DM Monthly Report

September 2014

PORTFOLIO ACTIVITY

In August, we added Badger Daylighting to DM equity allocations (see below) and sold our position in TransCanada Corporation.

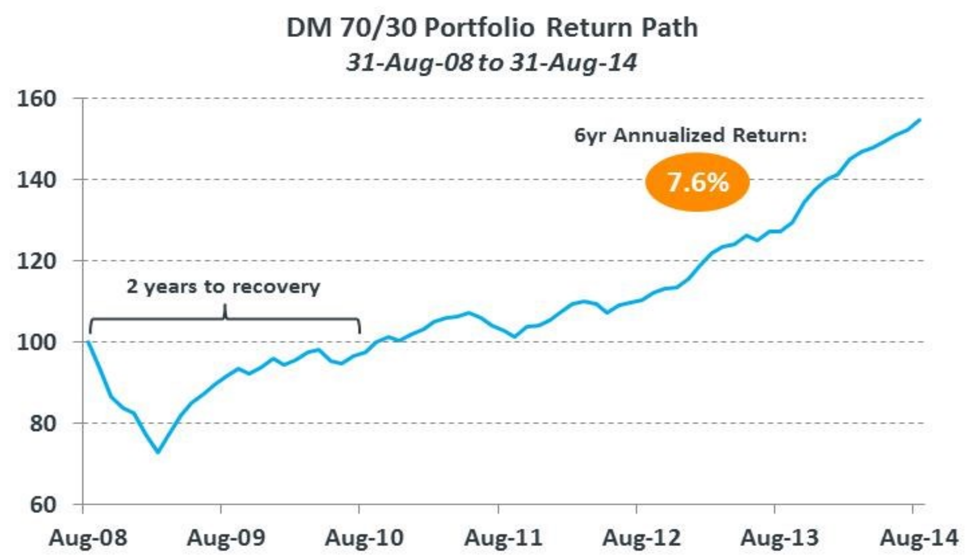
FEATURE STOCK

Badger Daylighting (BAD)

BAD is N. America's largest provider of non-destructive "daylighting" services, using its proprietary "hydro-vac" system to expose underground utility and pipeline infrastructure with pressurized water and a soil vacuuming technology. In early August, we established an initial 2% position in the stock in the DM Cdn Equity Portfolio, with a plan to opportunistically increase its weight soon after. Initially, BAD shares climbed sharply, rising by more than 15% in a matter of days. Despite showing revenue growth of more than 37% over the same period last year, however, our initial gain was more than erased following the release of 2nd quarter earnings . Wanting to determine whether this market reaction represented an attractive buy point, or an early signal that future growth might be challenged, we travelled to Alberta to meet with management in person. Not only did the interview reaffirm our original thesis, it caused us to increase our upside outlook. Accordingly we immediately increased our allocation to BAD.

HOW DID *YOU* DO IN THE CRASH?

Even though the financial crisis took place more than half a decade ago, it's still common for prospective clients to ask us how our portfolios fared through the worst of that historic market tumble. Though this is a fair question, it largely misses its intended mark. In other words, when the shares of even the world's finest companies are being ravaged (e.g. Apple, Starbucks, and 3M each fell by more than 50% during the crisis), there's little room for stock picking skill to impact short term portfolio performance. Instead, success in such periods is more influenced by the individual and whether he or she is able to remain invested throughout. To put a finer point on this truism, consider a recent study conducted by Fidelity Investments to determine which of their client groups had enjoyed the highest portfolio returns over time. The answer? People who had forgotten that they had an account with the company—in other words, the attempts by everyone else to outsmart and time the market had collectively backfired. If a sound plan and high quality portfolio were in place at the beginning of 2008, and not abandoned when others were losing their nerve, the effects of the worst equity plunge in more than a generation are now scarcely felt six years later. For this reason, the most revealing and instructive answers to the "*How did you do?*" question are often provided when it's directed at the client himself. Shown below is the return path of a typical DM portfolio carrying a 70:30 equity to fixed income asset mix, assuming initial investment was made at the worst possible time, just days before markets began their downward spiral.



- hypothetical portfolio composed of the following weights: 35% DM Cdn Equity, 35% DM Foreign Equity (C$), 30% DM Bond Model
- returns are calculated before management fees, but after the deduction of all trading costs

Suite 1680, 1055 West Hastings St., Vancouver, BC V6E 2E9
Tel 604 669-3136 **Toll Free** 888 340-3136 www.**dixonmitchell**.com

DIXON MITCHELL INVESTMENT COUNSEL