October 2012 Market Comments

General Comments

Investors were braced for a weak summer in global stock markets, but instead many observed strong three-month performance over the third quarter from the sidelines.

I expect tepid strength in stocks during the final quarter of the year.

Many investors might call the summer performance this year, "the rally they never wanted". The Canadian stock market stalled in the spring of 2011 and although it seems to have formed a bottom, it has spent much of the year in a loss position, poking into positive results briefly in March, and then again just recently.

Canadian investors may not feel they missed much. For much of the 2000's, diversification outside of Canada didn't work. In contrast to most portfolio management and investment advice, it made sense to keep one's money concentrated in Canada's 2% of the world economy, and in Canada's stock index that only has three of the ten industry groups in any size – energy, materials and banks.

Almost quietly, since mid-2010, the Canadian stock market has ended its decade long reign of outperformance. The U.S. S&P 500 Index gained 15.8% in Canadian dollar terms this year-to-date, compared to The Canadian S&P/TSX Composite, returning 5.4% year-to-date, recovering from a 1.1% loss position after the first six months of this year.

Bonds have slowed in their returns as well. With the average yield of Canadian ten-year government bonds around 1.81%, returns going forward from government fixed income look unappealing. This hasn't stopped some professionals from recommending government bonds based their prior track record alone - an appealing 7% per-year-average for nearly a decade. Historic returns were boosted by falling interest rates – as yields drop, bond prices moved up. Going forward, rates will have to drop nearly a full percent to provide historic returns. Since government bonds are fully interest-sensitive, if rates in Canada move up, investors should expect negative results from government bonds and funds. Bonds have averaged 3.3% year-to-date.

An estimated 98% of institutional managers in the United States have underperformed the stock market. With all the pessimistic economic attitudes, many were cautious, and now have only three months to catch up to the average gain of 15.8% in the US. Canadians have been lulled into believing that diversification outside of Canada and outside of three sectors doesn't work. Portfolio management disciplines promoting global diversification are now starting to outperform.

Managed portfolios have seen an increase in their U.S. exposure. With the Canadian dollar trading at an attractive exchange rate, U.S. investments are even more attractive. The sectors clients own most exposure to in the U.S. is clothing/retail, technology, and the biotechnology area of healthcare. Apple has been the best performer in portfolios.

Canadian portfolios are best described by what they don't have. No banks, insurance companies, or energy companies. This makes the portfolios fundamentally different to the makeup of the Canadian index. There is a core dividend-paying set of companies across several industries, but mainly communication/telecom stocks. There is still an overweight position in gold stocks and funds, and a recent trading position added in base metals.

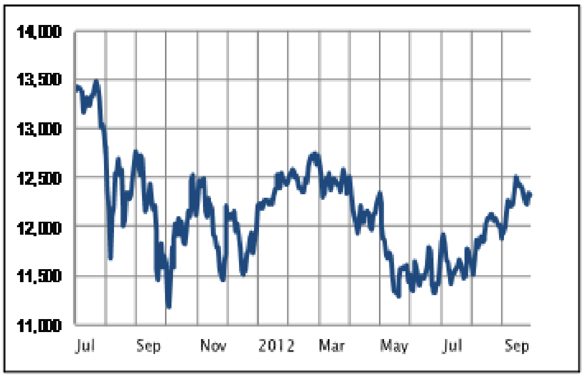
Internationally, investment is still somewhat low, and focused in emerging markets.

Fixed income is focused on higher yielding corporate bonds of solid companies, moving yield-to-maturity for most portfolios in the 4-5% range if interest rates remain the same, while those still looking at GICs, rolling cash into short-term investments, or buying government bonds are often earning well below inflation.

A note of caution is that positive sentiment for stocks has reached exuberant levels, while fixed income sentiment is starting to become pessimistic. Often a tactical shift from stocks and equities to bonds comes into play within 2-4 months of the current sentiment indicators – selling stocks when sentiment is past peak levels and moving to bonds or cash. The market may turn down by December through February sometime.

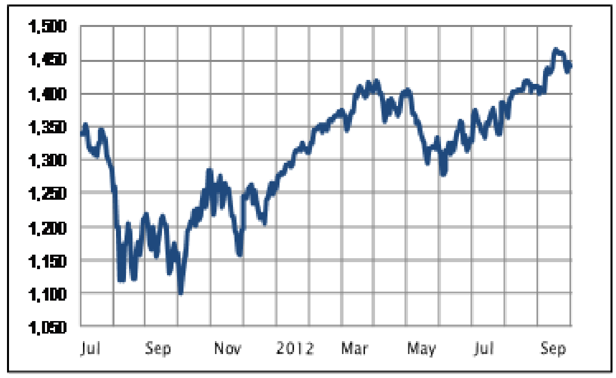
Market Snapshot

S&P/TSX Index (Canada)



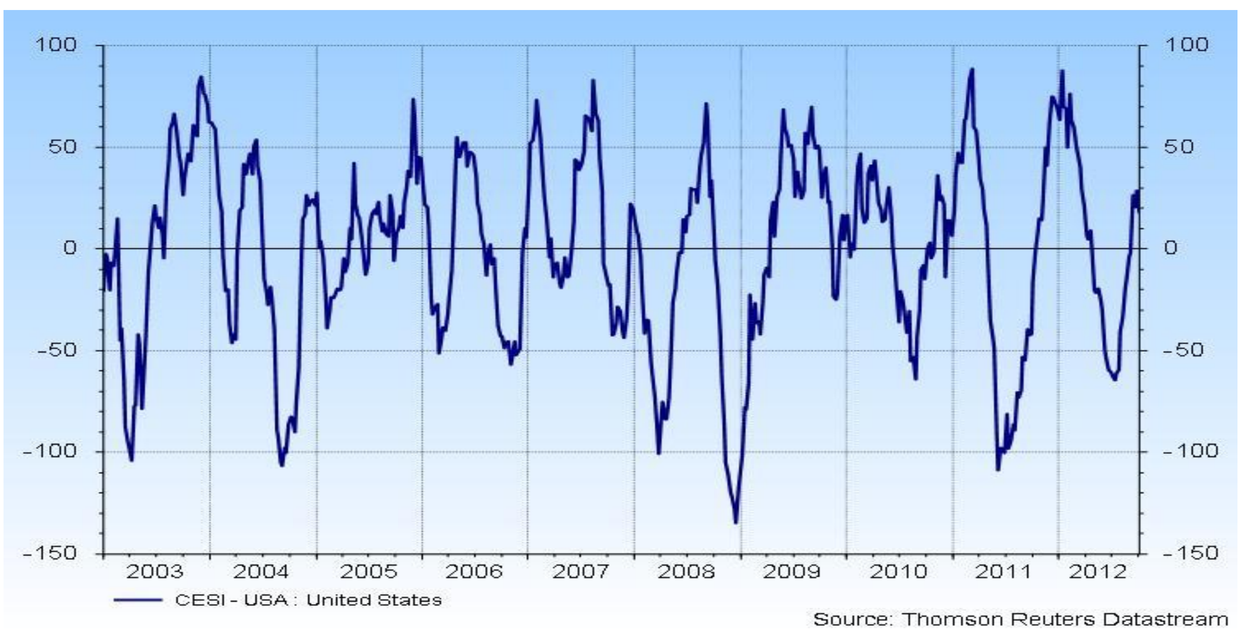
Source: Thomson ONE

S&P 500 Index (U.S.)



Source: Thomson ONE

Citigroup Economic Surprise Index (US)



The Citigroup Economic Surprise Index represents the difference between actual economic data and expected economic data. Rather than earnings surprises, they represent economic surprises, like purchasing, GDP, jobs, and inventory measurements.

This data is an objective measure of whether the U.S. economy is doing better or worse than projected.

During September, the data passed above the zero line. This means that on balance economic projections have been more pessimistic than actual. Actual results have been beating expectations.

RICHARDSON GMP

Managed Accounts – August and September Transactions

Managed accounts are discretionary accounts in which I can proactively make trades in a client's best interest based on a written Investment Policy Statement and an intimate understanding of their financial goals. Conflicts of interest from commission are eliminated since commissions are not charged on individual trades. Logistical difficulties in contacting clients and obtaining authority for changes they would likely want are eliminated and all parties gain time not spent on discussing small details of individual securities. Instead, time can be focused on wealth planning and discussing what the client feels is important and wants to discuss.

The comments below represent changes I have already made for managed clients, but also represent a good source of ideas for those that manage their own portfolio and rely on me for implementation, ideas, and a source of professional feedback.

Summary: *I expected that July was going to be the weak month to accumulate stocks, but instead, market weakness ended prematurely by early June. In August, it became clear that cash was going to have to be deployed to participate in the stock rally.*

Only buying occurred in managed portfolios in August and September, with the exception of the elimination of the inverse note on the first trading day in August. This turned out to be a good sell as it would have dropped as markets rose.

Most of the buying was of American stocks (actually probably best described as global companies that trade on a U.S. stock exchange). Clothing, technology and biotechnology companies were the focus. There were significant additions to Canadian convertible debenture portfolios, and some addition to existing positions in metals companies that had dropped but were rebounding. A trading position has been put on in the Canadian Materials index that I expect to close out before the end of the year.

New Positions:

- Altus Group 6.75% 6/30/2017 convertible debenture
- Buckle Inc
- Celgene Corp
- Coach Inc
- Exchange Income 6.25% 5/31/2018 convertible debenture
- Men's Wearhouse
- NCR Corp
- Tricon Capital Group 6.375% 8/31/2017 convertible debenture
- Ishares S&P/TSX Capped Material Index

Existing Positions Added To:

- Barrick Gold Corp
- Labrador Iron Ore Royalty Corp
- Platinum Metals Group

Completely Sold Positions:

- Horizons Betapro 60 Inverse (done at beginning of period, August 3rd)

Covered Calls Written:

- Alamos Gold Oct $20

Note: Covered call writing has been minimal since volatility levels have become so low (almost the lowest level I remember in decades). In general, this means speculators are paying very low premiums to investors who own stock to guarantee a future sale price. Options are not paying enough to do many covered calls right now.

Alternative Investments

Leading pension fund managers and institutional investors are including alternative assets in their portfolios.

The chart on the right shows the average asset class type investments of the Public Sector Pension Investment Board, Healthcare of Ontario Pension Plan, Ontario Teacher's Pension Plan, Yale University Endowment, Harvard Endowment Report, Stanford University Endowment, British Colombia Investment Management Corporation and the Canada Pension Plan.

I currently have two alternative investments that may be appealing to you. Even in discretionary accounts, I prefer to discuss the unique properties of these products before adding them.

Institutional Investors	
Asset Class	
Equities	36%
Fixed Income	22%
Private Equity	13%
Real Assets	24%
Absolute Return	8%
Cash	-3%

Source: Priviti Energy LP 2012

GMPIM Canadian ABCP Fund LP

Until mid-2007, there were approximately 20 non-bank sponsored asset-backed commercial paper ("ABCP") Conduits operating in Canada. These Conduits borrowed in the short-term ABCP market and invested in assets with longer term maturities, thereby mismatching their assets and liabilities. In August of 2007, sufficient investors didn't renew their purchases of ABCP, causing the market to freeze.

The Montreal Accord separated the assets into pools, paying back retail investors with cash but providing sophisticated investors with their pro-rata share of the underlying assets owned. Individual assets were broken into tradable pieces, most of which traded at a discount and had a finite termination date established.

GMPIM has dedicated substantial resources to the analysis of the Canadian ABCP market. In order to be an active participant in this market, an investor must have access to Canadian accounts whom are existing holders of the Canadian ABCP and have extensive knowledge of both the Canadian and U.S. securitization markets from a structuring, documentation, and risk perspective. GMPIM has these qualities.

GMPIM's Canadian ABCP Fund started following and understanding this market in 2008, but began to invest through a mutual fund limited partnership structure available to retail investors in November, 2010. Since inception, this fund has returned a cumulative 32% to the end of July, 2012. **The expected maturity of this fund is June 30, 2017 and it has an anticipated internal rate of return of 8% over the remaining life of the fund, net of all fees.** The minimum position is $10,000.

Priviti Energy Limited Partnership 2012

The purpose of this investment structure is to purchase private oil & gas companies that don't trade on a stock exchange and hold them until a "liquidity event". At that time, they immediately return the proceeds from the sale of the company to the investor

This company has extensive experience and contacts in the private oil & gas company market. It includes Ward Mallabone, Robert Vargo, Dave Fischer, Sean Morgan, and Dave Richie. Their board and consultation committee include Paul Colborne, Matthew Brister, Tony Johnson, Greg Bay, and Dean Prodan.

	Realized ROI[1]	# of Realized Investments[2]
Priviti Energy LP 2007	57%	17 out of 21
Priviti Energy LP 2008	119%	18 out of 21
Priviti Energy LP 2009	31%	9 out of 17
Priviti Energy LP 2010	6%	6 out of 19
Priviti Energy LP 2011	-25%	1 out of 15

[1] Return on Investment for only the investments sold, cumulative total gain.
[2] Number of companies sold out of the total originally bought.

Often there is tremendous potential acquiring companies that are not listed, with private management, and holding them through until they are acquired or list on an exchange. Unfortunately, these partnerships are not easy to sell before they end or liquidate and distribute their holdings themselves. There is a $50,000 minimum purchase level.

Business Changes

We have two major changes in our business from an organizational point of view

Natasha Festa has returned to University to finish her degree in Education. She was an important element in helping us understand the administrative forms at Richardson GMP and has help us develop some new and better ones. We wish her well in her career as a teacher.

We have entered a coaching program. Rita and I hope to deepen our relationships with our clients, get a better evaluation of the services and communication best suited for each client, and have a strong organizational plan of managing the information we accumulated. This includes not only organizational tools, and stronger client relationships but learning more about social media and how to properly use it. We hope this continual coaching commitment we have made will allow us to improve the service we provide for you and remain above your expectations.

Brad A. Hunter, CA, CFP, CIM
Portfolio Manager, Director, Wealth Management | **Richardson GMP Limited**
Suite 4700 • 525 8th Avenue SW • Calgary, AB • T2P 1G1

Direct 403.355.6033
Toll Free 1.866.867.7735
Email Brad.Hunter@RichardsonGMP.com
Web **www.bhunter.ca**