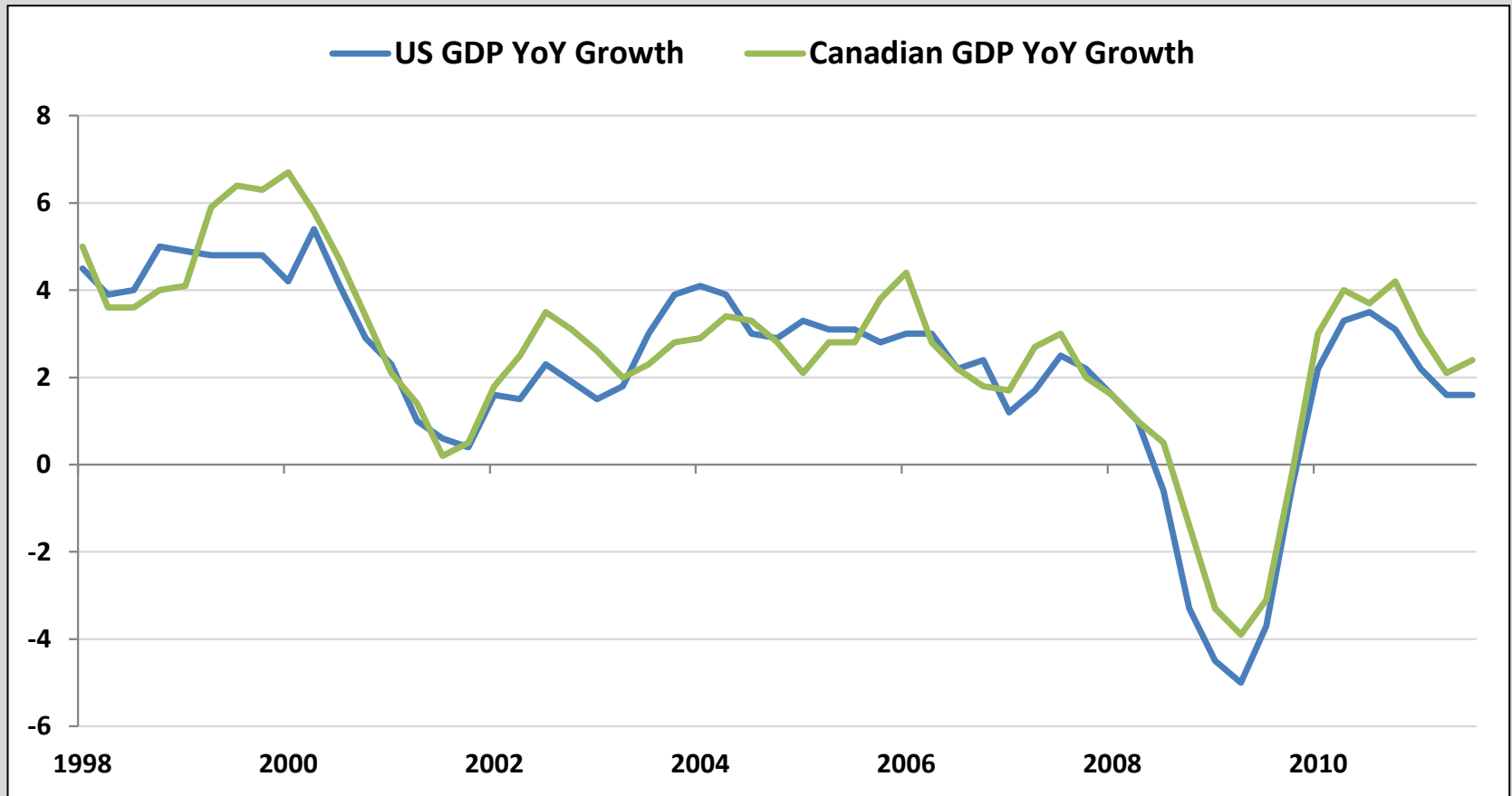
Near Term Concerns: Slowing Growth

- Increasing probability that Euro Zone will fall into recession



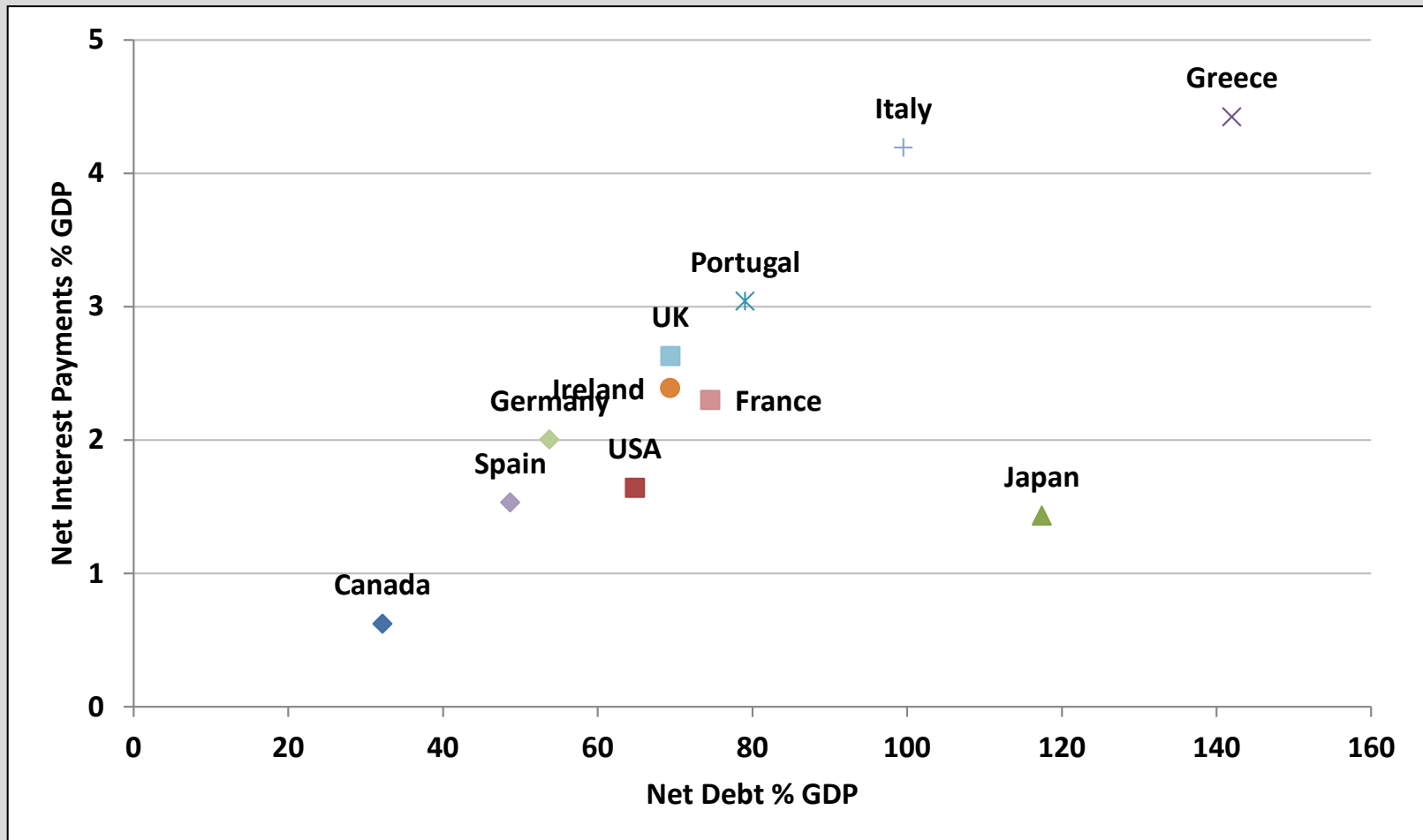
Near Term Concerns: Slowing Growth

- US and Canadian economies should be able to avoid recession



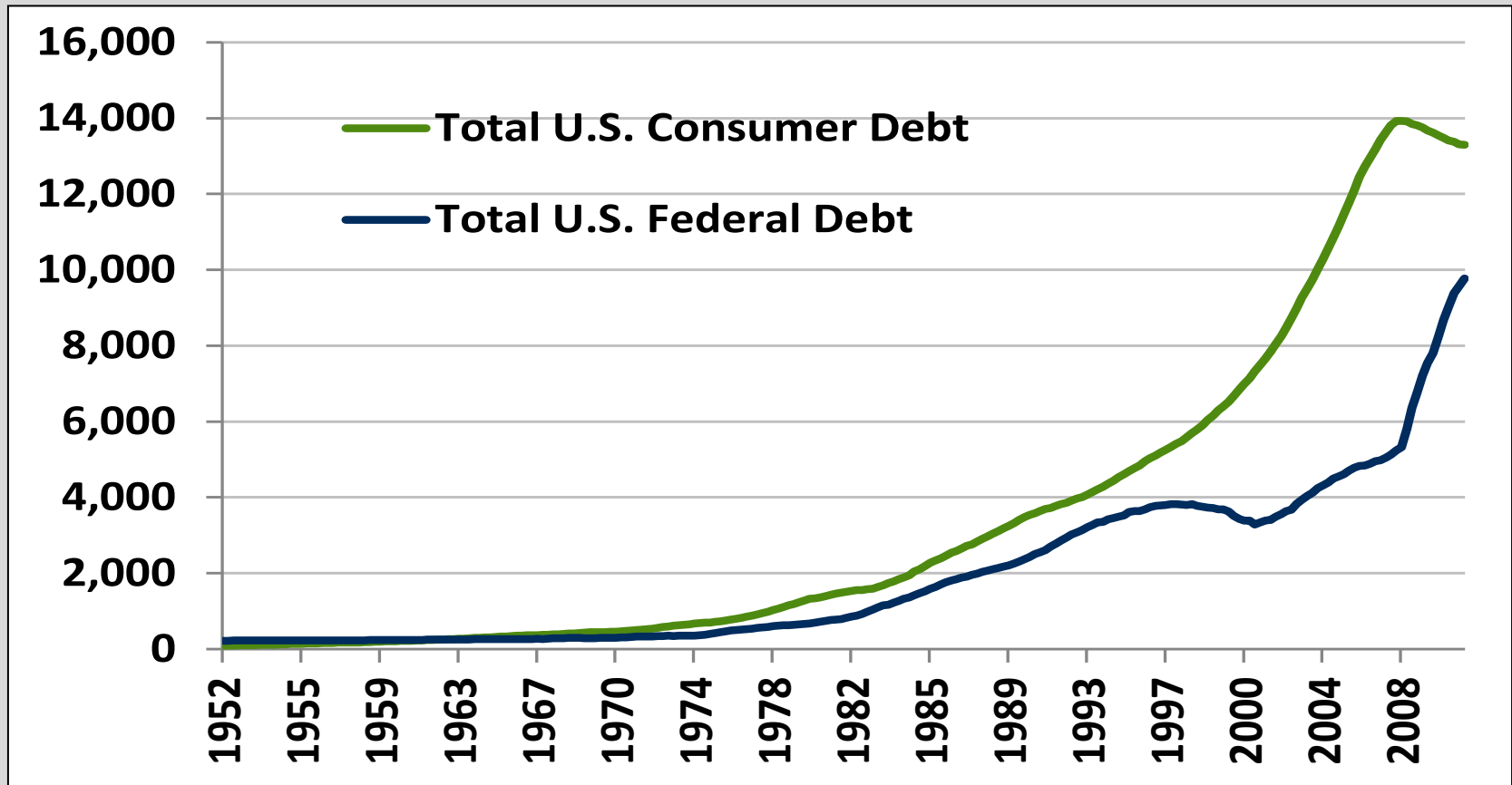
Longer Term Concerns: Rising Debt

- Solutions to debt problem will act as a drag on growth for Europe



Longer Term Concerns: Rising Debt

- Deleveraging process in U.S. still in early stages and process will likely be worse in Europe

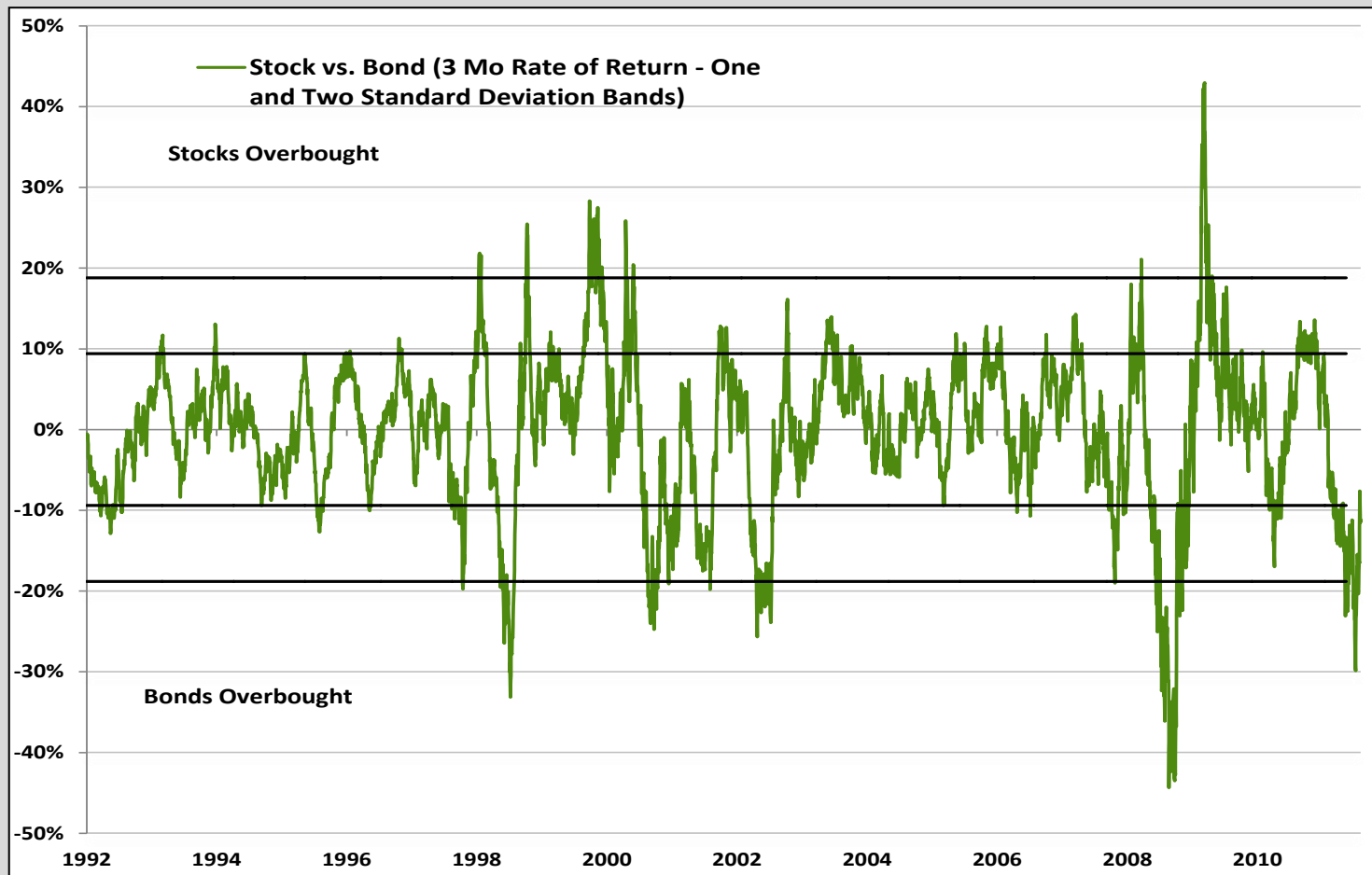


Themes & Ideas: Summary

- Time to Start Thinking About Asset Rotation
- Low & Negative Real Interest Rates Can Make High Yielders Attractive
- Stocks with Steady Growth, Global Exposure & Share Buybacks
- Taking Advantage of Long-term Consumption Patterns Arising from Emerging Market Growth

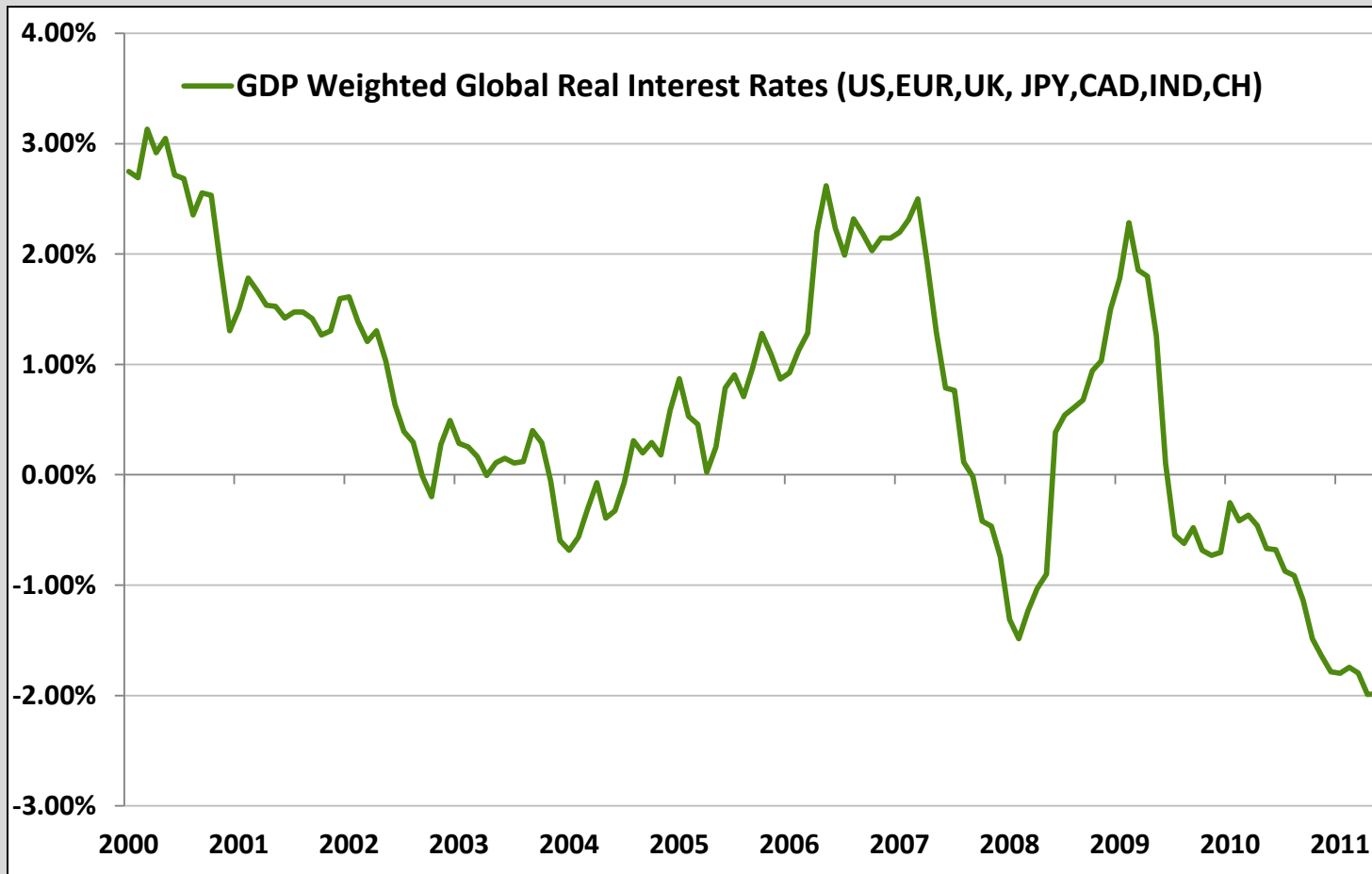
Trends & Ideas: Asset Rotation

- Stocks are cheap vs. bonds



Trends & Ideas: Low Rates

- Fed, BoC, BoE, BoJ, etc. will all keep rates low for foreseeable future



Trends & Ideas: Low Rates

- Property REITs performance should be higher considering real interest rates are negative, debt levels are low and FFO growth is high

Company Name	Recent price (C\$)	Market cap (C\$)	Yield (%)	FFO payout ratio (%)	Y-t-d return (%)
H&R Real Estate Investment Trust	\$21.75	\$3,429,444,000	4.8%	51.9%	16.3%
Dundee Real Estate Investment Trust	\$33.01	\$2,157,753,000	6.7%	73.6%	15.7%
Canadian Apartment Properties REIT	\$20.19	\$1,713,672,000	5.3%	88.8%	23.4%
Cominar Real Estate Investment Trust	\$22.42	\$1,554,010,000	6.4%	83.3%	13.6%
Morguard Real Estate Investment Trust	\$15.56	\$886,750,400	5.8%	70.0%	11.2%
Crombie Real Estate Investment Trust	\$13.36	\$549,942,200	6.7%	43.2%	10.9%
Average			6.0%	68.5%	15.2%

Trends & Ideas: Low Rates

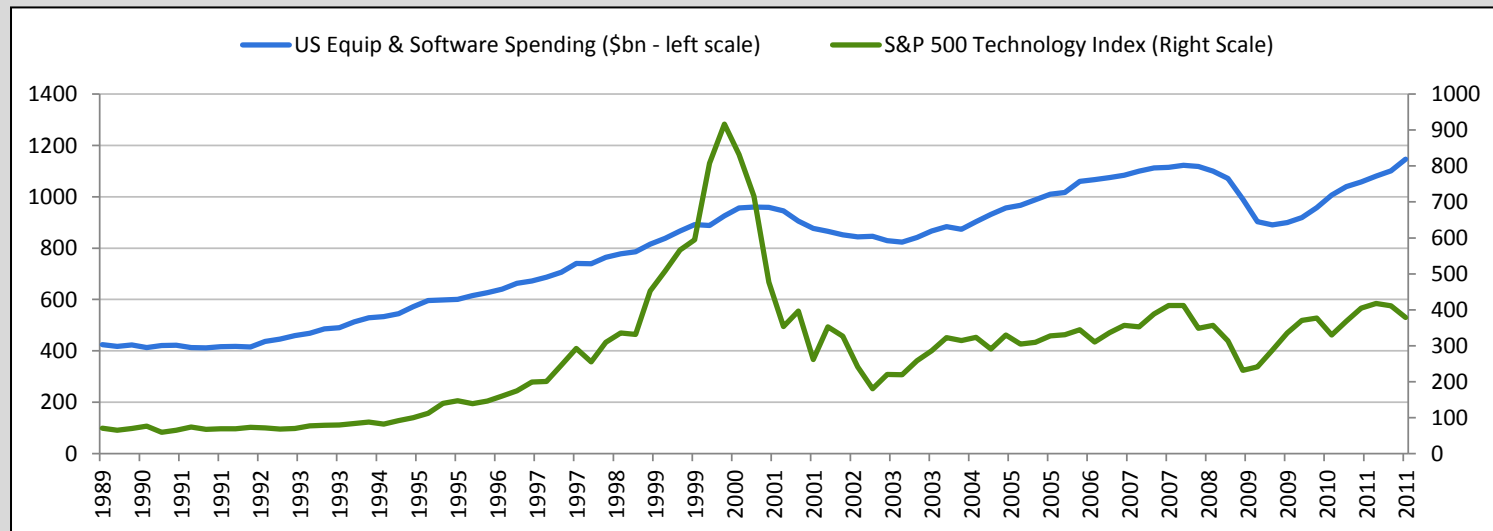
- Globally, dividend growth has been one of the best styles over both short and long term

Company Name	Industry	Yield (%)	5 Yr Dividend Growth	1 Yr Dividend Growth	3 Yr Dividend Growth Forecast
Rogers Communications	Telecom	3.87%	79.18%	10.80%	9.43%
Corus Entertainment	Media	4.53%	27.39%	30.00%	10.68%
Enbridge Inc	Pipelines	2.84%	10.51%	15.20%	7.82%
Telus Corp	Telecom	4.07%	14.34%	10.26%	9.20%
Shopper's Drug Mart	Retail	2.40%	16.21%	9.55%	6.87%
Bank of Nova Scotia	Banks	4.00%	6.45%	4.59%	10.82%
Cenovus Energy	Oil&Gas	2.35%	n/a	-1.76%	10.86%
Royal Bank of Canada	Banks	4.60%	7.63%	4.00%	7.72%
Emera Inc	Electric	4.13%	8.08%	12.90%	3.67%
TransCanada Corp	Pipelines	4.01%	5.59%	5.06%	4.60%
Reitman's Corp	Retail	5.25%	8.18%	5.26%	0.00%
Canadian Apartment Props	REITS	5.34%	0.00%	0.00%	5.27%
North-West Co	Food	4.99%	9.32%	-19.01%	1.43%
RioCan REIT	REITS	5.52%	1.32%	0.00%	2.82%
Fortis Inc	Electric	3.43%	11.41%	4.55%	3.90%
Average		4.09%	14.69%	6.09%	8.15%

Trends & Ideas: Growth & Buybacks

- Technology should benefit from skipped upgrade cycles, low debt, high cash positions and international focus

Company Name	Industry	Recent price (US\$)	Yield (%)	Consensus P/E curr yr (x)	EPS average 5-year growth (%)
Oracle Corp	Systems Software	\$32.28	0.7%	13.4x	23.0x
Intel Corp	Semiconductors	\$23.85	3.5%	9.6x	25.5x
Hewlett-Packard Co	Computer Hardware	\$25.91	1.9%	5.3x	14.8x
Corning Inc	Electronic Components	\$13.96	2.2%	7.6x	14.9x
Analog Devices Inc	Semiconductors	\$35.50	2.8%	12.8x	36.1x
CA Inc	Systems Software	\$21.24	0.9%	9.9x	52.8x
Harris Corp	Comms Equipment	\$36.99	3.0%	7.2x	13.5x
Open Text Corp	Internet Software	\$60.32	0.0%	12.5x	245.1x
Average			1.9%	9.8x	53.2x



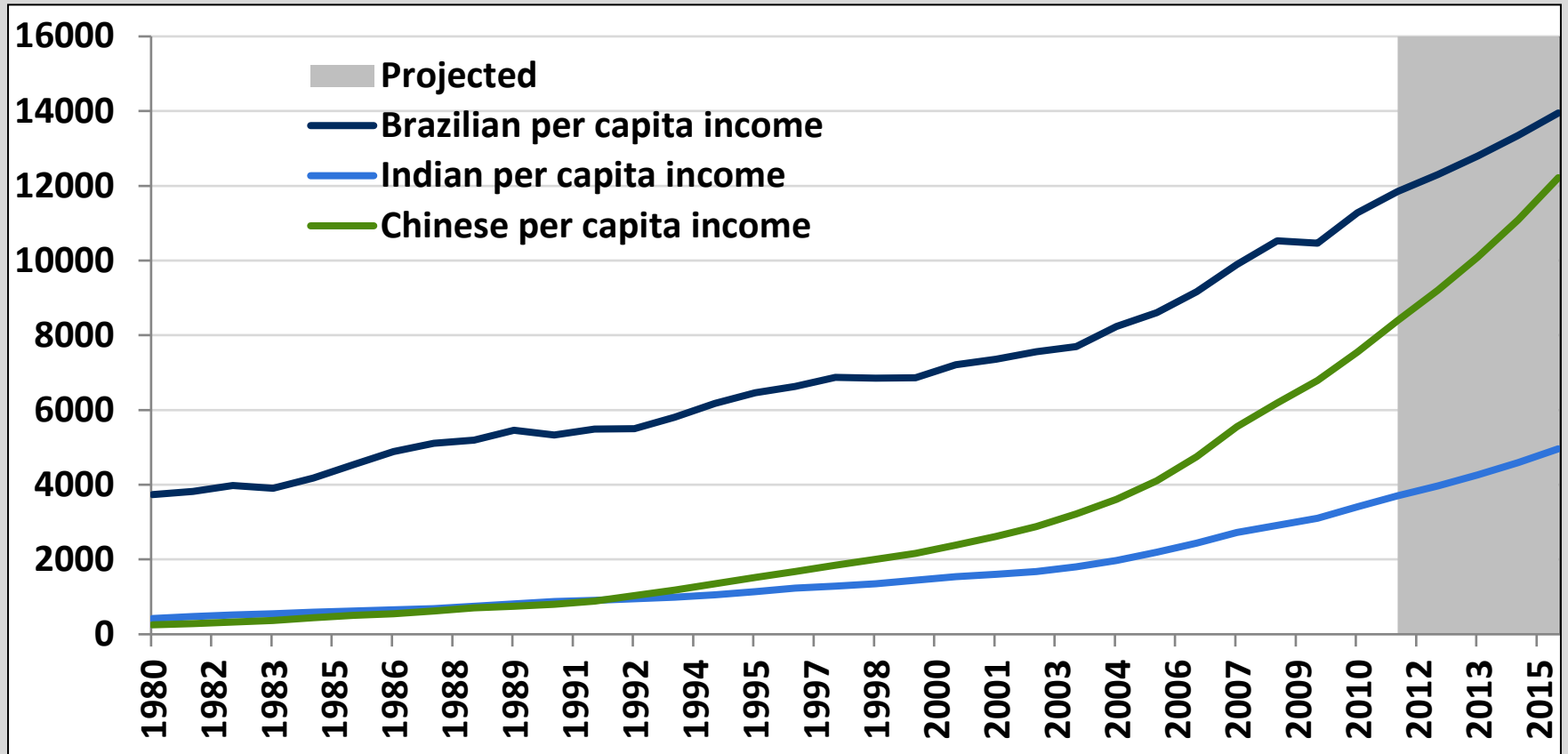
Trends & Ideas: Growth & Buybacks

- High profitability, limited investment options, and cheap valuations favours investing in companies that are buying their stock back.

Company Name	Sector	Curr shares O/S (mil)	Shares O/S 29-Oct-10 (mil)	% chg 1 year
MacDonald Dettwiler	Information Technology	31.8	41.0	-22%
Jean Coutu	Consumer Staples	107.2	119.3	-10%
Groupe Aeroplan	Consumer Discretionary	176.7	193.6	-9%
Tim Horton's	Consumer Discretionary	159.1	173.6	-8%
Rogers Communications	Telecom	426.9	462.1	-8%
Genworth Financial	Financials	98.7	104.8	-6%
Celestica	Information Technology	197.5	209.6	-6%
Nordion	Health Care	63.6	67.2	-5%
CGI Group	Information Technology	229.7	241.4	-5%
Potash Corp	Materials	856.2	892.7	-4%
Westjet Airlines	Industrials	134.2	139.8	-4%
Canadian Natl Rail	Industrials	447.0	464.4	-4%
Metro Inc	Consumer Staples	101.3	104.9	-3%
Saputo Inc	Consumer Staples	202.6	207.7	-2%
Alimentation Couche-Tard	Consumer Staples	128.6	131.7	-2%
Astral Media	Consumer Discretionary	52.7	53.9	-2%
IGM Financial	Financials	257.5	261.7	-2%
Empire Co	Consumer Staples	33.7	34.2	-1%
Average				-5.8%

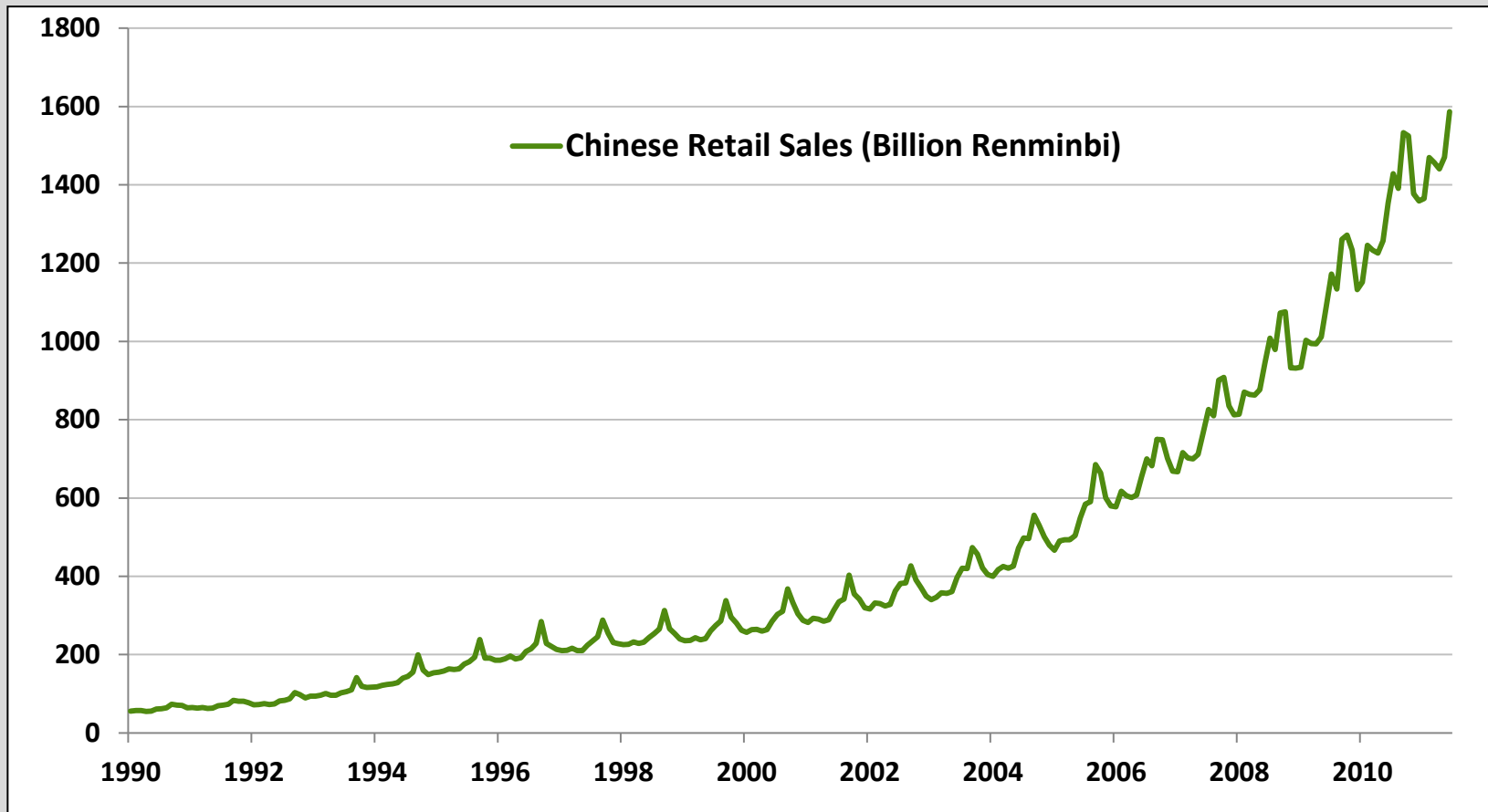
Trends & Ideas: Long-term Consumption

- Emerging market consumption will likely be the major theme of next decade



Trends & Ideas: Long-term Consumption

- Chinese government policy is now to grow domestic economy



Trends & Ideas: Long-term Consumption

- Best way to play EM consumption theme is through global consumer product companies with global franchises and name brand recognition

Company Name	Industry	Country	% sales from EM	Yield (%)	Consensus P/E curr yr (x)	FCY (%)	EPS 1-year growth (%)
Swatch Group AG/The	Apparel, Accessories & Luxury	SWITZERLAND	40%	1.4%	15.7x	4.0%	40.1%
Cie Financiere Rich.	Apparel, Accessories & Luxury	SWITZERLAND	40%	0.9%	17.0x	5.4%	81.7%
Remy Cointreau SA	Distillers & Vintners	FRANCE	37%	2.2%	20.4x	5.3%	-20.3%
LVMH SA	Apparel, Accessories & Luxury	FRANCE	35%	1.9%	19.0x	4.4%	71.4%
Volkswagen AG	Automobile Manufacturers	GERMANY	32%	1.9%	4.8x	-0.8%	541.1%
Danone	Packaged Foods & Meats	FRANCE	43%	2.7%	16.7x	5.5%	26.1%
Diageo PLC	Distillers & Vintners	BRITAIN	31%	3.5%	14.5x	5.2%	14.9%
Carlsberg A/S	Brewers	DENMARK	38%	1.4%	10.2x	n/a	48.5%
Yum! Brands Inc	Restaurants	UNITED STATES	32%	2.1%	18.6x	5.3%	7.0%
Philip Morris Intl	Tobacco	UNITED STATES	50%	4.4%	14.5x	7.8%	20.9%
Tiffany & Co	Specialty Stores	UNITED STATES	20%	1.5%	21.2x	2.1%	36.0%
NIKE Inc	Footwear	UNITED STATES	24%	1.3%	19.1x	2.7%	14.0%
PepsiCo Inc/NC	Soft Drinks	UNITED STATES	20%	3.3%	14.2x	5.0%	4.2%
Coca-Cola Co/The	Soft Drinks	UNITED STATES	45%	2.8%	17.7x	4.1%	73.6%
Procter & Gamble	Household Products	UNITED STATES	27%	3.3%	15.0x	5.3%	11.4%
McDonald's Corp	Restaurants	UNITED STATES	4%	3.0%	17.8x	4.4%	11.3%
Kraft Foods Inc	Packaged Foods & Meats	UNITED STATES	26%	3.3%	15.2x	2.6%	-24.2%
Colgate-Palmolive	Household Products	UNITED STATES	39%	2.6%	17.5x	5.8%	-1.8%
Average			32.4%	2.4%	16.1x	4.3%	53.1%