RAYMOND JAMES | CHRIS RAPER & ASSOCIATES

The Opportunity Update – Wednesday, September 4, 2019

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Track #1: Introduction – The Skinny

Hi, this is Chris Raper, Senior Vice President & Portfolio Manager, Private Client Group of Raymond James Ltd. & co-founder of **The Dividend Value Discipline™**. Welcome to **The Opportunity Update**, which is being recorded for you in Victoria, BC on Wednesday, September 4, 2019. Here is what we are going to cover today.

You are now listening to **Track #1: The Introduction**, where I give you the skinny on what I am going to talk about.

On **Track #2: The Markets – CYCLES!** - no, I am not talking about my recent bike ride raising funds for Opportunity International. Rather, I am going to walk you through a decade-by-decade history lesson, at a very rapid pace, in an effort to give you some context for our belief that the period from 2020 (yes, it is only four months away) to 2030 is extremely unlikely to look like the period 2010 to 2020. Put another way, the star investments of this decade are not likely to be the stars of the next decade. By 2030, I would expect the term FAANG stocks (Facebook, Amazon, AAPL, Netflix and Alphabet - formerly Google) to be replaced by another acronym. Much like the now forgotten "Nifty Fifty" from the 1960's are.

Post that short history lesson, I will follow our usual course and give you an update on our favourite leading economic indicators - the price of copper and the semiconductor index - and then the, always important to Canadian investors, energy complex, and finally our Canadian dollar.

On **Track #3: The Dividend Value Discipline™ - Productivity Drivers,** we will highlight three recent additions to the program (and you thought I was on holidays all summer), namely: Rockwell Automation, Analog Devices, Inc. and KLA Corp. – interestingly, all three are having a major impact on the global productivity trends.

On **Track #4: The Wrap Up – Focus On What Matters - Dividend Growth!,** I will wrap it up giving you the key takeaways from each track, and then once again draw your attention to what matters most – dividend growth. Why can I be so bold in that statement? To quote my business partner, Ryan Cramp, "we know that over long periods of time dividend paying stocks outperform those that don't pay dividends and dividend growers do even better."

Track #5: Postscript I is where I walk you through the methodology and return objectives of **The Dividend Value Discipline™**. This track is primarily for the benefit of potential clients who are being introduced to us by way of this recording. By the time you are done listening you will know what makes the process unique vis-à-vis our competition and whether or not you are interested in pursuing it any further. Not interested, not interested right now, and let's talk further are all perfectly acceptable answers.

Track #6: Postscript II is again for the benefit of prospective clients. It will give you some insight on what to expect during our initial meeting, where we both want to answer the question: "Is there a fit between our services and your needs?"

In terms of legal requirements, there are three things to note:

1. The opinions that are expressed on this recording are mine. They may differ from those of Raymond James Ltd.

2. Raymond James Ltd. is a member of the Canadian Investor Protection Fund. That is a good thing. If you are interested in those details, please ask me or any one of our relationship managers the next time we speak.

3. This recording/transcript provides links to other Internet sites for the convenience of users. Raymond James Ltd. is not responsible for the availability or content of these external sites, nor does Raymond James Ltd. endorse, warrant or guarantee the products, services or information described or offered at these other Internet sites. Users cannot assume that the external sites will abide by the same Privacy Policy which Raymond James Ltd. adheres to.

I also want you to recognize that some of the things I am going to say today are going to be proven wrong. It is an inevitable part of this business. It is also important to recognize that you don't have to be right all the time to do well. You just have to be more right than most or, conversely, less wrong than most.

Finally, regarding investment jargon, when I say I am bullish, it means I expect things to go up. When I say I am bearish, it means I expect things to go down. Likewise, north means up and south means down. When I speak about rent cheques, I am speaking about income, primarily dividends. You will also hear me using the term disruptor, which is our moniker for those companies that are disrupting or re-inventing the way business is done in their particular market and are thereby able to grow at rates far faster than those of the economy. Think of Wal-Mart twenty years ago and Amazon today. You will also hear me use the term aggregator, which is our moniker for those companies that have a systemized approach to acquiring smaller competitors as a means to fuel their growth. That growth is the path to increasing dividends or in our language, growing rent cheques. If you catch me using industry jargon beyond that, I invite you to call me out. Send an email to the office and the team will let me know, usually with considerable gusto!

That’s a wrap on the skinny, and off we go to Track #2.

Track #2: The Markets – CYCLES!

Before I start this track, I want to give credit to Ray Dalio, Co-Chair of the world's largest hedge fund business, Bridgewater Associates, L.P., for neatly summarizing a history of the markets from 1920 to present day in his July 17, 2019 publication, Paradigm Shifts. While I have been aware of these long term cycles for well over 20 years, and have studied them extensively, Ray did a great job of not only detailing the cycles but the reasons why they happen. What follows is my take on that abbreviated history and why that should shape our thinking as we prepare for the next decade, which again, is only four months away.

To give you a live example of why it is so important to understand these cycles, consider this – during the 2008/09 market debacle, I spoke to and wrote to anyone who would listen or read, that the then 10 year rolling rate of returns in the US markets had gone "negative". Furthermore, history teaches us that every time the U.S. market's 10 year return was less than 2.5% annually, the average return for the following 10 years was 13.3%, with a range of 7.1% to 18.6%. My mantra then was, "Currently, there is an industry-wide shift away from equities at the very time when history is suggesting that the opposite tact is the right one."

As I sit here today, that is pretty much what happened, even though the common belief at the time was that U.S. stocks would continue to be a terrible place to invest money because investors were taking their recent past results and projecting them forward, without considering the long term cycles and what happens to investor psyche during those cycles. In short, things get bid up because they are going up and analysts/investors rationalize or invent reasons as to why it makes sense, which only reinforces the behaviour, so buying begets buying. Until, there is a shift that most investors have not even considered and the wave finally breaks, leaving overly optimistic investors drowning in their tears. Then selling begets selling, analysts/investors rationalize or invent reasons to reinforce the selling behaviour to the point where everybody who is going to sell has sold, leaving the bargains for those who are prepared both psychologically and cash wise. In short, most investors suffer from recent past extrapolation.

To wit, here is a rapid run through the last 100 years:

- The 1920's started with a recession and most investors thinking things would never get better – but they did, and as prices moved higher, low interest rates provided the incentive to pile on debt and more money flooded into equities until the excessive debt became unsustainable and down came your doghouse in the crash of 1929. It is not hard to draw a comparison to the 2008/09 collapse, where excessive debt and the extrapolation of real estate prices were the main culprits.

- The 1930's didn't look anything like the 1920's, and by the end of that decade most investors were taking their experiences of the last 10 years and projecting that forward – just like most investors were in the 08/09 crisis. Depression, very few jobs, meagre pay and, by the end, war. The future was anything but bright. Why would you ever invest – your money was safer in your mattress. But that is not the way it turned out.

- The 1940's were a boom for commodities, bonds and stocks as the interest rates were held low to make paying for the war effort easier. The demand for things like coal, oil, metals was seemingly insatiable because the things that got produced got destroyed, and stocks boomed as the Allied victory became more certain.

- By the 1950's, the masses had suffered two very tough decades – depression and war, and they were highly skeptical about a rosy future. They wanted a home, children and security – understandably, they did not want risk. What most failed to realize is that the pent up domestic demand would drive growth levels to ~4% per annum for most of the decade and consequently the stock market boomed.

- By the early 1960's, investors were starting to believe that the future would indeed be better. After all they had a decade of "proof" to confirm their assertion. The masses started taking on debt to buy stocks, because risks were minimal and rewards were almost certain, or so they thought. This was the era of the "nifty fifty" stocks where you just couldn't lose on companies like Polaroid and RCA - for you younger listeners those companies were the Apple and Snapchat of today. By the late 60's, economic growth was surging, interest rates were raised to contain growth and the inevitable downturn happened leaving those who had recently joined the party in tears.

- The 1970's was a period of incredible inflation, high debt loads and very slow growth. The only investors that really won were those that had the courage to invest in inflation proof assets, i.e. commodities. Stocks and bonds got clobbered. In essence, the opposite of the early 1960's.

- Then came the 1980's and the tables were turned once again, just when most people thought things would never improve. After all they had a decade of "proof" to confirm their beliefs. Yet inflation fell and growth was strong, stocks and bonds roared and commodities got clobbered.

- The 1990's started off with an economic downturn and central bankers lowered interest rates to fight the downturn. It ended with far too many investors taking on debt, to buy what they had extrapolated forward and finally the bursting of the dot.com bubble that spilled over into the 2000's. When things were finally looking a little more stable, we got 9/11 which ushered in another round of easy money, that chased the "can't lose in real estate" craze and finally the crash of 2008/09. U.S. stocks had the worst return of any decade since the 1930's and most investors wanted nothing to do with them.

- That brings us to the present decade and of course, with the benefit of hindsight, best thing we could have done is poured all our money into U.S. stocks at the start of this decade. For the record, we did not execute that perfectly – we did however gain a fair bit by being aware of the secular shifts that occur in the global capital markets and having the courage to move against the grain.

So why am I sharing this with you? Because I believe it is in your best interests to be aware that these secular shifts can and do happen. No, they do no line up perfectly at the end of each decade, and there have been periods in history where you have had, say, a 20 year runs bull market in US stocks, i.e. 1945 to 1965, but these are rare. As we approach the end of this decade, I see similar patterns in investor behaviour that we have seen in the past. Money is cheap and getting cheaper, debt levels are high so there is little borrower capacity to deal with any increase in interest rates. Central bankers have one tool in their toolkit, lower interest rates and my expectation is that they will keep pushing rates down until lenders are no longer willing to lend.

Are we getting close that time now? With over 25% of the world's government issues debt in negative yields as we speak, perhaps we are. Nobody thinks inflation will be a problem but wage pressure is building and is it merely coincidence that inflation protected assets have had a great run so far this year. The U.S. Dollar Inflation Protected Bond Index is up +7% YTD and spot gold is up roughly 20%. Commodity-related investments have been an abysmal investment for most of this decade and interestingly, I am getting pressure from both clients and my younger cohorts to abandon all commodity investments. Let's at least allow ourselves the possibility that the next decade will be substantially different from the one we are closing out. I just might be sitting at my desk 10 years from now and, with the benefit of hindsight, saying why didn't I just sell all those high priced U.S. stocks and move everything home to Canada - or will it be Asia? While I am not advocating such a move today, I do believe it is important to at least be open to such an idea as you have a much better chance of seeing the world as it is evolving as opposed to how it was.

With that, let's blitz through our usual course of economic indicators – an objective view of Dr. Copper says that investors are still really concerned about global trade in light of the China/U.S. trade war and accordingly, the developing economies of the world. In fact, every time President Trump threatens a new tariff the price of copper takes a hit and vice versa when he brings out the olive branch. We pegged a new 52 week low of sub $2.50 on August 26 and we are at $2.59 as of this morning. My sense is that as we get closer to the 2020 US election, Trump's need for a trade resolution increases, so we will see a gradual softening of his anti-trade position. That said, he is anything but predictable. Admittedly, I am more bullish than bearish on copper because investor confidence hit lows in late August not seen since last Christmas's market selloff.

Our best leading indicator for the developed economies, the Philadelphia Semiconductor Index (symbol $SOX) is looking considerably better. It hit an all time new high in July at 1625 besting its April all time high, and is up ~50% from its Christmas Eve low. The semiconductors tend to be a great "tell" for the developed economies because much of our economic growth is fueled by human ingenuity and processing power. As the demand for processing power (the price of semiconductors) increases it points to continued growth ahead.

Fighting against that optimism is the fact that our ancillary indicators are continuing to wane as they were last quarter. Again, we see China/U.S. trade as the culprit and if we get that resolved, we would expect growth to pick up.

Turning to the energy complex, on the last recording I told you it is difficult for me to get too bearish on oil, citing the underappreciated bullish developments with swing producer, Saudi Arabia. $WTIC was then trading at ~$52 a barrel whereas today we are at ~$56, but investors are so bearish we have seen the energy producers indices hit fresh decade-lows this quarter. Recall, my point about negative ten year returns. At the risk of sounding cheeky, that is going to change within the next ten years and no I don't believe that our oil industry is going to be replace by renewables anytime soon. The demand for oil continues to grow annually by ~ 2 million barrels a day and natural gas has an especially bright future as we replace coal-fired generating plants with LNG. Investor sentiment towards the energy complex is just plain hostile. Those are the seeds of a bullish outcome and yet I am the first to acknowledge that the timing of such developments are highly uncertain. What I can say is that if you have a view of 5 years as opposed to 5 months, why would you not want to have some exposure in the energy complex?

That takes us to the loonie, where we have marked a new high for the year since the last recording at .7691 and then promptly fell back to probe a fresh quarter-low at the open of trading on Tuesday Sept. 2/19 at .7472 USD. My expectation is that this volatility will continue as long as the China/U.S. trade difficulties are increasing and vice versa. For the record the $USD Index, hit a fresh 2-year high against its benchmark global basket of currencies as we opened trading in September.

Off we go to Track #3.

Track #3: The Dividend Value Discipline™ – Productivity Drivers

In the interest of time I will be short in the preamble, only to say that one thing the following three companies have in common is that they are all focused on driving the world to a more productive future. Faster, better, cheaper is what they are all about.

Rockwell Automation ("ROK") expresses it this way: "Our entire focus is on helping industrial companies and their people become more productive." It is the world's largest company dedicated to industrial automation and information. They create and produce process-control equipment from markets as diverse heavy-equipment manufacturing to food and beverage plants.

We have long admired the culture at ROK – hiring from within, long tenures and customer relationships that spans decades are the norm. Even, the line employees speak highly of the firm on sites such as Glassdoor.

Moat-wise, return on invested capital and free cash flow metrics are high, and that has allowed the company to grow organically and by acquisition. This firm is definitely an aggregator. Our view is that their moat is expanding and current global events are in their favour. Here's why – the longer China/US trade difficulties endure, the more we will see companies move production to other parts of the world. If that happens to be Mexico or the U.S., the result is the same - a new plant requires a new round of automation equipment to compete with the higher costs. That obviously bodes well for ROK as does the increasing wage pressure mentioned on Track #2.

Rent cheque-wise, the company has shown consistent growth in the dividend it pays each year. By way of example, in 2011, it paid $1.48 per share versus $3.15 last year, so north of a double in a seven year span. We expect the future to evolve in a similar manner.

Analog Devices, Inc. ("ADI") is an American semiconductor company specializing in data conversion, signal processing and power management technology. The company manufactures integrated circuits (ICs) used in electronic equipment. In a nutshell, their products convert real-world phenomena - light, sound, temperature, motion, and pressure - into electrical signals, i.e. data that can be processed. Their 125,000 customers worldwide span the global economy, including Industrial, Consumer, Healthcare, Automotive and Communications. Their products are not particularly expensive - but switching from one IC on the production floor to another is; so they benefit from "sticky customers". In terms of product breadth and end markets, it reminds me of 3M; although ADI deals in the digital realm whereas 3M is more about the physical realm. Like 3M, ADI has over 45,000 products and far too many patents to count.

Culture-wise, we see a lot to like – and I guess that should not surprise us because that's what we look for. The CEO approval rating from line employees is high and management tenures are long. Talent development is key.

Moat-wise, the management group is clearly focused on free cash flow generation and shareholder returns. In part, it is what drives their compensation package. They have demonstrated their ability to outgrow the competition through innovation and acquisition – another aggregator.

The last rent cheque increase was north of 12%, which is above their historical norm and yet they have publically stated the go forward target is 15% per annum. With the secular tailwinds in all things data, that seems more likely than not.

KLA Corporation ("KLAC") is a company that controls more than a half of the market share in the process diagnostic & control for making semiconductors. In essence, before you can build a productivity enhancing semiconductor, you need to buy the tools to do so and KLAC is one of the world's premier suppliers. Each new wave of technology brings on a new wave of increasingly sophisticated processes and equipment and more business for KLAC.

Culture-wise, we were really impressed on management's focus on attracting and retaining the right talent. Their candour with past problems is refreshing, as is their discussion on present day market challenges. All in, they scored at the high end of the range of our investee companies.

Moat-wise, returns on invested capital are high, in the mid teens, and they have managed that feat with organic and generally small tuck in acquisitions, which is a formula we like to see. Free cash flow conversion is a metric that gets a lot of intention – that is the cash that allows KLAC to pay us rent cheques and re-invest for the next wave.

Rent cheques increases have been significant – in 2009 they paid $0.60 per share and in 2018 they paid $2.84 – if the next ten years is half that good, we will be happy campers.

That concludes Track #3 and we are off to the **The Wrap Up**.

Track #4: The Wrap Up – Focus On What Matters - Dividend Growth!

First, the takeaways:

A reminder that the opinions expressed on this recording are mine. They may differ from those of Raymond James Ltd. Please recognize that some of what I told you is going to turn out to be wrong.

On Track #2, I walked you a very brief history of the last 100 years of market cycles with one effort in mind – to demonstrate that what has worked in the last ten years is highly unlikely to work in the next ten years. Furthermore, the ten-year constructs we have in our minds can be absolutely detrimental to our investment success. Obviously I am not clairvoyant, and it is important to understand these changes are gradual, yet inevitable. Investment success over the next decade starts with awareness.

We then turned to our leading economic indicators – copper is hitting fresh lows as the China/U.S. trade war heats up, whereas our semiconductor index looks much better with respect to the developed economies. Our ancillary indicators continue to lose steam and we do not see much relief from that that until President Trump decides the 2020 election is too close and it is time to make a deal. We also see the energy complex and the Canadian dollar tied to that outcome. While a recession is certainly more probable than it was six months ago, that is not a call for a wholesale move out of stocks – to do so suggests you will get the timing right, which is highly unlikely and we give up all our dividend income to boot. In short, we weather through any downturns and look for bargains during such times.

On Track #3 we highlighted three new additions to the program, each of which is enabling the world to become more productive. As we think through global supply chains changing geographies and the transformation coming in all things digital, we see the wind at their backs.

That takes us to focus on what matters – dividend growth! On the last recording, I highlighted the fact that global interest rates have fallen like a rock as central bankers try to mitigate a slowing economy and the seemingly unending threats of Brexit and China/US.. trade tariffs. The yield on a 10-year U.S. Treasury Note was then ~2.10% and today it is at ~1.5%. Put another way, the income stream from a government guaranteed 10-year bond has dropped by more than half, from last fall's high of 3.25%. Obviously, this makes dividend streams from common stocks increasingly attractive and that statement is especially true for those companies that have demonstrated they can grow their dividends.

If you missed our timely market dispatch on August 16, one of the subjects we highlighted was **Why Rent Cheque (Dividend) Growth is More Important Than Ever** - in brief, stocks with growing rent cheques make a lot of sense regardless of the future direction of interest rates. If they go up (unlikely with all central bankers easing), the dividend growth rate has the greatest chance of keeping up with those increases. If they go down even further, the growing income stream from dividend increases becomes ever more valuable. Could North American interest rates go negative? We used to laugh at such questions, but today we would have to answer with "maybe". It is important to understand that ~25% of the world's total bond market is now in negative yield territory, meaning you get less money at the end of the term than you started with. I am sure our German cousins would have laughed too, but they find themselves today with a 10-year government bond yield of -0.65%. If that becomes our reality, will you be better off with dividends that grow (see the table on the following page), or rolling over bond maturities at negative yields?

The Dividend Value Discipline - Rent Cheque Increases Past 12 Months as at June 30, 2019

	Company	Aggregator/ Disruptor?	Annual Rent Cheque	Current Yield	Last Dividend Change*	3-Year Dividend CAGR	Years to Double Rent Cheque**	Years of Consecutive Increases
1	PROGRESSIVE CORP	Disruptor	$ 2.71	3.56%	123.5%	45.1%	2	2
2	CHARLES SCHWAB CORP	Disruptor	$ 0.68	1.76%	31.0%	36.1%	2	4
3	A. O. SMITH CORP	Aggregator	$ 0.88	1.90%	22.0%	32.3%	2	13
4	INTUIT INC	Disruptor	$ 2.12	0.74%	20.5%	26.4%	3	8
5	TJX COMPANIES INC	Both	$ 0.92	1.69%	17.9%	22.9%	3	22
6	NORTHERN TRUST CORP	Neither	$ 2.80	3.18%	9.1%	22.6%	3	8
7	STARBUCKS CORP	Both	$ 1.44	1.50%	20.0%	21.6%	4	0
8	LOWES COMPANIES INC	Aggregator	$ 2.20	1.97%	14.6%	20.4%	4	56
9	CCL INDUSTRIES INC	Both	$ 0.68	1.18%	30.8%	19.3%	4	17
10	NIKE INC	Disruptor	$ 0.88	1.02%	10.0%	14.9%	5	11
11	MANULIFE FINANCIAL CORP	Neither	$ 1.00	4.56%	13.6%	14.6%	5	5
12	VALERO ENERGY CORP	Neither	$ 3.60	4.81%	12.5%	14.5%	5	8
13	US BANCORP	Neither	$ 1.48	2.82%	23.3%	13.2%	6	8
14	MICROSOFT CORP	Both	$ 1.84	1.34%	9.5%	12.6%	6	15
15	ACCENTURE PLC (IRELAND)	Both	$ 2.92	1.48%	9.8%	11.3%	6	9
16	EXPEDIA GROUP INC	Disruptor	$ 1.36	1.06%	6.7%	10.8%	7	0
17	SHERWIN WILLIAMS CO	Aggregator	$ 4.52	0.85%	31.4%	10.4%	7	40
18	ROCKWELL AUTOMATION INC	Disruptor	$ 3.88	2.59%	5.4%	9.8%	7	22
19	3M COMPANY	Aggregator	$ 5.76	3.60%	16.2%	9.1%	8	60
20	ANALOG DEVICES INC	Both	$ 2.16	1.98%	12.5%	8.7%	8	15
21	THE BANK OF NOVA SCOTIA	Disruptor	$ 3.60	5.07%	4.8%	7.2%	10	8
22	JOHNSON AND JOHNSON	Aggregator	$ 3.80	2.95%	5.6%	6.5%	11	56
23	LAMB WESTON HOLDINGS INC	Disruptor	$ 0.80	1.11%	4.6%	2.2%	32	2
	Median			**1.90%**	**13.64%**	**14.47%**	**5**	**9**

*Annualized. 0% if no change to annual dividend in the last 12 months.
**Based on 3-year Dividend CAGR (Compound Annual Growth Rate) - as of August 21, 2019

That brings us to a close for this edition of The Opportunity Update. A reminder, if you are being introduced to us by way of this recording then Tracks #5 and #6 are for you.

Thank you for taking the time to listen. This is Chris Raper bidding you a good day and may God bless from Victoria, BC on Wednesday, September 4, 2019

Track #5: Postscript I – The Dividend Value Discipline™ Methodology

The first thing I want to share with you is that **The Dividend Value Discipline™** is not the only investment offering that we have. In fact most of our clients have three buckets of money with us – a safe money bucket, an income bucket and a growth bucket. **The Dividend Value Discipline**™ straddles the latter two and depending on your need, we augment it with other strategies. That said, the program continues to be the largest slice of our client assets under management and that includes my business partner, Ryan Cramp, my family and me. The takeaway is that my team and I have huge vested interest in ensuring its success.

The process is discretionary, meaning we make all of the buy and sell decisions and report to you after the fact. Post a new purchase, our normal course is to send an email outlining the background of the company and the rationale for the decision, five business days after it settles to your account. When we close out a position, we also send an email outlining the result and our rationale.

Our objectives for the program are:

1. Income every month – that can be paid out or reinvested;

2. An acquisition process where we buy only those securities which become attractive on a "go forward" basis;

3. Absolute returns of 8%+ over any investment cycle, which we would describe as peak to peak or trough to trough. If you are looking for a time frame in terms of years, think 5+ years, but please understand investment cycles have a wide range of timeframes.

The program operates with three key objectives and I will walk you through them using the illustration of a three legged stool.

The First Leg is Dividends

Every security that we buy must provide some form of income. We do that because income makes portfolios inherently less volatile, i.e. less chance of loss. The analogy I like to use is that of an apartment block versus a piece of raw land – it is a lot easier to hold on to an apartment block in a tough real estate environment when you are getting a rent cheque every month. Income drives stability and absolute returns.

The Second Leg is Value

Our research function is in-house. We were one of the first private client teams in the industry to have a dedicated analyst on staff and we add additional resources every year. We spend an inordinate amount of time studying the corporate culture of potential investee companies. If you are interested in what great corporate culture looks like, read ***Good to Great*** by Jim Collins – that is the yardstick we use to measure potential investments against. Another yardstick is the importance of wide economic moats – the things that make the company tough to compete with. We want to own companies that the end client can't live without – great examples might be Microsoft or Intuit, both long term holdings of ours. We believe that the focus on great corporate culture and wide economic moats gives us an edge, and while I can't prove it you I can certainly give you lots of anecdotal evidence to support that thesis.

The more recent development in our strategy has been tackling the growth problem. History buffs will note that when we started the program in 2002, we had 5-year GICs yielding roughly 5%, much better economic growth, and stocks benefiting from decreasing interest rates, whereas today we have 5-year GICs yielding say ~3.0% and much slower economic growth. In short, the 8% is tougher to come by.

Accordingly, we spent late 2015 and 2016 tackling the "growth problem". We needed to find companies that are growing far faster than the economy. As you would expect, we start within the normal confines of "has to pay a rent cheque, score well on the corporate culture front and have some sort of strategic advantage (the moat) that makes the company difficult to compete with". We then focused on those companies that have demonstrated their ability to grow their earnings/dividends at double-digit rates as a primary indicator of growth and capital gain potential. As we searched, we found that most such companies fell into one of two themes. They tend to be disrupting the existing marketplace – think Wal-Mart 20 years ago or Amazon today - with a better way of doing things and/or they tend to be aggregating their way to growth by buying smaller tuck-in acquisitions, much like Expedia has done with their acquisition of HomeAway, Travelocity and Hotels.com.

The Third Leg is Discipline

Here I refer to the buy/sell decisions.

On the buy side, I would sum it up as do your homework, be ready and be patient. Over the years our absolute best buys have been when we have done our homework on the company, perhaps months before, and then some untoward event happens that gives you opportunity to buy in size. The Euro debt crisis in 2011 is a great example that enabled us to buy Nike at a terrific price because we were ready and we had conviction.

Sell decisions are tougher and they have become increasingly so, because the quality of our companies has just keeps going up and with rent cheques (dividends) growing at double-digit rates, our history tells us more often than not, we are better off holding than chasing new shiny baubles. That said, new competitors with disruptive technologies can wreak havoc on a company's growth prospects – back to the Amazon/Wal-Mart example. Transition periods of the senior management teams can be risky especially when there is no hire from within bias. Then there are times when the price of a stock just gets so far in front of its growth prospects that the only reasonable thing to do is sell. As Buffett likes to say, "you pay a high price for a rosy consensus". When things are universally rosy we try to be sellers, not buyers.

Perhaps the most important part of the buy/sell discipline is the way we operate the program for new entrants – we call it "The Buys Only Mandate". Unlike most of our competition, we only buy those securities which become attractively priced on a go-forward basis, meaning if you start today and your brother starts three months from now, your portfolios are going to be different in the short-term, and more closely aligned the longer you are in the program together. As rational as that might seem, most people do the exact opposite. Every time you buy a mutual fund, you buy a pro-rata share of an existing portfolio – by definition, you got the buys, the holds and the near sells. To us, that is not rational. Who buys 100+ companies in a single day? Were they all great value propositions? You should also be aware that most third party money management programs work exactly the same way – they buy the basket. The buys only mandate was designed to protect your hard earned money.

Other key points to the program: a fully invested account would normally have 20 to 25 positions in it, so we are relatively concentrated. You should also know that when we buy for you, we buy for us, meaning Ryan and I personally. When we sell for you, we sell for us – same time, same price.

Generally speaking, we are looking to establish new relationships with new clients that have north of $1 million in investable assets but please understand, we are a lot more interested in where you are going than where you are. If you have a credible plan to get to that number say within a three to five year period, we are very interested in meeting with you.

To conclude this track, if income and absolute returns are attractive to you, and you think that there may be a fit between your objectives and those of **The Dividend Value Discipline™,** with at least a portion of your investable assets, then I suggest a face to face meeting is in order. You can check out what to expect during that initial meeting by moving to Track #6 – "Is There a Fit", and that is where we are going right now.

Track #6: Postscript II – "Is There a Fit?"

Our objective – and presumably yours – during the first meeting is to figure out whether or not we have a basis for an ongoing relationship. In essence, can we work together? If so, will it be mutually beneficial? Job one is to get your tough questions off the table, so we encourage people to ask whatever is on their mind. Our responsibility is to be forthright with our answers, regardless of what it is that you might want to hear.

Before we enter into any new relationship, one of the biggies we ask ourselves is, "can we add significant value?" To answer that question we need to learn some things about you, your family, your finances and what your ideal future looks like. If you are not really sure on the latter point, we have some thinking exercises that will take us through that process.

Next we will walk you through an a la carte menu of our services that are most applicable to you. We'll outline how we will report to you and who the key relationship people will be. You will also have a very clear picture of the costs involved.

Before you leave we'll outline how we see our program fitting with your situation, or not. We will not ask you for a go/no go decision at the meeting and quite frankly, we don't want to be pressed for a decision that day either. We'll schedule a meeting of the minds call, say a week out, and then mutually agree on the best course of action from there.

At the end of the day, we are in the business of keeping our clients' most challenging financial decisions consistent with their life goals. Our mission is ongoing progress towards those goals, and the result we seek is appreciative clients who are increasingly confident about their future.

So…if that process sounds engaging, I invite you to call and book some time. If you'd like further information, including access to our quarterly communication pieces, you can check us out on the web at www.chrisraper.com and send us an email from there.

This concludes "Is There a Fit".