

Market review

- The Canadian equity market experienced a summer rally that continued into the fall, as fears of an economic setback faded. The TSX moved into positive territory for the year-to-date, gaining 10.3% during the quarter. Third quarter was led by the Materials group (up 18.1%), Staples (up 14.8%) and Utilities (up 14.1%). Underperforming sectors were Information Technology (down 1.7%) and Energy (up 6.2%).
- The bond market appreciated during the third quarter due to the continuation of the safety trade and moderating inflation expectations. Ten-year U.S. treasury yields decreased 44 basis points to 2.50%, with Canadian yields decreasing 33 basis points to 2.76%. The Canadian dollar recovered ground against the U.S. dollar during the quarter, trading at 97.17 U.S. cents, up roughly 3.25 cents.

Portfolio review

Positive performance factors in the third quarter

By Sector:

- The portfolio's over weight position in Utilities and its under weight in Energy were positive contributors in the quarter.

By Stock:

- The primary individual stock contributors were: Magna International, National Bank and Fortis Inc.

Negative performance factors in the third quarter

By Sector:

- The performance detractors by sector were the portfolio's under weighting in Materials (Golds) and the under weighting of Health Care.

By Stock:

- The primary individual stock detractors were: Thomson Reuters, Bell Aliant, and Crescent Point Energy.

Outlook and strategy

- We remain optimistic toward equities in the mid to long-term, and continue to find good value on an individual stock basis, within numerous sectors of the Canadian equity market. The strong performance in the third quarter may be met by some consolidation period, but we are now moving into traditionally, the strongest seasonal period for the stock market. As such, we believe the next five to six months could be very rewarding to equity investors, as compared to fixed income investors.
- Our strategy continues to be one of selectively adding to positions, as valuations of individual stocks decline to attractive levels.
- We continue to reduce, or eliminate, individual positions, where we feel the upside is limited compared to the risks.
- We have reduced our preferred weighting in favour of common shares. We expect that, as the economic uncertainty lessens, corporations will start to raise dividends.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Laketon Investment Management.