TOUCHSTONE UPDATE

Richmond I Goodman Wealth Management

October 2016

Apophasis

The American political race has been employing a lot of rhetoric. One such male candidate *who-shall-remain-nameless* has said: "I refuse to disrespect the Clinton family by talking about Bill's indiscretions…" A moderately clever way to say something, without directly saying it (called Apophasis).

So…. We are *NOT* going to mention that in our last update *"The Dash for Trash"* we identified that the stocks with the worst fundamentals led the market during the first two quarters of 2016.

Historically, there have been periods when the market has rewarded stocks featuring characteristics that are – how shall we say this politely – less than ideal. The first half of 2016 was such a period. One of our data tools actually has a fictional 'Dangerous' Strategy – to highlight stocks that you do NOT want to own, or are candidates to be shorted (sold). The metrics and measures are pretty much the opposite of what we focus on. The *dangerous stocks* have high debt, are expensive, have anemic earnings presently and worse expected in the future, low margins, low ROE…in a nutshell stocks that are best avoided.

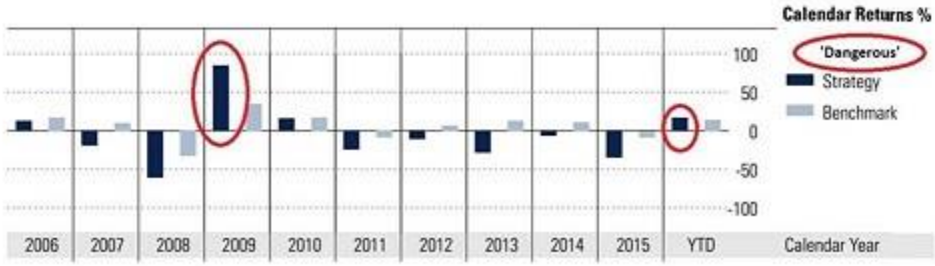
In the first six months of 2016 – this fictional Dangerous Strategy led most market strategies with a +17.3% return. Drilling deeper – nearly the entire market gains were accounted for by junior gold (predominantly) and energy stocks – the same stocks that performed so poorly the last 2 years. Many valid longer term strategies underperformed the market. The market generally ignored great stocks in growing industries, with positive earnings characteristics – in fact many of our portfolio names!

It's been an 'odd' market to say the least but one that is not a stranger to us. The good news is that these types of markets rarely last long – usually a few quarters – before some semblance of sanity returns. We saw this market behavior when Dangerous stocks led the way - in 2009.

We are reminded of *The Far Side* comic strip.

Source: Gary Larson

'Dangerous Stock Leadership is Unusual'



Source: Morningstar

We are in fact seeing normalcy return since the mid-point of 2016. The Dangerous stocks are starting to lose their steam. Our portfolios in contrast have enjoyed a strong, positive quarter beating the benchmark nicely since June. Whether we close the year in a 'normal' market or not – we will continue to practice our discipline and good judgement to guide our decisions.

As we conclude this letter, we will make sure *not* to mention that we remain in the Top Rankings of Mercer Consulting's Canadian Universe. Out of pure respect for other managers of strategies in the Canadian Mercer universe – we flatly refuse to point out that our strategy has established top ranked performance, with the *lowest risk measure* in the entire Mercer Canadian core equity universe. We will leave that to others more observant than us.

In a recent business planning meeting, we remarked that we are blessed with great clients – the kind that understand our investment process, are constructive with ideas to improve our service, are reasonable with expectations, and demanding that we do our very best for them. We do not take this for granted: as always, we are happy to discuss specific questions that you have any time.

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