Subject: The Signature Line - Opening up the "Black Box" of investing
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The Signature Line

Your Quarterly Update on the Markets and how it Affects You!

October 2010

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Dear Michael,

Summer has come and gone and fortunately, we finally got some great weather during October, which hopefully softened the blow of the unmentionable weather during the summer. Personally, I haven't had much of a chance to enjoy this great fall weather as the return of autumn invariably means a big pick up in business as well as the return of squash and hockey season.

The markets have also been busy this quarter as we pulled out of that June correction and have continued to make gains ever since, albeit choppy gains. For a review of Q3 we turn to the expertise of Dixon Mitchell, one of our exclusive Portfolio Managers for their commentary, which begins with some interesting parallels to the past. This might put some questions in the heads of those who keep saying "but this time it's different!" Is it?

If I can answer any questions or provide more information, please e-mail me, follow the links and/or give me a call anytime. To learn more about Dixon Mitchell, click here to be directed to their website.

Regards, Mike Robinson

Opening up the "Black Box" of investing

Have you ever thought that investing your money shouldn't be as confusing as many people make it out to be? Do you ever find yourself wondering what investments you really own and why you own them?

My approach is to open up the "black box" of investing by increasing transparency to ensure that you, as the investor, know exactly what the strategy is and why you are investing this way, so you are in a position of knowledge and control. The goal is to be able to easily transition into receiving passive investment income from your savings when you need to, using a strategy that is **proven** to effectively build wealth over time.

The first step in understanding and implementing our investment strategy is to translate the strategy you use for allocating capital inside your business to decisions being made with your capital outside your business, by allocating your personal wealth into assets that reward you with a growing return on investment (i.e. increasing cash flow), and ensure you don't overpay for the asset.

What does this mean from an investment standpoint? It means buying into a concentrated number of well-managed businesses, enabling you to participate in their growing profits through a dividend, and buying into them when valuations are relatively low. Holding a concentrated portfolio of high quality companies that pay an increasing dividend has **proven to be a successful investment strategy over time**.

In support of our investment strategy, here's a link to an article from today's Globe and Mail that re-affirms my strategy on investing -not speculating.

http://www.theglobeandmail.com/globe-investor/investor-education/investor-clinic/why-you-should-be-an-investor-not-a-gambler/article1773838/

We believe in full transparency, which means that we show our investors what specifically they own, why they own it and the income being earned in their portfolio at the individual investor level. When businesses are added or removed from the portfolio we inform our investors what was sold, what was added, and why. At any time our investors are free to ask us about any holdings we have or holdings we don't have. Our investment committee and our Portfolio Managers are in town regularly and we are happy to arrange meetings. I believe you should have as much information about your investments as you want. Knowing and understanding your investments prevents you from making mistakes and allows you to focus on continuing to make the right decisions with your personal capital, just like you do with your business capital.

What are people saying about me?

"All I ever saw in the past was my broker making commissions, while I didn't seem to be making any money at all. I love the fact that Mike puts his money where his mouth is. We win together and lose together."
Jack Baird, Owner -JBE Ltd.

"I appreciate the transparency in my investment accounts. I can see what I own and I'm kept up to date whenever there's a change in the portfolio and it's clearly explained why something has been bought or sold.

Mike clearly explains our investment strategy so I know what we're doing with my money rather than just me turning it over and hoping for the best."
Zoe Agashae, Principal/Owner -Crimson Ventures Inc.

"Mike is a true partner in the relationship. He worked with me and helped me move forward in both the good times and the bad times. He's a business owner himself and he understands my situation well. Not only does he help me with my financial affairs but he also helps me with my business."
Don Carter, President/Owner, Carter Marketing Group Inc.

Your Q3 Review on the markets and your portfolio

For this quarter of economic and market commentary we turn to Dixon Mitchell, one of our portfolio managers for their view on the last three months and the effect on investment portfolios. Dixon Mitchell is one of our three portfolio managers at Value Partners Investments and is based out of Vancouver. For more information on them visit their website at www.dixonmitchell.com.

The US economy remains almost comatose, with the current slump already ranking as the longest period of sustained weakness since the Great Depression. The economy is staggering under "structural" burdens, as opposed to familiar "cyclical" problems, which represent once-in-a-lifetime dislocations that will take years to work out. Among them: the job drought, the debt hangover, the banking collapse, the real estate depression, the health care cost explosion, and the runaway federal deficit. "This is a sick economy that won't respond to traditional remedies," said Norman Robertson, chief economist at Pittsburgh's Mellon Bank. "There's going to be a lot of trauma before it's over."
- Time Magazine

We've borrowed this passage because it so aptly describes the challenges

currently facing western economies and weighing on the outlook for equity markets in general. The only problem with the piece is that it was written in 1992, shortly after the savings and loan crisis hobbled the US banking system and while investor nerves were still frayed from the crash of 1987. Individuals reading such comments in the early 1990's could be forgiven for feeling indisposed toward stock investment, just as many today are justifiably unnerved by the steady stream of gloomy economic news. Those taking the seemingly prudent course eighteen years ago by avoiding stocks, however, would have missed one of the greatest investment periods in history. For the balance of the decade, the S&P 500 Index would return a stunning 20% per year.

If jobs were scarce, banks in trouble, real estate foundering, and debts looming (sound familiar?) how could markets have staged such an extraordinary and prolonged rally? A big part of the answer is accounted for by psychology and, by extension, valuation. When individuals collectively turn away from an asset class, prices get marked down and value emerges. If valuation becomes attractive enough, near term economic conditions matter less and future stock price performance is driven more by the opportunity to buy a dollar's worth of assets for pennies. Conversely, when investors become complacent and overly levered to a persuasive blue sky-story (much as they did with technology at the turn of the millennium and real estate prior to the sub-prime crisis), caution is thrown to the wind and valuations become stretched. More often than not, this is when bad things happen and wealth is destroyed.

About a year ago, we became concerned that investor confidence had rebounded too rapidly given the magnitude of the financial crisis we had all just endured and the myriad issues yet to be resolved. Equity markets had rallied by 50% or more over the preceding six months and there seemed to be a prevailing air that, with a few bank bailouts, some temporary relief for overburdened homeowners, and economic stimulus initiatives such as the cash-for-clunkers program, things were right again and risk taking could safely resume. Knowing that crowds in buoyant agreement are regularly wrong, as they were in the roaring 20's, the dot-com bubble, and the recent financial crisis, we decided to take a position unprecedented in the history of our firm: we began to raise cash in equity mandates.

Over the ensuing months, the actual state of economic conditions began to reveal itself and the presence of underlying risk was affirmed. Listless activity in the US dashed hopes of a typical post-recession growth rebound, while the outbreak and escalation of the debt crisis in Europe warned that the work out from recent excesses will likely be measured in quarters and years as opposed to months. To the end of August, markets had essentially marked time since last fall, producing flattish returns but exposing stockholders to elevated levels of volatility.

Importantly, over this span the sanguine mood of market participants and observers morphed to one of pervading concern. In the last three months, countless megabytes have been devoted to handicapping the odds of a second

recession, contemplating the dangers of deflation, and forecasting the spread of debt problems beyond the European Community's weaker members. While we don't predict that this trepidation will necessarily presage a period of supercharged returns similar to the 1990's, we do feel more comfortable with the risk/return backdrop for stocks. With valuations still reasonable, dividend yields attractive, and investor vigilance at a recent high we began to redeploy our cash allocation following Labour Day.

Though we have moved close to a fully invested equity position, we have maintained our defensive posture, recognizing that with the economy in a gradual and uneven mending phase, extraordinary earnings growth will be elusive for most firms. We feel it is more appropriate than ever to emphasize dividend yield and valuation in our stock selections, with stable groups such as pipelines, cable companies, Canadian banks, and makers of consumer products fitting the bill. The view that economic growth will be positive but tepid has been affirmed by the recent comments of central bankers around the world and by the bond market, which has seen interest yields pushed to generational lows. The fall in interest rates has, in turn, increased the relative attractiveness of dividend paying stocks. In the third quarter, some of the best performing names in Dixon Mitchell equity portfolios were those offering higher than market dividend yields, with Pembina Pipelines, RioCan REIT, and Shaw Communications each appreciating by between 17% and 22% over the period.

As the calendar turns toward the close of 2010, our outlook is growing increasingly optimistic. With each passing month, the events surrounding the subprime crisis recede further into the rearview and the companies we own demonstrate their ability to remain competitive and grow shareholder value under the new economic paradigm. While a rapid acceleration in growth is not likely in the near term, corporate cash balances are at record levels and earnings are stabilizing, creating a favourable backdrop for dividend increases. Combined with reasonable equity valuations and low level of interest rates, this should help to drive share price appreciation over the quarters to come, independent of the downbeat pundit commentary and anxious media reports that will likely continue.

The key to success in this environment is to maintain a defined and disciplined investment strategy. Tweaks to your portfolio may be needed from time to time but should remain consistent with your original investment strategy. If that strategy is defined it should be easy to make sure any changes you make are suitable.

Not sure if you have an investment strategy? Call me or e-mail me.

Check out what we're all about by visiting www.signaturefs.ca.

Call me at (403) 226-0321 or e-mail me at mike@signaturefs.ca.

Mike Robinson

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Mike Robinson is an investment representative of Quadrus Investment Services Ltd.

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