Desjardins
Financial Security
Investments Inc.

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To: All Smart Investing Email Club Members

Re: 2014 1st Quarter Market Update

Equity markets around the world generally posted mixed results in the first quarter of 2014. Despite some volatility early in the quarter, the global economy's moderate growth, low interest rates and controlled inflation gradually supported and strengthened investor confidence and resulted in increases for many markets by quarter-end. Fixed-income securities were also higher for the quarter, with prices for 10-year government bonds in Canada and the U.S. rising slightly, pushing yields down, while demand for corporate bonds remained strong.

The political events in Ukraine, the instability in emerging markets and slower growth number in China did create headwinds for global equity markets in the first two months of the year. By the end of the quarter, however, the S&P/TSX Composite Index in Canada benefited from higher prices for commodities – particularly in precious metals – to gain 6.1%, including dividends. The index was broadly positive, with the strongest results coming from the energy and materials sectors, while industrials and financials had smaller increases.

Performance among foreign markets was more muted, but Canadian investors in global securities benefited as the Canadian dollar weakened against several major currencies, including the U.S. dollar and the euro. After posting stellar results in 2013, the S&P 500 Index added a modest 1.8%, which translated to nearly 6% in Canadian dollar terms. Early declines for the U.S. market were eventually reversed by continued improving economic data and the market's increasing comfort with the new Chair of the U.S. Federal Reserve, Janet Yellen, and its resolve to "taper" its economic stimulus. Stronger business conditions and improved economic stability in Europe, meanwhile, led to results that were mixed in local currency terms, but positive when converted to Canadian dollars. Investor anxiety about the effect of tapering on emerging markets and China's cooling economy led to negative results for China's Shanghai Index and the MSCI Emerging Markets Index, and after making strong gains in 2013, Japan's Nikkei Index declined 9.0%, or 3.3% in Canadian dollar terms.

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We marked the fifth anniversary of the current bull market on March 9th, 2014. It has been great to see how well both the global economy and stock markets have recovered over this period – the S&P 500 Index in the U.S. has gained more than 180% and the MSCI World Index is up 140% from the lows they hit in March 2009 to the end of this 1st quarter of 2014. Nevertheless, the volatility experienced in the most recent quarter is a reminder that capital market investments typically don't take a path that marches consistently and uniformly upward. Rather, stock markets often experience declines or "corrections" from time to time before moving forward again. (Warren Buffett once said, *"I'd rather take a bumpy 9% return than a smooth 4%"*) For this reason, I believe it continues to make sense to take a longer-term approach, and stick to an investment plan that calls for a well diversified approached among asset classes, geographies and sectors, depending on your individual investment objectives.

I would like to take this opportunity to share the following facts with you about the Toronto Stock Exchange (TSX):

- ✓ The TSX is tiny. The market capitalization of the TSX adds up to just under 3% of the rest of the world stock markets combined.
- ✓ The TSX is far too concentrated. 80% of the TSX is made up of just 3 sectors (Mining, Materials, Financials)
- ✓ The TSX has underperformed the majority of the world stock markets the last three years running.
- ✓ On average, the net earnings of many Canadian companies have ***contracted*** in the last 19 months.

As many of you are aware, I have been helping my clients reduce their exposure to Canadian investment assets over the last few years. Put simply, the quality money managers we are working with are currently finding better business valuations in companies that are based outside of Canada's borders. It's my job to make you aware of these issues and it's your job to act in your best long term interests. I would strongly encourage you to take the opportunity to review all of your current investment assets (RSPs, Cash, Pensions, etc…) and monitor those holdings for Canadian market exposure as it will likely have an impact on the performance of your investment assets over the next number of years. As always, please feel free to contact the office for a free evaluation and review of your current investment assets.

Thanks for reading… Please allow me to remind you that I am simply an email or a phone call away if you need help making an investment decision or if you would like to discuss and review your investment portfolio in greater detail.

Sincerely,

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