Davidson Professional Wealth Management

of RBC Dominion Securities

Lifelong Wealth Management Solutions

Summer Market Commentary

July 15th, 2013

Professional Wealth Management Since 1901

RBC Wealth Management
Dominion Securities

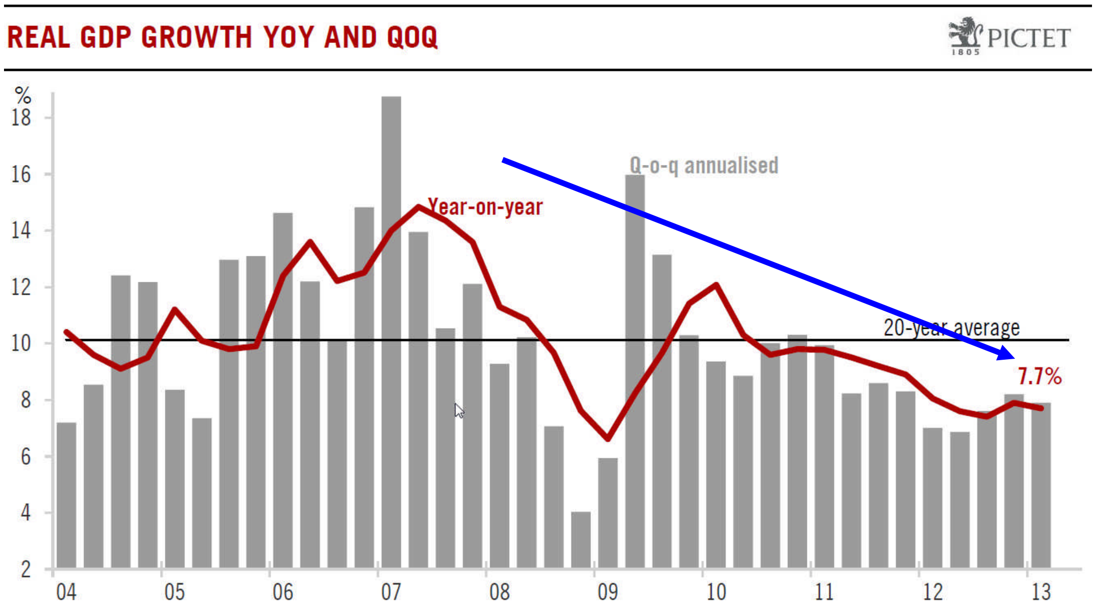
In this Issue

Chinese GDP

•Chinese GDP has been slowly decelerating as the economy transitions to a consumer based model

•The slowing infrastructure investment in China will have a lasting effect on commodity consumption and prices

•Canadian investors need to be particularly aware given Canada's large exposure to natural resources



Data Source: Pictet & Cie, Geneva, Switzerland

US Housing

Data Source: Econoday

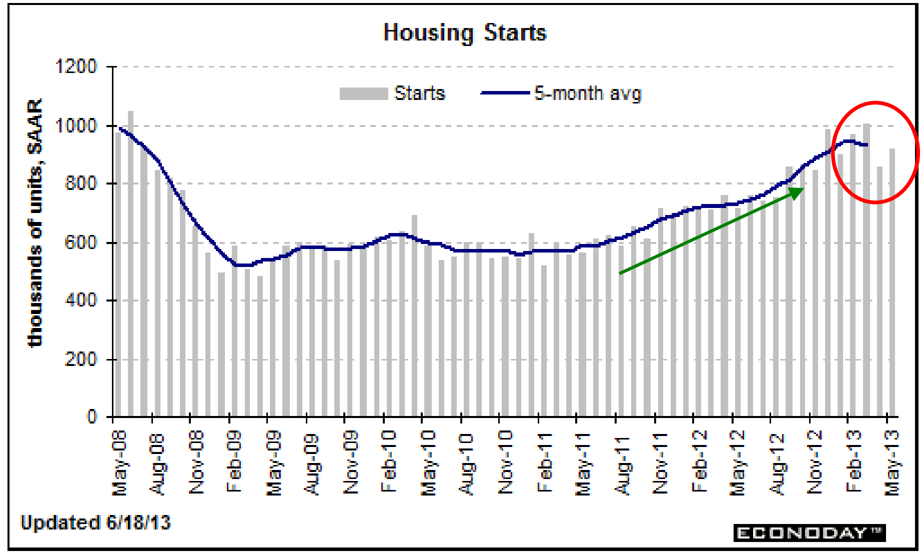
- US Housing continues to recover from the lows of last decade with 2012 being a strong year for US housing

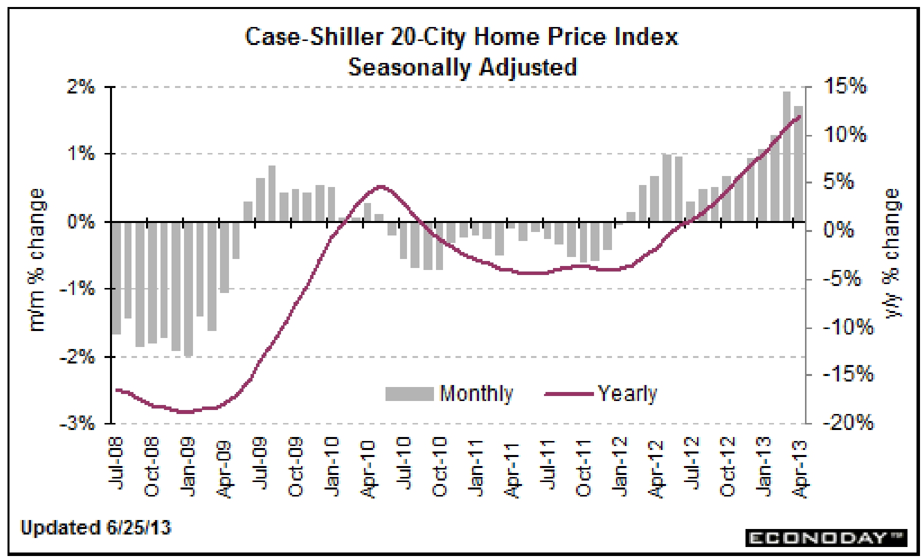
- 2013 has been a more volatile experience as the spectre of rising interest rates in the US has slowed housing demand by forcing mortgage rates higher

- Canadian investors should care for two reasons:

1. Typically as US house prices increase (or decrease), US consumers spend more (or less) driving economic growth (or weakness) and affecting corporate profits

2. This could be a foreshadowing of what the Canadian housing market could experience with higher rates



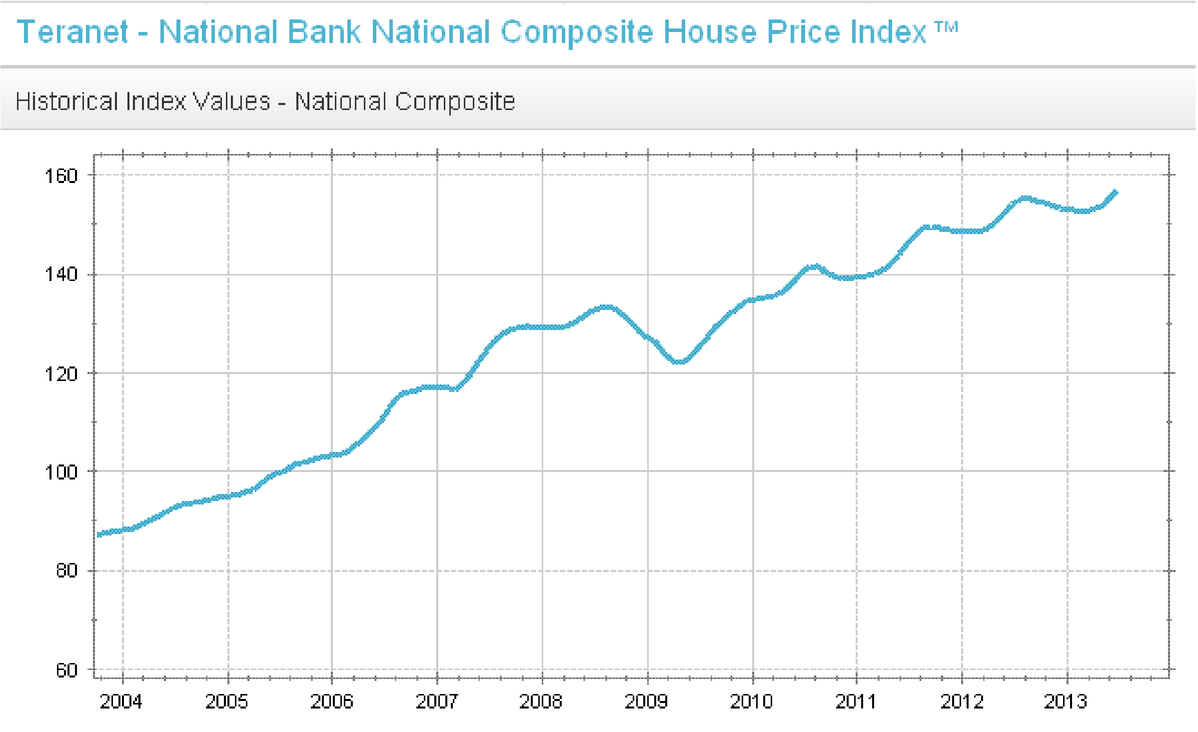


Canadian Housing

- Since the downturn of 2008/2009 the Canadian housing market has continued to make new highs

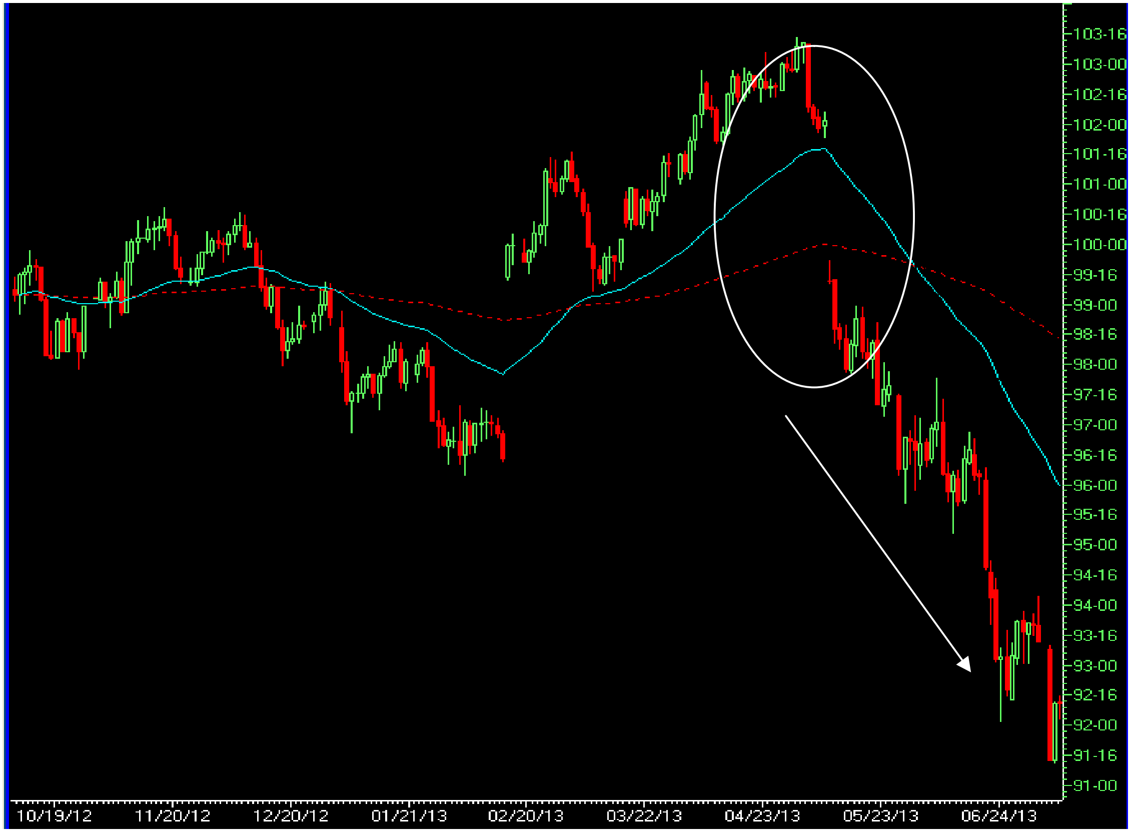
- There has been much speculation on the negative impact that higher borrowing rates could have on the Canadian housing market

- Mortgage rates have ticked up higher with the broader bond market over the past few months, so we may soon see what impact there will be in house prices



Data Source: Teranet - National Bank National Composite House Price Index ™

US 10 Year Bond Price- The Past 10 months



Data Source: Thomson One

- In early May Federal Reserve chairman Ben Bernanke hinted at the potential for an end to quantitative easing. This, coupled with some better than anticipated employment reports prompted a sell off in the bond market.

- That sell off has continued through the Summer, fuelled in part by further Federal Reserve commentary spurring investors to price in higher rates for the future.

- For those investors who kept their terms to maturity short the losses were minor in comparison to holders of longer dated bonds where losses were much more significant

US Ten Year Yield- 20 years

Data Source: Thomson One

- Bond returns have been aided by falling interest rates for the past 30 years, enhancing interest payments with capital gains
- The chart on the left illustrates by how much yields could potentially still rise (and bond prices fall) while still maintaining their long term trend
- In our 2012 Winter Commentary we mentioned how bond investors needed to be cautious as bonds had moved into a territory of extreme overvaluation
- From an investors perspective this return to a more normal valuation will eventually improve the returns on fixed income

What to Expect 10-Year US Treasury Note Yield 130 Years

- Long bottoming trends tend to follow long declining periods

- While interest rates may continue to increase in the near term the prerequisite conditions are not in place for a sustained upward run while commodities and wage inflation remain low

- In our opinion investors can expect a long consolidation period before we see any significant spike in interest rates, such as we saw in the late 1970's

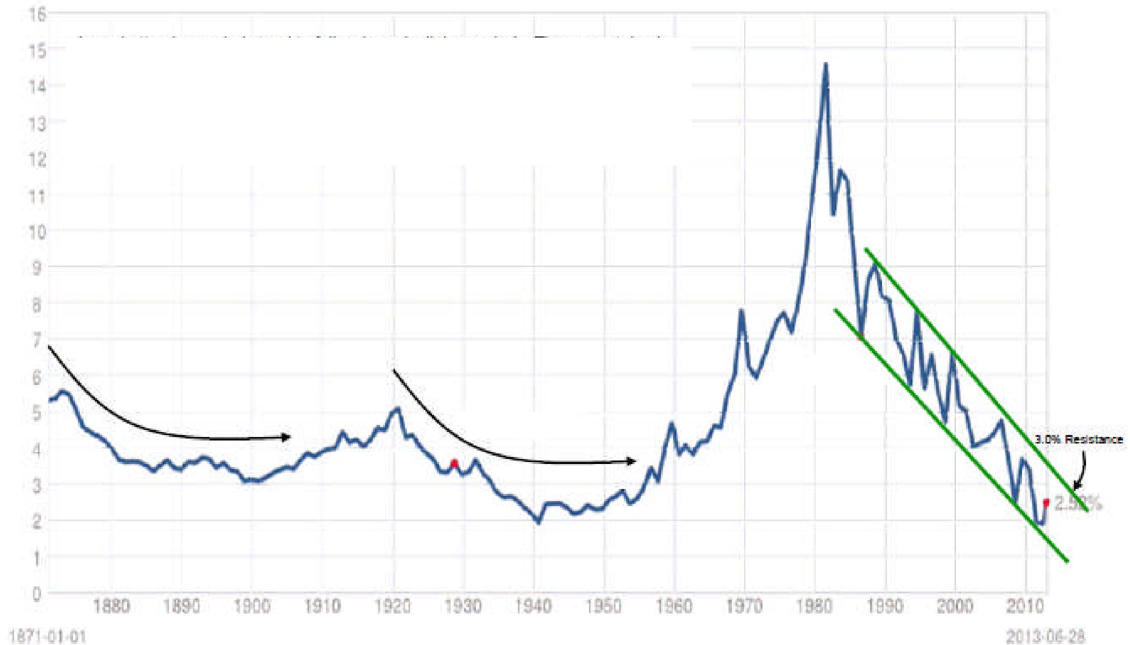


Chart courtesy of MultPL.com and RBC Wealth Management

July 2013

Market Recap

The second quarter of 2013 brought a mixed bag of economic data as well as some significant policy shifts from the Federal Reserve. The Fed hinted that there may be an end to "QE Infinity" that could be sooner than many market participants anticipated. As a result there was a sell off in both equity and bond markets.

The US economy continues to hover in a low growth mode while emerging markets growth is slowing significantly. The Eurozone economy is in contraction as austerity measures continue to detract from growth.

Emerging market equities have been hit the hardest by a combination of political unrest, slower growth and ongoing currency market volatility. Canadian equities have been in the middle of the pack, held back in part by our commodity exposure, particularly in the materials sector.

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 weakness we saw in the first quarter continues to prevail with volatile commodity prices influencing the TSX

- The materials sectors has been weak, particularly companies with exposure to gold

Data Source: Trend & Cycle

S&P Performance: Annual, YTD & 3 Months

- The US market has continued to rally despite some tepid economic data, particularly in the manufacturing sector

- The past month brought a minor correction, but the US market continues to be among the strongest performers year to date

Data Source: Trend & Cycle

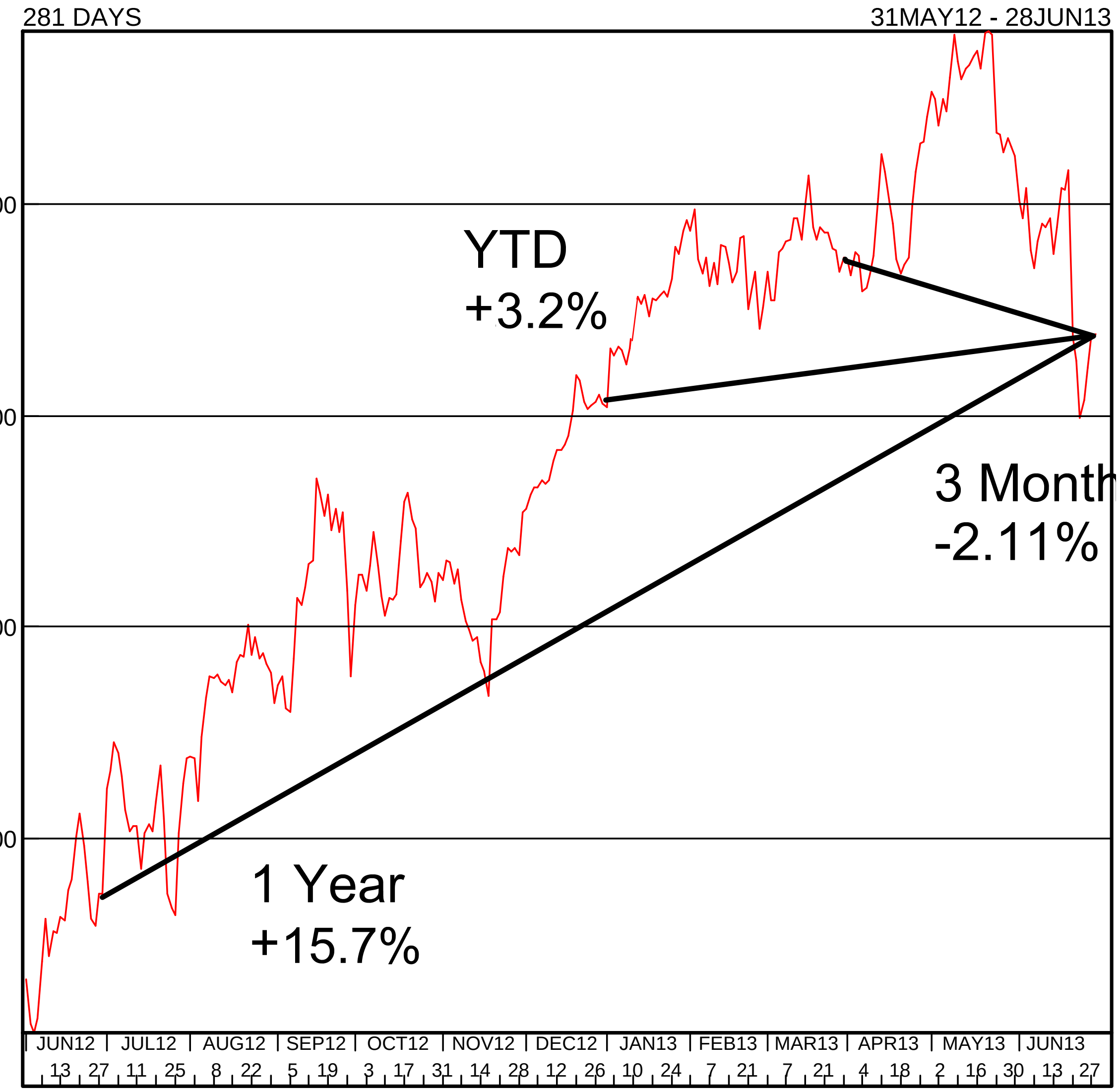
EAFE Performance: Annual, 6 & 3 Months

- The developed international markets have had a broad mix of positives and negatives

- Japanese equities have surged with a more activist approach to central banking

- European equities have fluctuated with macro economic fears and slow growth offset inexpensive valuations

Data Source: Trend & Cycle



EAFE = Europe, Australasia, and Far East Markets

Emerging Markets Performance: Annual, YTD & 3 Months

- Emerging market equities have suffered with slowing growth in China and political unrest in Egypt, Brazil and other countries.

- Emerging market equities tend to be more volatile but should offer investors more growth potential over time

Data Source: Trend & Cycle