RICHARDSON GMP

FOURTH QUARTER ACCOUNTABILITY
2014

Buy What's Working

Fixed Income remains unattractive as yields are very low. It seems they may not rise in the short-term, but may eventually. Own less fixed income than target levels and prefer quality corporate issues over government ones.

Health, Technology, and Consumer stocks lead the market, consistent with continued expansion. Own these sectors.

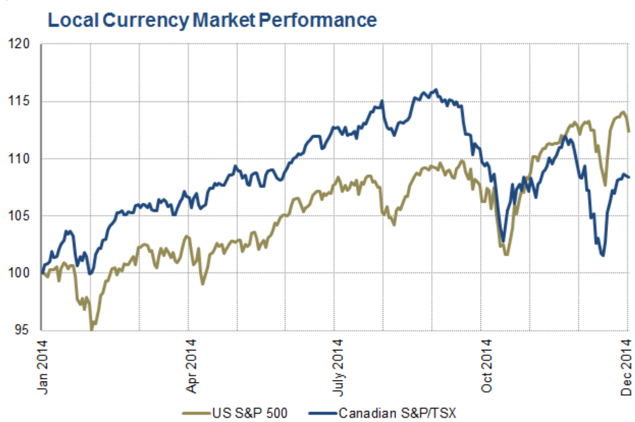
Political and economic uncertainty continues to drive investment toward the U.S., the largest and most developed stock market in the world. Own more U.S. equity than Canadian.

Energy struggles to stop falling. Although a bottom is likely in 2015, it often takes years for investors to return to industries that are cut in half. The debate continues as to whether falling energy prices are a stimulus for the consumer and economy, or are an indicator of underlying weakness in economic demand. Stay on the sidelines until a longer-term bottom is in place.

Hedge funds' ability to produce gains and protect from losses during heightened market volatility is being tested. Increase exposure to hedge strategies that reduce risk, but have a discipline that makes money.

U.S. Regains Leadership

After three years of lagging U.S. markets, Canadian stocks appeared to be winning the 2014 race. Abruptly that changed in September when oil prices started falling.



Source: ThomsonOne

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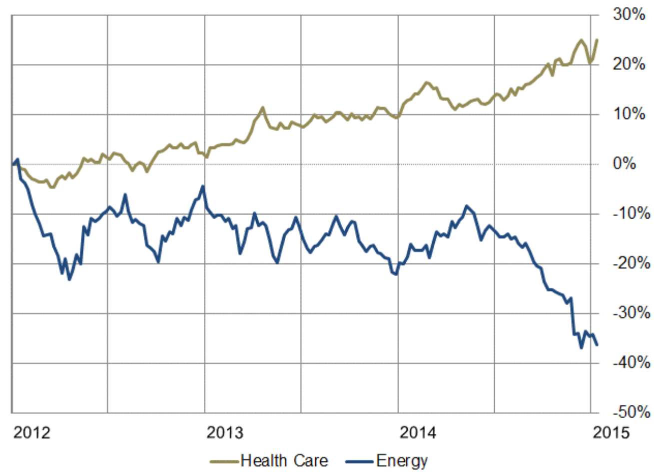
It seems that half the research sent to me in my Calgary office is about energy. How is the industry going to adapt to the significant oil price drop? Simple. By making less money. By the weak collapsing and the strong buying them.

Energy companies are cutting capital expenditure programs. Dividends are being reduced. High-cost production is being shut in. Staff, particularly contract employees, are being laid off. Cash flow estimates and earnings are continually decreasing. **The weakness has just started.** It may take several quarters or years of belt-tightening. Why speculate on a short-term energy rebound when the rest of the industry sectors are undergoing a technological renaissance, benefitting from lower energy prices, lower interest rates, and setting earnings records. Global investors are pouring money into the United States. Why miss out on that?

US Relative Strength of Health and Energy Versus S&P 500



Source: ThomsonOne

Health and Technology Stocks Represent Opportunity

Last year, $2.8 trillion was spent in the U.S. healthcare industry and this amount is growing every year. In one survey by Price Waterhouse Cooper's Health Research Institute, consumers indicated they are willing to spend collectively up to $13.6 billion a year of their own money on medical products.[1] People tend to care about their health regardless of any economic cycle, and there are several reasons the industry continues to grow:

- The baby boomers are entering their senior years, while lifespans are being extended.
- The Affordable Care Act has newly insured about 10 million Americans. Since July 2013 about six million young adults between age 19 and 34 gained coverage.[2]
- Emerging markets are rapidly experiencing growth in income levels per capita. The emergence of a middle class creates demand for global health products and solutions.
- There are more health solutions to choose from. Research and innovation continue to expand the medications, devices, and treatments available.
- Health products and services are increasingly expensive. Drugs and devices are more effective, but can be more complex, and require massive amounts of capital for research, approval, and ongoing use.

There is a reformation taking place in the health care industry. The system established decades ago focuses on patients interacting with large institutions to obtain health care from a small number of highly educated professionals. Patients deal with insurance companies, drug companies, hospitals, and are overseen primarily by doctors with their surrounding infrastructure and care workers. This system may not handle future demands.

The model is changing because of the current system's challenges in dealing with the volume of growth, disruptive technologies, significant cost increases for treatments, revelation of unnecessary procedures, administrative waste, greater information, and choice availability. The attitudes towards health have changed to favour education, preventative health solutions, and involvement in treatment selection. This shift is enabled by the significant availability of information, cost-effective technological devices and treatments for more conditions.

[1] "New Health Economy", PwC Health Research Institute, April 2014

[2] "Top health industry issues of 2015", PwC Health Research Institute, December 2014

Today healthcare revenue flows from government and employers through third-party payers, insulating consumers from true costs. As consumers become more involved and responsible for their own health solutions, they will demand the best value. Increasingly both doctors and patients are willing to incorporate "do-it-yourself" tools to engage patients.

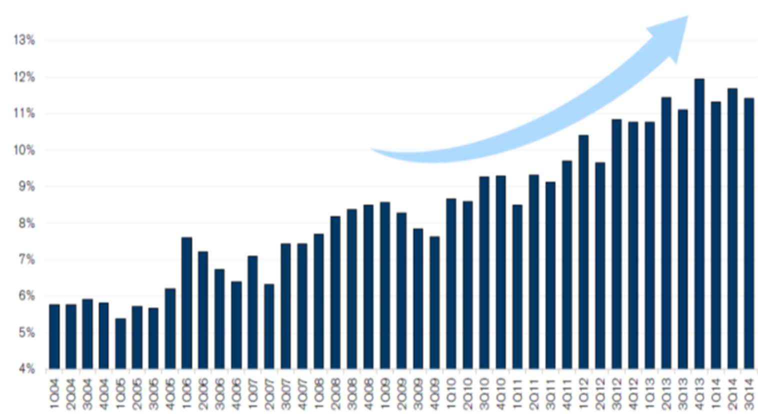
For example, **technology companies are building intuitive mobile medical devices and apps** that monitor vital signs, analyze blood and urine, track medication adherence, and more. Personal medical kits could help diagnose illness, signal early signs of trouble, and allow recovery and rehabilitation closer to home.

One interesting 2015 competition is the $10 million Qualcomm Tricorder XPRIZE. It is a global competition to create a personal device able to diagnose 16 conditions and measure 5 real-time vital signs in a non-invasive manner.[3] Another example is Vital Connect's system that records heart rate, electro-cardiography, respiratory rate, skin temperature, activity, and posture is intended to connect clinicians to patients wherever they are.

New tools can provide quantifiable data to support outcomes-based reimbursement models. Apps on a smartphone can provide meaningful data quickly. Those apps earning regulatory approval gain the most legitimacy. Insurance companies can reduce their costs by patients being able to provide better monitoring information which avoids unnecessarily using the wrong medical treatments. The demand for technological innovation comes from everywhere.

From an investment standpoint, the revenues from companies that produce highly specialized branded drugs have been rapidly increasing. This has made biotechnology companies that have commercial drugs available highly profitable, and able to feed future research and innovation. However, there is a growing conflict between drug access and affordability. Insurers are fighting back by limiting access to high-priced drugs. Gilead, Express Scripts, and Abbvie recently have been in a battle over the pricing and coverage of the expensive cure for Hepatitis C. Owning biotech companies can be very lucrative because of the monopoly pricing a newly patented drug gains. But investors should be cautious of price pressures and competitive lower cost alternatives.

US Top 140 Branded Drugs Average Price Growth Year-Over-Year



Source: Medispan, Credit Suisse estimates

Healthcare stocks should obtain a large representation in investor's accounts. The sector accounts for 15% of each of the American and German stock markets. Currently it is one of the strongest areas of outperformance relative to other sectors in global markets, and so more than index levels should be owned. Managed accounts own the following companies in the health sector at year end:

Baxter International: Medical equipment (I.V., dialysis, anesthesia, surgical tools) and bioscience (hemophilia, tumors).
Biogen: Neurodegenerative diseases (MS), hemophilia and autoimmune disorders.
Gilead: Immunodeficiency virus (AIDS), liver disease, cardiovascular and respiratory conditions.
Mylan: Large manufacturer of branded and generic drugs. Studies and creates generics from branded drugs.
St. Jude Medical: Cardiovascular medical devices and procedures.
Valeant Pharmaceutical: Wide range of marketed drugs and products. Focus on dermatology and vision.
iShares Nasdaq Biotechnology ETF: Basket of biotechnology companies.

[3] http://tricorder.xprize.org/about/overview

Security	Curr	9/30/2014 Value	Buys Date	Buys Price	Sells Date	Sells Price	12/31/2014 Value	4th Quarter Dividends	Total Return
Top Performers									
Ross Stores Inc	U	75.25					94.26	0.200	26%
Mylan Inc	U	45.49					56.37		24%
Constellation Software Inc		281.49					345.44	1.000	23%
North West Co Inc		22.38					26.20	0.290	18%
Shaw Communications B		27.45					31.35	0.275	15%
BCE Inc		47.89					53.28	0.618	13%
Saputo Inc		31.33					34.92	0.130	12%
Core Portfolio									
Open Text Corp		61.95					67.61	0.173	9%
St. Jude Medical	U	60.13					65.03	0.270	9%
Apple Inc	U	100.75	12/18/2014	111.99			110.38	0.470	8%
Colgate Palmolive Co	U	65.22					69.19	0.360	7%
Micron			10/31/2014	33.00			35.01		6%
Great West Lifeco Inc		32.21					33.59	0.308	5%
RF Micro Devices	U		12/18/2014	15.98			16.59		4%
Baxter International	U	71.77					73.29	0.520	3%
Ishares Nasdaq Biotech ETF	U		11/21/2014	295.00			303.35		3%
Biogen Idec Inc	U	330.81					339.45		3%
Royal Bank		80.05	11/3/2014	80.00			80.24	0.750	1%
Valeant Pharmaceuticals International			12/18/2014	165.33			166.33		1%
Qualcom Inc	U	74.77	10/3/2014	75.00			74.33	0.420	1%
			11/19/2014	70.75					
Walton Westphalia		5.00					5.00		0%
Ishares MSCI Belgium ETF	U	16.32					16.21	0.073	0%
Priceline.Com Inc	U	1,158.58					1,140.21		-2%
National Bank of Canada		51.03					49.44	0.500	-2%
Bank of Nova Scotia			10/31/2014	68.93			66.31		-4%
Ishares MSCI India ETF	U		11/21/2014	32.35			29.95	0.113	-7%
Watchlist									
Gamestop	U	41.20	10/3/2014	40.85			33.80	0.330	-12%
			12/1/2014	37.00					
			12/22/2014	34.75					
Gilead Sciences	U		11/10/2014	106.90			94.26		-11%
			12/5/2014	104.98					
Energy Related									
Alliance Resource Limited Partners	U	42.84			10/14/2014	38.14			-11%
Bankers Petroleum		5.39			10/23/2014	4.48			-17%
Raging River Exploration		9.17					7.34		-20%
Crew Energy		9.89			10/15/2014	7.75			-22%
Whitecap Resources		16.03					11.44	0.188	-27%
Pason Systems		31.31	11/25/2014	27.25			21.89	0.170	-28%
Deethree Exploration	U	9.10			11/4/2014	5.75			-37%
Tamarack Valley Energy		6.59			11/25/2014	4.02			-39%
Black Diamond Grp Ltd		23.82			12/10/2014	14.24		0.160	-40%
Other Sales									
Tim Hortons		88.19			10/24/2014	88.85			1%
Sandvine Corp		2.77			10/22/2014	2.76			0%
Ishares MSCI UK ETF	U	19.38			10/15/2014	18.04			-7%
Ishares MSCI Germany ETF	U	28.06			10/10/2014	25.83			-8%
Labrador Iron Ore Royalty		21.85			10/15/2014	20.00			-8%

Source: Richardson GMP as at December 31, 2014

Analysis of Third Quarter Trading Activity

1. **Stocks in the Health and Technology sectors had a fantastic quarter in the portfolio.** It is encouraging to see these groups, which account for close to half of the equity dollars in managed portfolios at the end of the year, show leadership. Investments are being focused in the winning securities.

2. **Consumer Staples and Telecom stocks also outperformed in the quarter.** These stocks are of a defensive nature, and show that either investors are becoming nervous about growth companies, or are attracted to the above average dividends in these more mature, conservative companies. Utilities were not owned in the portfolio but posted strong gains which again suggest caution.

3. **The biggest problem in the quarter was the collapsing of energy stocks.**

   a. Managed portfolios moved from no exposure to energy at the beginning of 2014, to approximately a 15-18% weighting by the spring. Last year's cold winter depleted oil & gas inventories and prices were strong in the spring. Significant strength continued through into July and there was the possibility that inventories would remain below average before the next winter began. Conflicts in the Ukraine, northern Syria, and related to ISIS intensified in the late summer. These factors suggested that prices for energy could experience upward pressures suggesting that having an energy weighting going into September made sense.

   b. Instead, OPEC remained committed to a supply level for oil that seemed too high, demand was weak in the face of economic slowdown in Europe, and oil prices plummeted. Oil prices were essentially cut in half in four months, and natural gas prices fell by around 30% during the same period.

   c. Stop loss levels for energy stocks in the managed portfolios were set too low. Over the last two years, during the sustained bull market stop losses that were triggered, tended to be followed by an immediate recovery. For example, managed portfolios were stopped out of health securities in March and April when the Nasdaq sharply corrected only to stabilize and within months set new highs. There were four securities during the year stopped out which subsequently rallied. Getting "trained to loosen stop loss levels", combined with disbelief on how rapidly energy stocks dropped, caused stops to be set too low for energy stocks in the Fall.

4. **I have amended my stop loss strategy to sell in halves as a result of studying the trading over this last year.** A fairly tight level of stop seems to be a good idea. Selling in increments may allow more conviction to move quicker. When stocks show that a false breakdown has occurred and they shouldn't have been sold by stop loss, there will also be greater consideration to reacquire them. Valeant Pharmaceuticals is an example of a stock re-entered in managed accounts after being sold by stop loss, once the risk of the Allergan takeover was eliminated. Continued diligence is needed on a stock-by-stock basis as to what price and situation will require using a stop.

5. **Gamestop and Gilead Sciences are two stocks in the stop loss decision zone, or Warning Watch List.** Both continue to rank well quantitatively in my models. However each is at a technical support low based in historic trading prices and both have news casting uncertainty over short-term issues. Subsequent to year end, half of Gamestop was eliminated using the revised stop loss strategy, while Gilead proactively issued news that counteracted the event that caused uncertainty, and the stock rallied. Fortunately no Gilead shares were sold, capturing the full rally. Gamestop did rebound after breaking the first stop so only half the position was retained and benefited.

6. **I expect energy stocks to spend a long time forming a base.** I do anticipate that base to be formed when oil moves to a higher oil price, but can't be sure when oil prices themselves will finally turn upward.

7. **I hope to increase exposure to U.S. stocks to over 65% of the total equity in portfolios from the current 55%** (unique situations aside)**.** Should there be any strength in the Canadian dollar in the short-term, it is likely an opportunity to sell them and move into U.S. dollars.

Market Summary

Index	Country	2014	2013	2012
S&P/TSX Composite Total Return Index	Canada	10.6%	13.0%	7.2%
Canadian DEX Bond Universe	Canada	7.1%	-1.2%	3.6%
Canadian 3-Month T-Bill	Canada	0.9%	0.0%	0.5%
MSCI World Index	World	12.6%	32.9%	10.2%
S&P 500 Total Return Index	U.S.	21.9%	41.8%	13.0%
Nasdaq Composite Index	U.S.	24.0%	48.1%	12.9%
Euro Stoxx 50 Index	Europe	-2.5%	31.5%	12.6%
Nikkei 225 Index	Japan	3.1%	38.2%	6.9%
MSCI Emerging Markets Index	E.M.	4.3%	1.7%	12.2%

Source: Richardson GMP as at December 31, 2014. Results are stated after conversion to Canadian dollars.

Registered Account Contributions

Please take some time to review your registered accounts and tax situation. We don't have access to employment and tax information to ensure that you are making proper contributions, and need your assistance.

- **Determine if you can make a contribution to your RSP to maximize your deduction in 2014.** Start with your notice of assessment from last year's tax return to establish your maximum contribution. Deduct any contributions made through your employer over the year and those that you have already made to any RSP plan. **Monday, March 2nd is the deadline for contributions to count for 2014's tax return**.
- **Canadian citizens over 18 are eligible to contribute a further $5,500 to their Tax Free Savings Accounts (TFSAs) now that it is 2015.** Cumulatively, each person is allowed to have contributed a meaningful $36,500.
- **Registered Education Savings Plans (RESPs) can be contributed to for 2015.** A federal grant of 20% is earned for contributions up to $2,500 per beneficiary, before the calendar year they turn 18. Missed contributions from prior years can be caught up, subject to some special rules.

Regards,

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