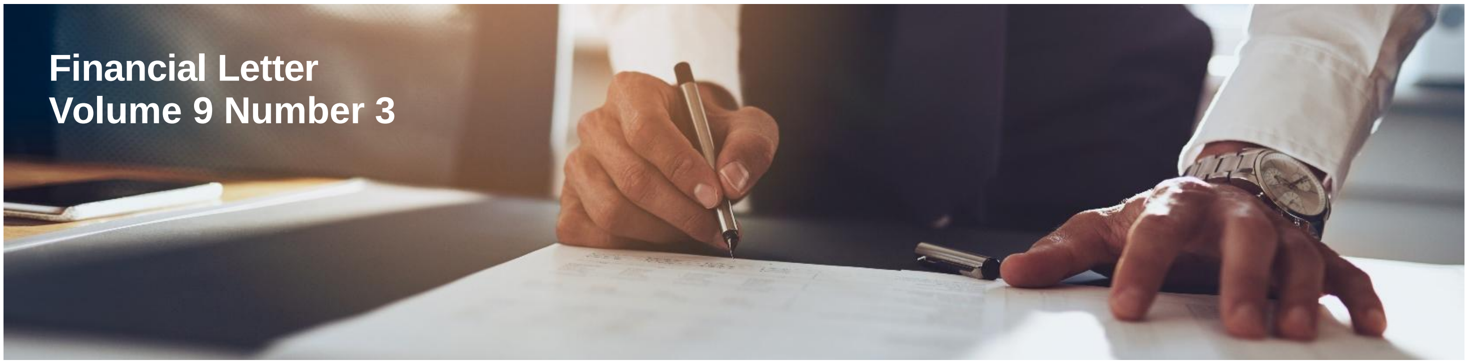


August 1st, 2018

IN THIS ISSUE

Introduction

Hello everyone,

There are quarters in which it is particularly pleasant to write this financial newsletter, and this one certainly falls into that category. Our decisions were singularly on-the-mark, and the return on all of our traditional strategies far exceeded that of benchmarks. Indeed, since the beginning of the year, our stock-focused strategy advanced by 6.3%, compared to 1.8% for the index. During the same period, our Moderate Growth Strategy grew by 6.1%, compared to 1.4% for the index. In our opinion, we are in the best possible position to take advantage of the next few months, which will undoubtedly be very interesting on the North American stock markets. As I have already mentioned to many of my clients, bull markets usually end in a period of euphoria, including the go-go years of 1966-1967 or the tech bubble in the late 1990s. These years are fantastic for portfolios, and you don't want to miss them. However, one should not stray too far from the sell button and know how to cash in profits, one of the main advantages of active management.

I will begin this issue with a quick presentation of another investment theory, namely Teladoc's stock, or TDOC on the Nasdaq. I received very positive feedback on the Etsy story that appeared in the last edition of this newsletter (almost 150% yield so far) which made me want to share with you another facet of our decision-making. I will continue with a somewhat more technical discussion of the impact on high-yield portfolios, using the example of venture capital funds and reflecting on the normal distribution its limitations. As usual, we will finish by presenting our perspectives on the markets and our most important positions.

Note that the Rivemont Crypto and Rivemont MicroCap Funds have their own updates. You can sign up to receive those bulletins by email at:

Rivemont Crypto Fund: crypto@rivemont.ca
Rivemont MicroCap Fund: microcap@rivemont.ca

Happy reading!

Teladoc

"the decision to invest in Teladoc (Nasdaq TDOC) was initially purely technical.

Unlike Etsy, where the decision to invest in the stock came from everyday life, the decision to invest in Teladoc (Nasdaq TDOC) was initially purely technical. Indeed, there are specific technical (or graph) formations that are often present before the rise of the price of a stock, and Teladoc is a perfect example.

First, the stock must be in an uptrend. Our trend tracking method also tells us to avoid stocks that are not doing well. On the graph above, our analysis confirmed the following:

A) The stock broke its downtrend in early 2017, rising above $20.

B) The 30-period moving average (red line) is above the 50-period moving average (yellow line).

C) The two moving averages point upwards.

"One thing we like is to be able to see a clear price resistance."

Another thing we like is to be able to see a clear resistance, represented by the horizontal black line that we added to the graph. Indeed, such resistance often serves as a springboard for a substantial rise in the price of the stock. When a stock breaks through the upper part of this resistance, here above $40, it is a buy signal. And when this resistance leads to an unprecedented new high (all time high), this scenario becomes doubly interesting.

But we must not forget that our approach is top-down. We therefore ensured that the market in general was also bullish, and that the sector in which the company operates is popular with investors.

Teladoc is a company that allows its members and users to consult a doctor online or on mobile using video conferencing (telemedicine). No more queuing for hours to see a doctor or to have prescriptions renewed. Doctors are available at all times, and the average response time is 10 minutes. Currently, the service has approximately 20 million members and more than 3,100 health professionals participate.

"At this time, both the high-technology and health care sectors are booming on the North American markets."

What an ingenious concept! In addition, at this time, both the high-technology and health care sectors are booming on the North American markets. So, everything was in place for us to take a position on this stock, which we did when it went above $40. It is now trading at nearly $63.

In this case, and unlike Etsy, it is therefore the graph of the stock itself that sparked our curiosity. It goes to show you that there is more than one road that leads to Rome, or to success!

Big winners and their importance

The idea of this next section came to me while listening to a podcast on the road between Quebec and Gatineau. A podcast is an online audio capsule. In other words, it is a short radio program available for listening at the time and place of your choice. And as you can imagine, there are podcasts on just about every topic.

I subscribe to several podcasts on finance, and it is this one that inspired the following reflection.

https://www.fool.com/podcasts/motley-fool-money/2018-07-06-investing-misconceptions-popsicle/

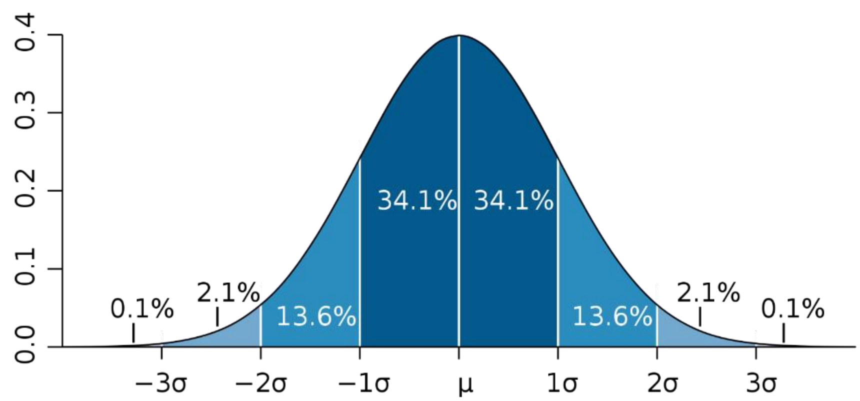
Venture capital funds make it possible to invest in companies that are at the very beginning of their growth cycle. Obviously, this is one of the riskiest types of investments. Firms specialized in this type of investment rely on a large diversification to mitigate the risk. So, the strategy could be to invest in 100 different small businesses knowing that 60 of them will eventually go bankrupt, that 10 will be profitable and that only 2 or 3 will live up to expectations by producing a return of several thousand percent, like Airbnb, Twitter or Facebook. Investors who favor this approach know

« The reality of venture capital funds applies, albeit in a less extreme way, to the traditional equity market. »

that grasping or missing these two or three rising stars would have an immeasurable impact on the entire portfolio.

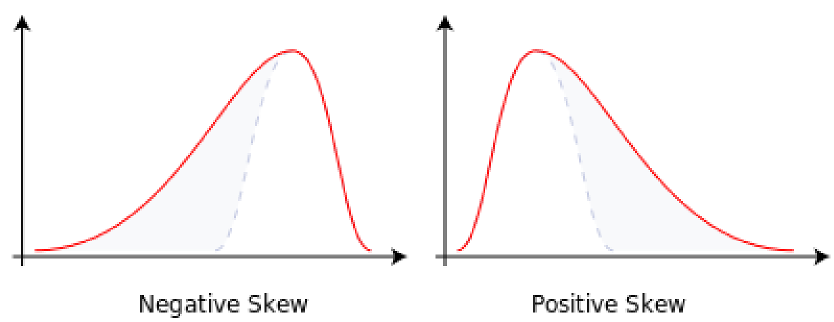
But what investors sometimes do not know is that this surprising reality also applies, albeit in a less extreme way, to the traditional equity market.

In order to control the risk of a portfolio, it would be ideal for a portfolio manager like Rivemont to know the current and future distribution of expected returns. In other words, this distribution follows the normal distribution with a zero mean and standard deviation represented by the Gaussian curve.



Source : douance.org

Of course, and you see what I'm getting at, the distribution of stock market returns is asymmetric, while returns far from the average are much more present than on a normal curve. In finance, we speak of "Long Tail" to describe the phenomenon.



Negative asymmetric distribution /Positive asymmetric distribution Source : Wikipedia

Thus, in recent years, the total return of the S&P 500 has been the result of a few stocks such as Facebook or Amazon, the vast majority of companies in the index not having produced an attractive return. You will then understand that the performance of a portfolio management firm

"In recent years, the total return of the S&P 500 has been the result of a few stocks such as Facebook or Amazon."

such as ours will be greatly influenced by our best moves, and that this performance may be very different from that of the index over shorter periods. The important thing is to maintain a long-term perspective in order to properly assess the work of portfolio managers. I must admit, however, that we are very pleased to have produced superior returns for our clients over the short and long-term indices for our various traditional strategies. Below is the performance of our Moderate Growth Strategy.

http://rivemont.ca/wp-content/uploads/2018/07/Rivemont-Moderate-Growth-2018-06-30.pdf

But is it really easy to invest in the big winners? Much less than we think. Let's start with Google, whose return has been 25% per year since it went public in 2005. Well, the company lost 65% of its market valuation in 2007-2008. Amazon, for its part, has already lost 95%! A hypothetical investment of $1,000 would have gone up to $54,000 and then down to $3,000. Who would have kept these stocks? And Netflix, another revolutionary company, lost 50% of its value four times between July 2011 and September 2012, for a total loss of 82%. The initial amount of $1,000 would have risen to $36,500 and fallen to $6,600 during this period. It's so much easier to remember the rises rather than the drops ...

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?	Canadian equities are starting to look more attractive.	We are keeping a close eye on a potential resurgence of the resource sector.
Distribution between corporate and government bonds	Which are more interesting, corporate or government bonds?	Government bonds have little attraction.	We recommend corporate bonds with short and medium-term maturities.
Investments in Canadian dollars or in foreign currency	Do investments in other currencies increase or decrease the total yield?	U.S. assets are still just as essential to portfolios.	We do not anticipate any sharp movement in currencies.

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 July 27, 2018

1) Symbol: ETSY
Name: **Etsy**
Description: Online retail website.
Dividend Yield: N/A
Total Return: 135.2%

2) Symbol: TDOC
Name: **Teladoc**
Description: Health care via mobile devices.
Dividend Yield: N/A
Total Return: 57.3%

3) Symbol: CAE
Name: **CAE**
Description: Flight simulators.
Dividend Yield: 1.4%
Total Return: 40.1%

4) Symbol: PXT
Name: **Parex Resources**
Description: Crude oil exploration and production.
Dividend Yield: N/A
Total Return: 6.7%

5) Symbol: SLF
Name: **Sun Life Financial**
Description: Insurance and financial services.
Dividend Yield: 3.6%
Total Return: 30.0%

6) Symbol: T
Name: **Telus**
Description: Telecommunications.
Dividend Yield: 4.5%
Total Return: 8.9%

7) Symbol: IFC
Name: **Intact Financial**
Description: Casualty insurance.
Dividend Yield: 2.9%
Total Return: 3.1%

8) Symbol: CFP
Name: **Canfor**
Description: Lumber products.
Dividend Yield: N/A
Total Return: -9.9%

Conclusion

In closing, I would like to welcome Keven Perreault, who joined the team as a summer student. There is a lot of work to do and new customers to serve! We will spend the coming months consolidating ongoing projects with the goal of achieving $50 million under management soon. Thank you for your trust and have a great summer!

Sincerely,

Martin Lalonde, MBA, CFA
President

RIVEMONT