Davidson Professional Wealth Management

of RBC Dominion Securities

Your Money, Well Managed

Fall Market Commentary

October, 2013

Professional Wealth Management Since 1901

RBC Wealth Management
Dominion Securities

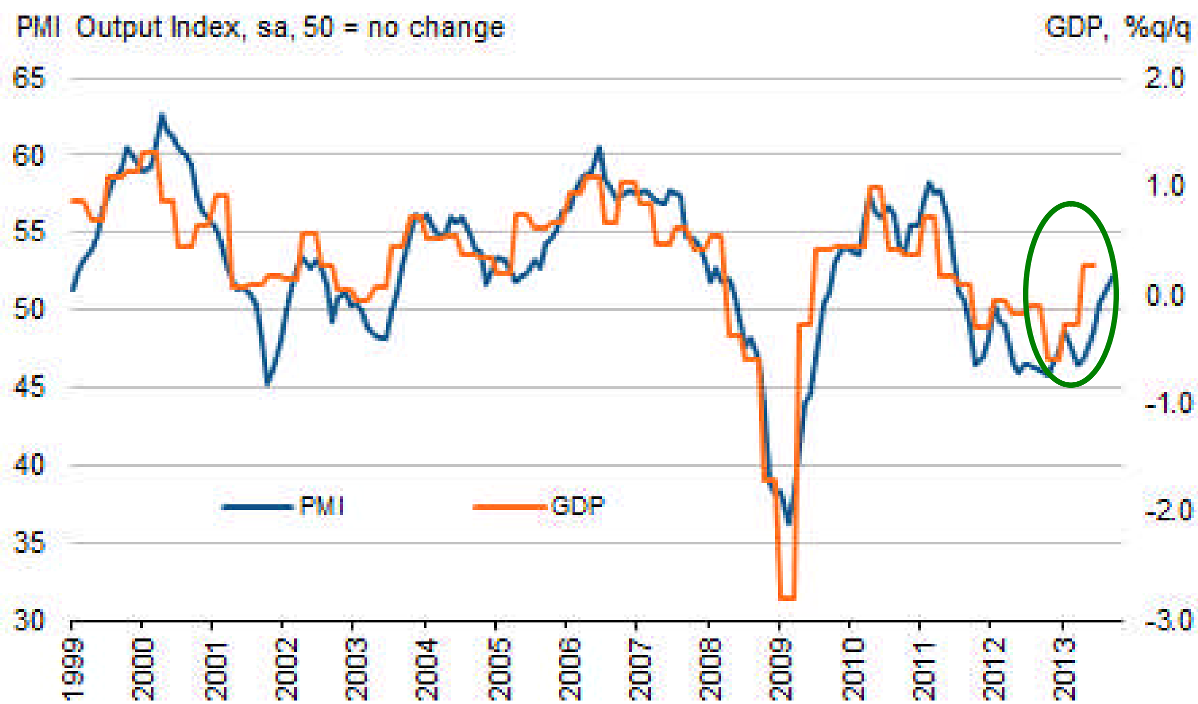
In this Issue

European Recovery

•Over the past several years the economies of Europe have stagnated as high unemployment and debt levels, coupled with government austerity programs have stifled growth

•The Euro zone seems to be turning the corner and is again entering into a growth phase as indicated in the chart on the right which tracks GDP and the PMI (Purchasing Managers Index)

•The market tends to anticipate these changes and European equities and done very well over the past year despite a variety of concerns around government default and Euro zone break up



Source: Markit, Eurostat. GDP = gross domestic product

Data Sources: Markit, Eurostat

Tapering Talk in Context

In May Federal Reserve Chairman Ben Bernanke outlined the potential for the Fed to reduce their economic stimulus efforts as the economy continued to recover. The bond market reacted sharply, pricing in much higher rates. Below is a hypothetical path of how the Fed could enact their much publicized "Tapering" efforts. This path could keep rates low for an extended period of time, allowing them to rise gradually so as not to smother economic growth.

- **Quantitative easing**: The Fed expands its balance sheet by buying Treasuries and MBS. Current pace: $85 billion each month

- **Quantitative accommodation**: The Fed maintains its balance sheet; it buys new assets to replace older ones as they mature

- **Quantitative tightening**: The Fed contracts its balance sheet by allowing assets to mature without replacement or, more aggressively, by selling them

Data Source: Forbes

US Government Shutdown

•Approximately 750,000 civil servants will not be working or receiving pay. Congress and the president can continue to collect their pay checks however

• There have been 17 US government shutdowns since the first one in 1977

•A moderate length government shutdown is not anticipated to be harmful to U.S. economic growth because employees are expected to receive back pay and soft gas prices act as a tailwind.

Market Recap

The third quarter of 2013 brought about a consolidation of equity market gains achieved in the first part of the year. Bonds, particularly longer dated issues continued to decline in value as interest rates rose. This has led to a slowing of housing related activity in the US as financing costs increased.

The US government's inability to resolve budgetary issues has threatened to do further damage to an already weak economy, particularly if the US debt ceiling is not addressed. US equities have held up relatively well as most investors feel that a deal will get done, although perhaps not until the 11th hour.

Canadian equities have fared well over the past three months with the notable exception of the gold sector. With the potential end of Quantitative easing and no inflation in sight the price of gold continues to slide. Emerging market equities and currencies have begun to recover from their summer selloff.

While we recognize that we are still in a long term, or secular, bear market there are still opportunities for investors during the shorter duration or cyclical upturns. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

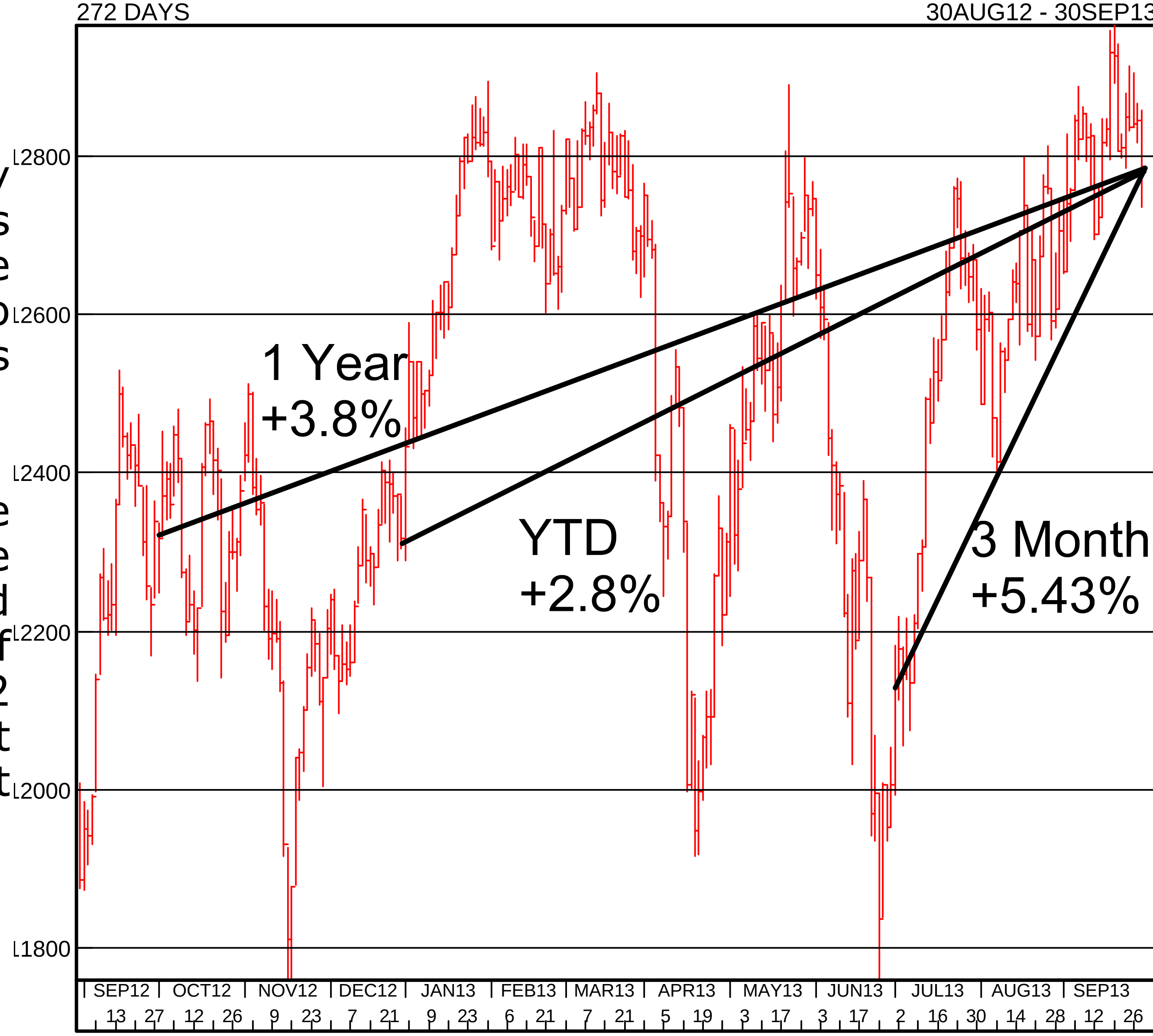
Clients within our Private Investment Management program (PIM) and Third Party Pension Management program will receive their quarterly update and personalized portfolio reports within the next two weeks.

TSX Performance: Annual, YTD & 3 Months

- The TSX has largely recovered from weakness earlier in the year but the materials sector continues to be weak and still represents over 12% of the TSX.

- Canadian Financials have performed well despite the threat of housing related headwinds with a number of banks achieving new 52 week highs over the past quarter. Financials represent over 34% of the TSX.

Data Source: Trend & Cycle



S&P Performance: Annual, YTD & 3 Months

- The US market has been resilient in the face of a Government shutdown and potential debt ceiling default.

- The market is doing a good job of ignoring the "noise" and focusing on the continued economic growth and the accommodative monetary policies currently in place.

Data Source: Trend & Cycle

EAFE Performance: Annual, 6 & 3 Months

•European and Japanese equities have done very well over the past year, with Euro Zone debt issues getting less attention and Japanese monetary policy targeting economic growth.

•European equities are still relatively inexpensive and most European equity market benchmarks are well below their 2007 highs.

Data Source: Trend & Cycle

EAFE = Europe, Australasia, and Far East Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging market equities have recovered somewhat from the summer selloff.
- We often see capital move away from emerging markets equities more quickly than developed market equities when investors are given cause for concern.

Data Source: Trend & Cycle