PRIVATE INVESTMENT MANAGEMENT GROUP QUARTERLY REPORT

Scott M. Yates, *CIM*
Portfolio Manager

Raymond James Ltd.
Suite 4100, 525 – 8th Avenue S.W.
Calgary, AB T2P 1G1

T: **403-221-0359**
TF: **1-877-264-0333**

scott.yates@raymondjames.ca

www.raymondjames.ca/scottyates

THINGS THAT MAKE ME GO 'HMMM'...

Seems everyone is bullish on the stock market these days. Almost everything I see, read and hear reflects a positive outlook for equity investors. Even some of my most bearish and pessimistic industry cohorts have now (and finally!) turned bullish. As such, it seems the entire investing community is singing off of the same song-sheet. Yes indeed – the 'herd' is firmly and confidently heading in one direction, finding comfort in its numbers and unanimity. **Hmmm...**

Eager to do their part - and capitalize on the *marketing* opportunity at hand - the 'mainstream' mutual fund companies are no longer touting conservatism and safety-first. It seems only yesterday all of their marketing efforts focused on their newly minted plethora of "*Low or Minimum Volatility/Income-Focused/Dividend Paying* (blah, blah, blah...) *mutual funds"*. Today the quip reads "check out our new U.S. Equity/Global Equity/Small Cap/ Growth-Oriented (and whatever else might grab some market-share...) Mutual Funds here – *and get 'em while they're hot! Need proof – just have a look at LAST year's performance numbers"* which are now (and *after* the fact) being plastered throughout the ads.

These firms were once investment power-houses, led by investing gurus and pioneers. Now they are hardly more than sales driven marketing machines clamoring over one-another to offer up whatever will sell – *rather than what should be bought.* (Not so long ago many were touting their Gold and Precious Metals Funds, and before that it was their Real Estate Funds. We all know how that turned out).

Why is it that this euphoria arrives *now?* And where was it even just one year ago when stocks were materially 'cheaper' than they are today? Aren't we told to 'buy low and sell high'? Why is it then, that investors seem giddy with enthusiasm about buying the same stocks today - that were in many cases 30% cheaper (or more) just a short time ago? It appears the herd may have been wrong in their cautiousness back then. Could it be wrong again now, in its euphoria? ***This definitely makes me go 'Hmmm'...***

I think there is more to be learned here about investing than we can learn from any investment course or textbook, market outlook or economic report. ‘Consensus’ in the investment industry is a *horrible* thing! Most invest in the stock market when its “comfortable”. Unfortunately they’re comfortable only *after* the economy has improved, the news is all positive, and the stock market has (therefore, and inevitably) *already* gone up!

As your Portfolio Manager I believe it is an integral part of my job to be looking *forward*, not backwards. To be seeking the *next* opportunity (OR risk…) that may be *coming* around the corner – and not simply buying into the ‘popular’ investment theme of the day (or should I say – *yesterday*?). I seek not the false sense of comfort that comes with the unity of the herd. Rather, I desire the high level of conviction that comes with buying good quality companies that are temporarily out of favor. This is comfortable to me. *The herd is always wrong.*

While many seem fixated on *last* year’s surprisingly good market returns, as I see it the key barometer for the real health of the global economic recovery for 2014 will be *earnings* growth. To date much of the rally we’ve seen in equity markets has come from multiple *expansion* - increasing *share prices* in relation to earnings, in lieu of any significant increase in the all-important *earnings relative to price.*

If we don’t see a significant pick up in earnings in 2014, this would signal an equity market that, at least so far, has been bid up *in the mere hope* of better corporate profitability. While I am by no means bearish, I am of the view that the ‘easy’ money has already been made. Last year all an investor had to do was get their asset allocation right – if you had more money in equities (and ideally non-domestic equities), and less in cash and bonds, you should have done well. As valuations on the broad markets have now become somewhat stretched, it has become more of a ‘stock pickers’ market.

In relation to foreign equities, I believe 2014 may very well be the year for Canadian stocks to play some ‘catch up’. As the global economic recovery gains momentum, and given Canada’s largely resource led stock market – let alone our close ties to the ever-improving U.S. economy – the world is quite likely to need our ‘stuff’. As a Portfolio Manager domiciled in Canada – this *should* play right into my ‘wheel-house’.

Regardless, as the euphoria builds I will become more and more cautious, *selling* into the hype. We’re in the enviable position of being able to trim some of our runaway winners; to take some gains off the table. As the bears continue to jump on board I plan to ‘neutralize’ portfolios by moving asset allocations closer to target weights, and away from the more aggressive bias I’ve had for the past year or so (…long *before* the herd arrived).

For details feel free to contact me. For your current holdings, recent transactions and performance results please see your Quarterly Portfolio Summary attached.

RAYMOND JAMES®