By Martin Lalonde, MBA, CFA

May 1st, 2017

IN THIS ISSUE

Introduction

Hello everyone,

The start of 2017 was positive for Rivemont Investments, as our core Growth strategy continued to perform well, surpassing benchmarks over the 1-month, 3-month, 6-month and 5-year periods. Our active approach to investment means that our performance sometimes deviates significantly from that of the index. If 2015 was exceptionally positive, 2016 was much less so. From the beginning, however, we have delivered higher returns for our investors, with less volatility, which is also of great importance to most clients.

Speaking of volatility, much of this newsletter is devoted to this important aspect of investment. While abstract for many, volatility is an essential indicator in the construction of portfolios. At Rivemont, we believe that we are currently in an unusual period and we anticipate a major reversal in terms of market risk. This newsletter will no doubt be an interesting read for many of you.

We will also review the performance of our portfolios in greater detail and discuss why we are currently satisfied with the securities they contain. Finally, we will conclude with our usual outlook on markets and outline our most important positions.

Before I let you read on, I would like to invite you to follow us on Facebook, as we hope this will be the best way to keep in touch with you on an ongoing basis. We plan to post educational videos, news articles and interesting market updates. Visit and "like" our page!

Happy reading!

« An active approach that potentially increases total return. »

Volatility

Volatility is an essential characteristic used to determine the amplitude of an asset's price changes over a given period of time. For the average person, it is often equivalent to the risk associated with holding that asset. As such, it is more risky to hold a small-cap or emerging market fund than a U.S. large-cap fund. The upward and downward movements in the price of the fund will be more substantial in the first case, but the expected return will also be greater. For example, in North America, small-caps have in the long run been the best.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Best	35.2%	38.7%	33.2%	11.6%	8.4%	10.3%	47.3%	20.3%	13.5%	26.3%	11.8%	5.2%	37.2%	26.9%	7.8%	17.5%	38.8%	13.7%	5.7%	21.3%
	33.4%	28.6%	27.0%	7.0%	4.4%	1.8%	38.6%	18.3%	7.1%	22.3%	11.2%	2.1%	31.8%	16.7%	2.6%	17.3%	33.5%	13.5%	1.4%	17.3%
	30.5%	20.0%	21.3%	6.2%	2.5%	-9.8%	30.0%	16.5%	5.4%	18.4%	7.0%	-22.8%	27.2%	15.5%	2.1%	16.4%	32.5%	13.1%	0.6%	12.0%
	22.4%	17.0%	21.0%	-1.1%	-4.8%	-15.5%	29.8%	10.9%	5.3%	15.8%	6.0%	-33.8%	26.5%	15.1%	1.8%	16.0%	32.4%	8.1%	0.1%	8.7%
	20.6%	15.6%	13.6%	-3.0%	-5.6%	-15.9%	28.7%	10.5%	4.9%	13.0%	5.5%	-36.9%	20.8%	13.0%	0.4%	15.3%	22.8%	6.0%	0.0%	7.1%
	9.7%	8.7%	7.4%	-9.1%	-11.9%	-20.5%	23.5%	6.3%	4.6%	9.1%	5.0%	-37.0%	19.7%	7.8%	0.1%	12.2%	20.3%	4.9%	-0.8%	2.7%
	5.3%	5.2%	4.9%	-14.2%	-20.4%	-22.1%	4.1%	4.3%	3.1%	4.9%	-0.2%	-38.4%	5.9%	6.5%	-4.2%	4.2%	0.1%	0.0%	-3.8%	1.0%
Worst	1.8%	-2.6%	-0.8%	-22.4%	-21.4%	-27.9%	1.2%	1.3%	2.4%	4.3%	-1.6%	-43.4%	0.2%	0.1%	-12.1%	0.1%	-2.0%	-4.9%	-4.4%	0.3%

Legend

Source: Blackrock Insight 2017

Light green: large-cap stocks
Dark blue: growth stocks
Gray: money market
Light blue: value stocks
Dark blue: small-cap stocks
Blue: international stocks
Green: fixed income
Dark green: diversified portfolio

However, as shown in this table, there is a significant rotation of asset classes that produce the highest returns. Using a passive approach, it would be advisable to buy everything and cross your fingers. At Rivemont, we use an active approach that potentially increases total return by underweighting or overweighting asset classes according to their growth prospects.

But let’s come back to volatility… While there are several ways to calculate it, the standard deviation, or historical price change of a security, is typically used. The biggest shortcoming of this method is that it does not distinguish between the increase or decrease of prices. For example, a market that rises by 5% for two consecutive years will have the same volatility rate and will therefore be considered as risky as a market that declines by 5% during the same period. There are some methods to remedy this situation, but they are rarely used.

At the moment, as surprising as it may seem to be given Brexit and Trump's election, we are in a period of very low daily volatility in North American stock markets. Usually, in a typical year, there are about 50 days when the average change is more than 1%. However, we haven’t come close to this figure for several months now, logging less than one such day per month.

« Volatility remains very low on the North American stock markets.»

There is an index on the derivatives market that speculates on the volatility of future markets. This indicator is the VIX. Calculated by finding the average volatility of call options and put options on the S&P 500, the VIX measures the degree of insecurity (often referred to as the "fear index") of investors that is implicit in the price of options.

As can be seen from this table, the index is close to its historic low, between 10 and 15.

« For the next few months, we will avoid securities with a high beta. »

However, it is hazardous to predict a rise in the indicator. As with stock market crashes, we know it will happen, but we do not know when. A simplistic way of protecting oneself from increasing volatility is to increase the portion of the bonds in the portfolios, which yield a better return during those periods. Unfortunately, bonds currently offer such a low return at maturity that this is not a viable option.

At Rivemont, we believe we have managed to achieve a favourable balance by maintaining the percentage of shares in the portfolios, but by reducing the combined risk of the securities selected. For example, we recently added the stocks of Brookfield Asset Management and QSR (Tim Horton and Burger King), which are more defensive stocks in times of uncertainty but with a good correlation with the market when it is bullish. So, for the next few months at least, we will avoid stocks with a beta much larger than 1, as they are the big losers in times of high volatility.

« The "Growth" portfolio's return has outperformed its benchmark index since our beginnings. »

Portfolio Performance and Positioning

By Jean Lamontagne

Performance

http://rivemont.ca/wp-content/uploads/2017/04/Rivemont-Growth-31-Mars-2017.pdf

You can view the details of the Growth portfolio's performance by clicking on the link above. We use this index mainly because it represents the largest part of our mandates. As you'll see, the returns have outperformed the benchmark index since inception, and our clients' accounts are now at their highest historical level. It should be noted that this performance was achieved in a bull market while our main strength is capital protection in a bear market. In addition, the Rivemont Absolute Return Fund experienced a terrible 12-month period, whereas it makes up on average between 10% to 20% of our clients' portfolios. This fund is particularly effective in a bear market, so it is not surprising that it has experienced difficulties lately. It should be noted that the fund has also experienced considerable drawdown periods in the past, with no major impact thereafter.

Beyond these considerations, volatility remains a key factor in the performance of the strategy. As previously mentioned, usually, the higher the return, the greater the associated risk. With respect to our growth strategy, we provided our clients with better returns while having a lower volatility than the market, which was 5.86% versus the benchmark's 6.80%.

Positioning of Portfolios

Since Donald Trump became president of the United States, stock markets have risen. Investors are counting on the potential for increased economic growth and corporate profits from infrastructure spending, a lower tax rate and easing of corporate regulation.

Several financial players are trying to capitalize on announcements made about different industries, either directly by Trump or more subtly by his administration, by positioning their portfolios accordingly. At Rivemont, with our trend tracking analysis methodology, we pay little attention to these things and instead focus on our own rules regarding the purchase and sale of securities.

« Portfolios well adapted to the geopolitical and economic contexts resulting from the Trump administration. »

On the other hand, we can see that the structure of our traditional portfolios is well adapted to the geopolitical and economic contexts that are the result of the Trump Administration.

With the announcement of a significant increase in the U.S. defense budget and taking into account the existing geopolitical tensions (notably with Syria and North Korea), two defense-related securities in our portfolios - General Dynamics (military equipment) and CAE (flight simulators) - have performed well recently and are still well-positioned to take advantage of the Trump Administration's future policies.

In addition, as mentioned earlier in the Volatility section, our less volatile stocks should also perform well in this environment, which is rather unique and new for those of us who did not experience the Cold War. In the same vein, Canadian National, a member of the Canadian railway duopoly, has proven to be one of our most successful stocks in recent years. These railway securities are now strongly correlated with the price of oil, which is being transported more and more by rail.

The U.S. intervention in Syria in early April boosted the price of a barrel of oil to $53. With growing tensions in the Middle East, it is a safe bet that the price of oil will remain above $45 in the coming months. Under this scenario, the vast majority of Canadian producers can profitably exploit the oil sands, and several are expected to increase their production, which is greatly beneficial to the Canadian economy and Canadian National.

Even if the price of a barrel of oil should stay above the $45 mark, we won't hold oil stocks. Indeed, since the introduction of shale oil, it must be known that this type of marginal production is very elastic and can easily increase when the price of a barrel of oil is rising. As such, it acts as a buffer that limits the price increase of a barrel of oil and thus the profit margins of Canadian producers.

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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.	We recommend adding alternative investments to portfolios.
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 short- and 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.	A strengthening 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 April 25, 2017

1) Symbol: MU
Name: **Micron Technology**
Description: Storage and semiconductor technology.
Dividend Yield: N/A
Total Return: 49.4%

2) Symbol: GD
Name: **General Dynamics**
Description: Production of military equipment.
Dividend Yield: 1.7%
Total Return: 25.7%

3) Symbol: DOX
Name: **Amdocs**
Description: Software and technology services.
Dividend Yield: 1.4%
Total Return: -1.2%

4) Symbol: QSR
Name: **Restaurant Brands**
Description: Fast-food outlets.
Dividend Yield: 1.3%
Total Return: 19.4%

5) Symbol: CNR
Name: **Canadian National Railway**
Description: Railroads.
Dividend Yield: 1.7%
Total Return: 16.5%

6) Symbol: SLF
Name: **Sun Life Financial**
Description: Insurance.
Dividend Yield: 3.4%
Total Return: 30.9%

7) Symbol: RY
Name: **Royal Bank of Canada**
Description: Financial services.
Dividend Yield: 3.7%
Total Return: 11.4%

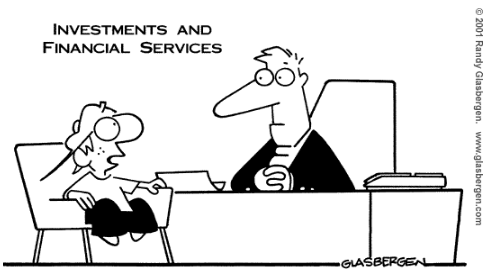
8) Symbol: CAE
Name: **CAE**
Description: Flight simulators.
Dividend Yield: 1.5%
Total Return: 6.8%

Conclusion

We need to look at the long-term. We often repeat it, but it's so easy to forget. There have been ups and downs and very quiet periods. On the other hand, our investors (Growth) over the last five years have achieved an annualized return of 8.2%, almost 50% in cumulative terms. And, in our opinion, it is now the Rivemont Absolute Return Fund's turn to generate high returns: all the elements are in place.

Finally, while we would never suggest that our clientele is beginning to go gray, more and more of our customers' children are choosing to entrust us with their savings. Thank you for your trust!

Let's finish this newsletter with a bit of humour...



"We should probably take an aggressive approach. My allowance is 50¢ a week and I want to retire at age 16."

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT