The Dividend Value Discipline™
Market Commentary
1st Quarter 2014 (Q1) – as of March 31st

The first quarter of 2014 sprinted out of the gate, with the commodity-centric TSX Composite Total Return Index here in Canada up 6.2% since January 1st, whereas our American cousins have struggled, with the S&P 500 Total Return Index up a paltry 1.8% for the year (+5.9% in Canadian dollars).

Not surprisingly, fully invested accounts within **The Dividend Value Discipline™** have posted lesser (although solid) returns, in the +3.0% to +3.5% range on a year-to-date basis. As you know, the program takes a "shock absorber" approach to investing, with a balance between fixed income and equities, while always focusing on the "rent cheque". You should expect us to outperform stock indices in down markets and underperform in up markets. Due to differences in start dates and the timing of cash flows, no two account returns are exactly alike. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

Our objectives remain unchanged: (1) income every month; (2) buy only those securities which become attractive on a go-forward basis; and (3) returns of +8% each and every year. The major transactions over the last 90 days and the rationale thereof are as follows:

The number of "sell all's" last quarter was high by historical standards. We exited our final position in **Intel Corp.** with a gain of 11% over a two year hold. In short, Intel missed the boat on the mobile space and has scrambled to play catch up, without much success. There is no question that we should have sold it sooner. At our last review, we just saw too few catalysts that investors are likely to pay up for, and noted an increase in insider selling. It was time to head for greener pastures. Moving to Canada, our read on the energy complex suggested that pricing power was moving to the producers, as opposed to the service side. That bias played a part in the sale of energy services provider **Enerflex Ltd.**, booking a gain of 22% over a 15 month holding period. Our take was that the stock price was fully reflecting the value of the company. We also exited our position in pipe producer **ShawCor Ltd.** with a gain of 48% over a 26 month holding period. Their waning backlog, coupled with recent management changes and insider selling, pushed us to the exit. The last elimination was the sale of **Ritchie Brothers Auctioneers Inc.**, with a gain of 22% for a 13 month hold period. That sell decision was triggered by less than expected auction sales volumes and significant executive turnover, which exposes us to increased execution risk.

New additions to the program include one of the U.S.'s largest healthcare providers, **CVS Corp.** In our view, the synergies of having the largest U.S. retail pharmacy chain, coupled with one of the largest pharmacy benefit managers, is worth paying up for. The company is financially strong and has an impressive history of returning cash to shareholders. Their focus is to enhance access to care **and** at the same time, lower overall healthcare costs. Their recent decision to eliminate the sale of tobacco products in their 7,300+ retail stores is to be applauded. Management realized that there was a disconnect between that practice and their mission statement of alleviating pain, restoring health, and extending life. Our read is that the "people before profits" mentality will actually help profits in the longer-term.

Given our view that the world outside the U.S. is actually getting better, we went shopping within the long, tired, base metals sector and landed on **Southern Copper Corp.** as our best value proposition. It is one of the world's largest copper producers and can boast the lowest cash operating costs amongst major global producers. Southern Copper operates in mining-friendly Peru and Mexico, thus minimizing the geopolitical risk. We noted that global copper inventories fell by some 20% in the final quarter of 2013 versus 2012, and continue to see evidence of the developing world economies gaining momentum – a catalyst for higher copper prices. On top of that, base metal producers have been "down and out" for the last two years, which translates to an extremely negative investor sentiment – our take is that the surprises will come to the upside.

We have also upped our weightings in **Steel Dynamics**, **Colgate-Palmolive** and **ARC Resources**. At the close of the quarter, the top five equity positions in terms of allocation were **Microsoft**, **Colgate-Palmolive**, **ARC Resources**, **Qualcomm** and **U.S. Bancorp**.

Looking ahead, and assuming that you are current with the March 1, 2014 edition of **The Opportunity Update** (www.tinyurl.com/TheOppUpdate), our take continues to be that:

- Dr. Copper (the world's best economic forecaster) is telling us that economically, things are getting better, not worse.

- We remain biased to natural gas producers over oil.

- We have entered the "late stage capex" economic cycle – energy, materials and select industrial stocks should outperform.

The addendum? Since **The Opportunity Update** recording, my convictions have only gotten stronger. I believe that the emerging markets will surprise to the upside in 2014, and you can expect more "buy notices" related to the above themes in the near future.

Chris Raper, CIM, CFP
Senior Vice President, Portfolio Manager
Private Client Group, Raymond James Ltd.
www.chrisraper.com