2015 4th Quarter – Economic & Market Commentary

January 15, 2016

"You want to be greedy when others are fearful. You want to be fearful when others are greedy. It's that simple..." – Warren Buffett

I want to extend my best wishes to you and your family for a happy & healthy 2016 and to again thank you for the opportunity to work for you as your investment advisor.

As we enter 2016, global capital markets have been volatile, continuing the challenging conditions that characterized much of last year. Although the global economy is still slowly growing, many bond and equity markets are being affected by a combination of factors, including sharp volatility in the highly speculative Chinese stock market, low commodity prices, soft economic data and uncertainty around the U.S. Federal Reserve's decision to raise interest rates for the first time since 2008.

In 2015, the unstable conditions led to mixed results for equity markets. The MSCI World Index registered a modest 0.3% loss for 2015 in U.S. dollar terms, including dividends. The Canadian dollar's weakness against the U.S. dollar and other global currencies, however, resulted in a gain of 18.9% for this index in Canadian dollars. This performance reflects stronger results for markets in the U.S. and Japan and mixed results in Europe and other Asian countries. Similarly, the benchmark S&P 500 Index in the U.S. added 1.0% (including dividends) in U.S. currency, a return that was magnified to 20.5% when expressed in Canadian dollars. The well-diversified U.S. market continues to benefit from the country's economic recovery, with improving housing and employment data underpinning business confidence.

Canada's commodity-heavy S&P/TSX Composite Index, meanwhile, was once again weighed down in 2015 by weakening prices for oil, metals and other commodities and lagged most other developed markets. As the price of oil fell toward US$35 per barrel, the benchmark index headed lower to finish the year with a total return of -11.8%. Equity index results for the commodity-sensitive emerging markets and Latin America were also negative.

Given the slow pace of economic activity in most parts of the world, most central banks are keeping monetary policy highly accommodative to growth. The U.S. Federal Reserve's announcement on December 16 that it would raise short-term interest rates by 0.25%, however, was an important acknowledgement that the U.S. economy has substantially recovered from the financial crisis of 2008. Nevertheless, government bond yields remained muted and the FTSE TMX Canada Universe Bond Index, a measure of government and investment-grade corporate bonds, added 1.1% in the fourth quarter of 2015 for a gain of 3.5% for the year. The U.S. high-yield bond market experienced a stronger reaction to market conditions, losing 4.6% in 2015 in U.S. dollars.

Looking ahead, there are many reasons to be both cautious and optimistic about the strength of the global economy and the direction of capital markets. Two of the world's largest economies, the U.S. and China, continue to expand and inflation remains low in most economies. The Fed has reassured investors that further rate increases will occur gradually, to avoid stalling the global economy's muted growth. Elsewhere, central banks in Europe, China and Japan and

Canada have taken steps to keep interest rates low and to stimulate their economies. While the fundamental economic conditions remain supportive for many global businesses, some experts warn that these divergent policies are likely to result in further volatility for investment markets over the coming months.

I understand that the recent volatile moves in the world markets can be tough to watch and its only human nature to be concerned. It is important in times like these that we stay focused on the big picture and not allow ourselves to make investment decisions based on our emotions instead of fundamentals and logic.

In the last 60 years, Equities in the United States have only had 13 negative calendar years (47 years of positive returns... a 78% batting average). In Canada, we've had 16 negative calendar years over the same time period (44 positive years... a 73% batting average). I share these facts with you to remind you that, just like in 1965, 1973, 1980, 1987, 1993 1998, 2001 and 2008, this particular emotional activity in the markets will end. And by the way, in the last few months, multi-millions of people around the world have still gone to work, driven their cars, used their smartphones, bought groceries, used toothpaste, shaving cream and toilet paper, bought gasoline and gone to restaurants and purchased food, coffee, soft drinks and doughnuts.

I opened this note with a quote from Warren Buffett. He lays out in two simple sentences what I've been trying to say in two pages. My favorite quote from Buffett is, *"History tells us that the most successful investors are not the ones to take extraordinary amounts of risk. In fact, the most successful investors are the ones who do everything in their power to minimize their risk."* He is saying that, at all times, you need to make investment decisions based on the fundamentals of "Quality" and "Price". That is the way you avoid decisions that put invested capital at risk. These are the same principles on which I have chosen the money managers we work with.

I am very pleased with the way our money managers have performed given the tough conditions they have been working in. They have done a tremendous job preserving and protecting capital in these market conditions and it proves once again that a sound, logical and disciplined approach to investment decision making allows us to "take advantage" of the opportunities the markets give us and greatly helps us build investment wealth over time.

Our investment plans are built for times like these. The money managers we are working with were chosen for times like these. They have the ability, the disciple and experience to guild us through these conditions. Your accounts have not / will not suffer the losses the overall markets are experiencing and your accounts are very well positioned to greatly benefit as the markets eventually recover.

As always, if you have any questions about your investment accounts or the outlook for the coming year, please do not hesitate to contact me at the office at 306-546-2533. Thanks so much

Sincerely,

Brian Golly
Smart Investing Solutions Inc.

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