TD Wealth

Portfolio Update & Market Comments
August 2015

It has been a little while since we have issued a portfolio update and we will endeavor to issue them more frequently in the future. Since the last update, the portfolio has become more defensive. On the performance side, we are returning to we are on the right track and this can be attributed to the changes made last fall. Fundamental analysis has always been a bellwether to stock investing, however, we have markets that are heavily influenced by central banks and government policy making fundamental analysis challenging at best. We combine TD's best fundamental research with an analytical program to select the best performing sectors and individual companies within those sectors, while applying stop-losses on each position. These changes will help to ensure that we are in the better performing sectors and companies while trying to avoid under-performing sectors which are out of favour, such as energy, resources and recently banking.

To summarize our approach:

- We have 5 model components which are combined to construct the overall portfolio, weighted according to our outlook as well as your objectives and risk tolerance.
- The components are Growth, Equity Income, Fixed Income, Bullion, and a Mutual Fund Portfolio.
- All positions are tracked regularly with stop-loss rules in place.

We are also using specialty ETFs to transact in foreign currencies thereby avoiding excessive FX (foreign exchange) spreads on currency conversions (further details on these trades will be available for tax purposes.)

The stop loss rules are based on moving averages and although they occasionally can give a false signal, they can help avoid the steepest losses which detract from overall performance. Over the past several months, we have a large percentage of the equities in both the growth and equity income portfolio that hit their stop-loss levels which, to us, is signaling caution. This is now being confirmed by the major indexes which appear to be rolling over. The turmoil in currency markets is compounding the volatility in equity markets and the recent devaluation of the Chinese Yuan is adding to the uncertainty. Commodities will likely remain under pressure if the U.S. Federal Reserve (Fed) follows through with interest rate increases this September/December. Given the Chinese Yuan devaluation and a faltering global economy, we cannot see how it is possible for the Fed to raise interest rates in 2015.

Over the past few years, we have maintained exposure to precious metals/bullion as insurance against dramatic Central Bank and government policies. This has been a detractor to overall performance, hence, with stop-loss rules in place, we hope to avoid similar occurrences going forward. Given the recent strength in the sector, we will be initiating tax losses in taxable accounts to help offset capital gains triggered in 2015.

Broader market comments:

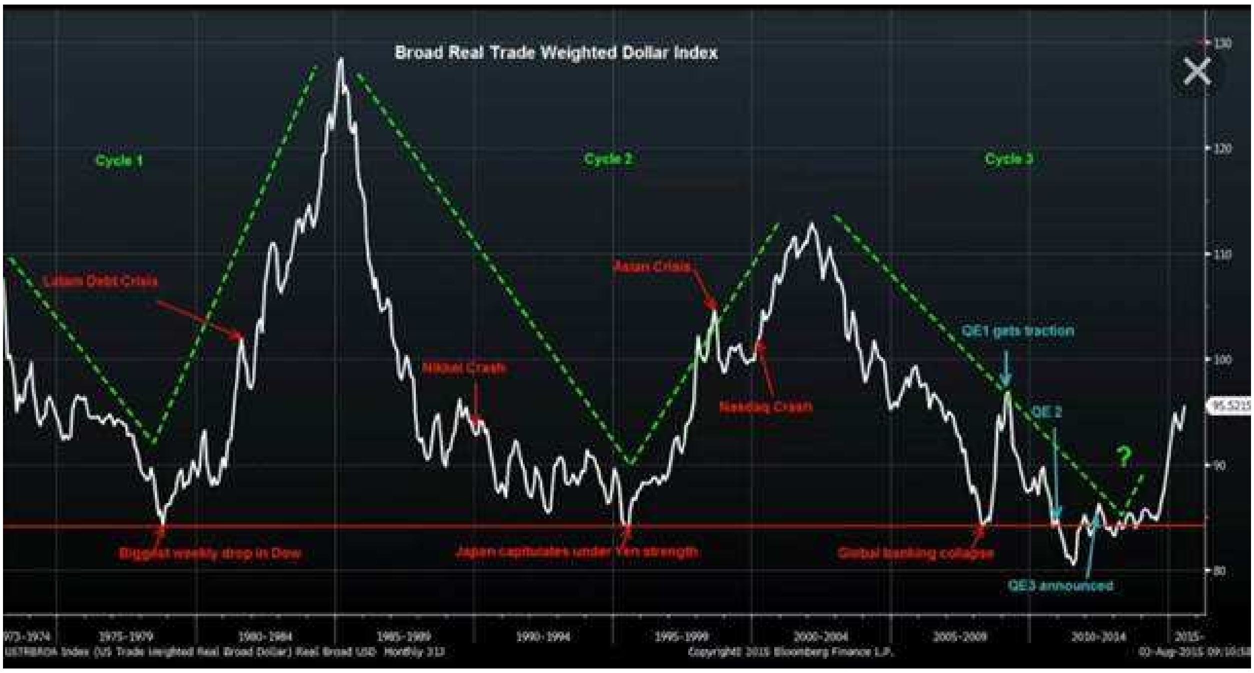
Notwithstanding the ongoing debt issues in Europe, the sharp sell-off in Chinese equities in combination with the recent Yuan devaluation suggest to us that the Chinese economy is weakening at a much faster pace than official GDP reports suggest, this is confirmed by the ongoing weakness in commodities. The ongoing weakness in commodities will continue to have a negative impact on dependent countries such as Canada. Hence, our portfolios are weighted towards $US exposure, not necessarily equities. Notable recent additions in the growth component are long-term U.S. bonds along with higher cash levels. We have imitated short exposure to emerging market equities and U.S high yield junk bonds using ETFs.

The Bloomberg commodity index tumbled to its lowest level since 2002 – these types of divergences have signalled caution for stock market investors over time.

Canadian investors have also ignored weakening fundamentals, such as negative GDP growth and weakening corporate earnings growth, likely a result of feeling compelled to chase returns in a zero interest rate world.

Comment on the U.S. Dollar and Markets:

The Chinese Yuan devaluation combined with the Fed's desire to increase interest rates are setting the stage for a higher U.S. dollar in our view. The chart below illustrates the longer-term trends of the U.S. dollar and key events in the global economy. The last two dollar bull markets resulted in the Latin debt crisis in the early 1980's and the Asian crisis in the 1998. The Fed's monetary policies over the past six years have once again sowed the seeds for the next crisis for those emerging market countries and companies who took advantage of the low rates on U.S. dollar-denominated debt, in our opinion. A rising U.S. dollar will place much greater strain on those countries/companies who borrowed in U.S. dollars but transact in another (domestic) currency. The order of magnitude in borrowing is estimated to be US$7-9 Trillion, making the size of previous debt crises look like a rounding error.



We hope this provides you with a more fulsome understanding of our process and our efforts to protect portfolios in this volatile environment. If you have any questions, please feel free to email or call us directly.

Best regards,

Chris

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