Financial Letter
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By Martin Lalonde, MBA, CFA

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Introduction

Hello everyone,

In this, the eighth year of our financial newsletter, I am as energized and motivated as ever to enrich our customers. Still, I am not disappointed that 2016 is behind us. Indeed, a number of crucial events took place that had completely unexpected impact on global stock markets. Closer to home, the fourth quarter proved to be a real success as our core growth strategy surpassed its benchmark. Bonds, particularly those issued by governments, have collapsed and our underweight in this asset class combined with our decision to favor high-yield bonds allowed us to avoid a decline in our clients' portfolios.

However, 2016 as a whole will have been generally less satisfying than previous years. The Canadian resource sector has had one of its best years after more than 5 years of slim pickings. However, with our trend tracking technique, it is more difficult for us to partake in such a rebound. As a result, for the first time in a long time, the Canadian market, which is our benchmark, has outperformed our portfolios. Just as it is for Warren Buffet, it is unfortunately impossible for us to beat the market every year, especially when considering that the Canadian index is not very diversified and is composed predominantly of financial and resource stocks. On the other hand, from the beginning, we have consistently outperformed the indices and we remain convinced that our technique of tracking trends ensures that our customers avoid the large losses that occasionally affect the stock markets.

As we do every year, we start this newsletter by presenting a financial review of the year, followed by a review of our performance. We will then discuss the new rules on cost disclosure and performance reporting. Finally, we will conclude with the usual review of our outlook on the markets and our most important positions.

Happy reading!

The year 2016

The beginning of 2016 was marked by a decline of the stock markets by almost 10 %.

Three major events took place in the financial markets in 2016, which surprised everyone, Rivemont included. First of all, most of us have already forgotten that the world's stock markets had a catastrophic start to the year, with a decline of almost 10% in the first two weeks.

The Canadian resource sector had an important rebound in 2016.

Fortunately for investors, the indices recovered rapidly. This recovery was particularly quick on the Canadian side, as the resource sector began a major uptrend that continued for almost 6 months and officially put an end to the bear market that started in 2012. The best opportunities of the year appeared during this period, which saw the value of some stocks more than quintuple. The best example is Teck Resources, which operates in the coal, copper, zinc and lead sectors, among others. The stock, which traded at $3.81 on the NYSE at the end of 2015, surpassed $25 in November 2016.

Brexit had a very brief negative impact on the stock markets and they quickly rebounded.

Brexit was the second major event. The British people unexpectedly voted to withdraw from the European Union. The effects were immediate, resulting in a significant decline in global markets.

However, once again, this was not the beginning of a bear market. Until now, the only notable effect has been the significant decline in the pound sterling and, to a lesser extent, the Euro against the U.S. dollar.

The election of Donald Trump also had a negative impact on the stock markets but again it was very short-lived.

The third important event is obviously the election of Donald Trump as president of the United States; the famous real estate investor who has gone bankrupt on a number of occasions. On the day of the election, at around two o'clock in the morning, Asian stock markets were down sharply and the Dow Jones futures opened with a drop of 700 points! It was certainly not my best night... Yet, as the saying goes, "things come in threes”. The negative impact was short-lived and stocks, with financial firms leading the way, propelled the American markets to new heights. Although, the S&P/TSX, our Canadian index, is still down slightly from its peak in 2014. Rarely has a year been so tumultuous.

There are two main types of investors: those who follow the trend, like us, and the contrarians.

2016 Performance

There are two main types of markets:

A) Those that show a clear trend, upward or downward

B) Those without a clear trend that zigzag and have sharp increases followed by precipitous declines, and vice versa

Similarly, there are two main types of investors: those who follow the trend, like us, and the contrarians who sell when the market goes up and buy when it goes down. Both types have advantages and disadvantages. The main advantage of tracking trends is the possibility of avoiding major downturns, such as in 2000 or 2008. During these years, contrarians experienced heavy losses from buying en masse the rapidly declining shares of companies such as Lehman Brothers or Nortel. And during rollercoaster years, like the one we saw in 2016, the contrarians are the ones who pocket the gains. For our part, we ended the year with slightly positive returns for traditional accounts and slightly negative for the Rivemont Absolute Return Fund. It can be said that for the latter, which is designed to protect investors from losses in bear markets, this year did not present an ideal scenario.

For your information, here is a link that shows the returns based on our strategy:

www.rivemont.ca/performance

In hindsight, our main mistakes were failing to add resource stocks in our portfolios to start the year, and selling certain securities during the declines in January and following Brexit. Our best moves were to purchase shares of financial companies like TD Bank, Royal Bank and Sun Life Insurance Company. The possibility of rising interest rates has greatly helped this sector, which was also supported by the new U.S. administration's deregulation policy.

CRM2 – Cost Disclosure and Performance Reporting

By Jean Lamontagne

Since July 15, 2016, the Canadian Securities Administrators (CSA) have put in place a new regulatory framework: the Client Relationship Model - Phase 2 or CRM2. This new framework aims to increase transparency between financial advisors and their clients. In particular, it requires the production of two additional annual reports by advisors and brokers: a report of charges and a performance report.

At Rivemont, we believe that the new client relationship model will enable individuals to better evaluate the services being offered in the market.

Rivemont strongly supported these new regulations. When we meet a new customer, it is not uncommon for them to be unaware of the fees charged for managing their assets. Some even think that they don't pay anything! And since our fees are among the lowest in the industry, particularly in comparison to mutual funds, we hope that some investors who do business with our competitors will come knocking on our door to reduce their management costs.

The second document to be provided to all clients is an annual report on investment performance. Different financial institutions use a personalized layout, but all firms must provide a conciliation of client accounts with the following information:

- Market value of positions
- Deposits and withdrawals
- Change in market value
- Closing market value

In addition, the report must present the "personal rate of return", which is the return weighted by external cash flows. This formula takes into account the impact of deposits and withdrawals on the calculation of the return. For example, in a given calendar year, if a client contributes a significant amount to the fund on July 1st and the return is higher in the second half of the year, the personal rate of return will be higher than if the customer had not contributed on July 1st.

Since the new reports have to be produced annually as of July 15, 2016, most institutions, including ours, have decided to prepare them for the 12-month period ending December 31, 2016, and to distribute them at the beginning of 2017. Obviously, we would have preferred that this measure be implemented last year, when our performance for 2015 was more spectacular!

Do not hesitate to contact us if you want to know more about the content of these new reports that you will receive shortly.

Market Prospects

Rivemont Investments			
Subject	Question	Recommendation	Comments
Allocation between equities and fixed income securities	Which are most interesting, stocks or bonds?	Underweight in bonds.	An increase in interest rates could diminish the value of bonds in circulation.
Distribution between Canadian, U.S. and international securities	Which securities are most interesting: Canadian, U.S. or international?	Neutral weighting between Canadian and U.S. markets.	The resources sector could continue its uptrend.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Recommend corporate bonds and high yield bonds.	We recommend medium-term corporate bonds as well as high-yield corporate bonds.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	American securities remain essential in portfolios.	An increase of the Canadian dollar would be surprising.

Favorite Securities

You will find below a list of the individual securities with the largest weight in our "growth" portfolio. These stocks were selected based on their respective potential to outperform the stock market. You will find a short description of their activities, the annual dividend, if any, and the total return since their first inclusion in our portfolio.

As of January 26, 2017

1) Symbol: TD
Name: **TD Bank**
Description: Financial Services.
Dividend Yield: 3.2%
Total Return: 21.5%

2) Symbol: GD
Name: **General Dynamics**
Description: Production of military equipment.
Dividend Yield: 1.7%
Total Return: 13.6%

3) Symbol: MU
Name: **Micron Technologie**
Description: Storage and semiconductor technology.
Dividend Yield: N/A
Total Return: 30.3%

4) Symbol: AGT
Name: **AGT Food and Ingredient**
Description: Lentil and pea splitting company.
Dividend Yield: 1.6%
Total Return: 114.2%

5) Symbol: SLF
Name: **Sun Life Financial**
Description: Insurance.
Dividend Yield: 3.2%
Total Return: 37.0%

6) Symbol: RY
Name: **Royal Bank of Canada**
Description: Financial Services.
Dividend Yield: 3.5%
Total Return: 11.3%

7) Symbol: CNR
Name: **Canadian National Railway**
Description: Railroads.
Dividend Yield: 1.8%
Total Return: 6.8%

8) Symbol: PKI
Name: **Parkland Fuel**
Description: Gas stations network.
Dividend Yield: 4.1%
Total Return: 13.0%

Conclusion

In corporate news, 2017 was a busy one in which we hired two new employees and opened our Montreal office. Everything is now in place to support our activities and expansion. Going forward, we will be focusing on continuing to deliver high-quality customer service and performance.

In closing, I invite you to contact us for all your financial needs, including those not directly related to portfolio management. We work with a number of very competent professionals, particularly in taxation, accounting and legal services. We would be pleased to act as a hub for all your financial needs.

Sincerely,

Martin Lalonde, MBA, CFA
President

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