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WHAT'S NEW

♦ **RRSP Contribution Deadline looms –**

For those looking to make a last minute contribution to their RRSP, there is still time to do so. The deadline for contributions that can be claimed for the 2012 tax year is March 1, 2013. The maximum you can contribute for 2012 is \$22,970, plus any unused contribution room you may have.

♦ **Record Year for Canadian ETFs – 2012**

was a banner year for the Canadian ETF industry, which saw net inflows of \$12.1 billion according to a report issued by National Bank Financial. BMO led the charge, bringing in more than \$5 billion in new assets, followed closely by BlackRock, with their venerable iShares branding attracting \$4.7 billion. From an asset class standpoint, fixed income again proved popular with investors, gaining the lion's share of new money. Specifically, it was preferred shares and corporate bond ETFs that led the way.

♦ **CIBC Monthly Income Manager steps down –**

David Graham has resigned from his portfolio management duties on a number of CIBC funds including the CIBC Monthly Income Fund. The reason cited was Mr. Graham's failing health. Colum McKinley will replace him on the fund. We wish Mr. Graham well.

MUTUAL FUND RECOMMENDED LIST REVIEW

By Dave Paterson, CFA

Majority of picks in the black for the quarter

With the book on 2012 closed, it is now time to take a look at our Recommended List of Funds and make some changes that we believe will make it even stronger for the year ahead. Our goal is to highlight what we believe are the “best” funds that have the highest probability of continuing to deliver strong risk adjusted and relative returns over the course of a market cycle.

Each of the funds on our list offers what we believe to be a compelling risk reward profile and can play a role in any well diversified portfolio. Because of this, we have decided to no longer publish our Buy, Sell or Hold recommendations on our list. Another reason we have decided to stop doing this by publishing these recommendations, all investors are treated as one homogeneous group with the same investment objectives and risk tolerances. In reality, each individual is different and a Buy recommendation that may be appropriate for one investor may not be for another. We believe that such recommendations may promote a short term bias and result in some investors making actions within their portfolios which may be detrimental to them over the long term.

Instead, we will strive to provide more detailed commentary and discussion around those funds which present an interesting investment opportunity, positive or negative, given the investment outlook. To further simplify the list, we will be reducing overlap where it exists, making it easier for you zero in on what we believe to be the best investment ideas.

Investment Outlook

Not surprisingly, our investment outlook is not markedly different from last quarter. We expect that interest rates will remain on hold. Considering this, the best-case scenario for a bond portfolio is that it will generate a return that is in line with its yield, less fees.

For equities, our outlook is cautious optimism. In the U.S. a deal has been reached to push the debt ceiling negotiations down the road a few months, which effectively

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reduces near term headline risk, allowing investors to focus on the improving economic fundamentals. In Asia and the emerging markets, signs of a recovery are emerging, and Europe is well, Europe. With improvements in the emerging markets, this should be a positive for Canadian equities near term. However, after years of economic outperformance, Canada is showing signs of a slowdown, which may act as a drag on markets.

With that as our foundation, we favour equities over fixed income. We do not recommend that investors sell their bond holdings, as we believe they are valuable tools in the management of volatility. Rather, we suggest that investors lower their target weightings of fixed income in their portfolios relative to their equity weight.

In equities, we favour North America, particularly the U.S. over the rest of the world, as we believe that the improving economic fundamentals will provide strong support for the markets. There are some interesting opportunities in the emerging markets, but only for those with high risk tolerances. Europe may also present some interesting short term trading opportunities, but again, this would only be appropriate for those with an above average appetite for risk.

Funds Removed From the List

CI Signature Income & Growth (CIG 6116) – Removing this fund from the list was not an easy decision. It is run by a very strong management team, following a disciplined investment process, and has delivered decent results for investors. It also pays a monthly distribution of \$0.025 per month, which works out to be an annualized yield of around 6.7%. In our review, we found the fund is highly correlated to the **RBC Monthly Income Fund** and the **RBC Canadian Equity Income**, both of which have what we believe to be a more compelling risk reward profile.

Beutel Goodman Income Fund (BTG 771) – As tough as it was for us to remove the CI Signature Income & Growth Fund from our list, removing the Beutel Goodman Income Fund was even more difficult a decision. It has a great team behind it, a low MER and has done a great job for investors. Our reason for removing it has more to do with the outlook for fixed income than with the fund itself. As we know, interest rates are hovering near historic lows and will eventually be moving higher. For the next several months, rates are expected to remain flat. As a result, the upside for bonds is quite muted. In looking at the portfolio positioning of this fund relative to the **TD Canadian Bond** and the **PH&N Total Return Bond**, we believe that those funds offer a slightly more compelling risk reward tradeoff at the moment. A note to current investors, if you hold the Beutel Goodman Income Fund, we wouldn't suggest you sell. It is still a high quality fund and will hold up better than most bond funds, but in our effort to reduce duplication on our recommended list, this is a move we believe needed to be made given the outlook for bonds.

Dynamic Power American Growth Fund (DYN 004) – While the fund has struggled of late, we believe that it will bounce back and reward investors with significant gains. Like all Power funds, this one is volatile, with a level of volatility that is significantly higher than both the benchmark and category average. It is much too risky to be considered a core holding for most investors. For investors looking for a comparable fund with some kick, we would suggest they consider the **Dynamic Power Global Growth Fund**. The same manager, using the same process and approach, runs it. The main difference is that the global fund has a broader geographic mandate, which we believe will help it outperform over the longer term. Again, given the volatility profile, we do not believe it to be well suited as a core holding, but it can be used as a way to generate some additional return with a small weighting in an otherwise well diversified portfolio.

Funds Added to the Recommended List

Sentry Small Mid Cap Income Fund (NCE 721) – This small cap offering from Sentry invests in a mix of high yielding stocks and trusts. It can also invest in preferreds and convertible bonds. The long-term numbers have been very strong, posting a five year annualized return of 11.6%, compared with a loss of 0.4% during the same period for the **BMO Canadian Small Cap Fund**. As impressive as the return numbers have been, what really stands out is the low volatility. It has consistently been one of the least volatile funds in the small / mid cap category. It pays a monthly distribution of \$0.05 per unit, which works out to an annualized yield of 4.1% at current prices. Sentry looks at this fund as a feeder fund to its highly successful **Sentry Canadian Income Fund**. Any high quality investment that does not meet the size requirements of the Canadian Income Fund often ends up in this fund. The same investment team, using the same disciplined process, manages both funds. The biggest drawback to this fund is cost, with an MER of 2.79%, which is higher than the category average. This is a good conservative choice for those looking for small to mid cap exposure in their portfolios.

RBC Global Corporate Bond Fund (RBF 580) – This fund is a great way for investors to access corporate bonds from around the world. It is invested 50% in the U.S., 23% in Canada, 20% in global bonds, and 7% in emerging markets. Credit quality is very high in this well diversified, actively managed portfolio. More than 75% of the fund invested in bonds rated BBB or above. Given the interest rate environment, we don't expect that the fund will be able to match its historic performance, but we do expect that it will outperform more government focused, Canada centric bond portfolios. We would not suggest that this be used as a core bond holding, but instead as a portion of the bond component of your portfolio.

Other Fund Highlights

Trimark Global Endeavour (AIM 1593) – Focusing on high

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quality, well managed mid cap companies that offer sustainable competitive advantages and attractive valuations, this fund has delivered impressive mid-term and long-term results. Despite being well diversified across regions, management has found it increasingly difficult to find undervalued investments that meet their criteria. That, combined with an inflow of new money resulting from new investment mandates has resulted in the cash position in the portfolio to approach 20%. Management intends to be patient and wait for quality businesses and not overpay for growth, which indicates to us that the high cash balance may be in the fund for some time. This can be a double-edged sword. It can help to protect on the downside if markets were to decline, and provide management with the “dry powder” to invest in opportunities as they arise. On the other hand, this high cash balance will act as a drag on performance in market rallies. We will continue to monitor the cash position in this fund.

CI Black Creek Global Leaders (CIG 11106) – With a gain of 20% in 2012, there is little room for debate that the Black Creek Global Leaders Fund had a heck of a year. The managers believe that with coordinated economic stimulus in the U.S., Europe and Asia, the prospects for global economic growth

remain strong. They believe that equity prices remain favourable compared to bonds and cash. We don't disagree, but given the big run-up that the fund had last year, it might be an opportune time to take some profits, and rebalance back to the fund's target weight within your portfolio.

Cundill Canadian Balanced Fund (MFC 740) - This Canadian focused balanced fund blew its competitors out of the water in 2012, posting a 17.9% gain. This was 1100 basis points higher than the category median for the year. Much of this outperformance can be attributed to the fund's holdings in U.S. banks, which have rebounded sharply of late. Also pushing the fund higher were the fund's holdings in Canfor and West Fraser Timber, which have been benefiting from the rebound in U.S. housing. The fund currently holds 62% in equity, 33% in fixed income and the balance in cash. They are finding it increasingly difficult to find suitable investment candidates that meet their criteria. As a result, we expect that cash levels will drift higher in the coming months. While we like this fund for the long term, investors who have held it for a while may want to use this as an opportunity to take some profits and take some money off the table.

See the list on page 4...

RAVENS WIN SUPER BOWL – TIME TO SELL?

By Dave Paterson, CFA

History shows that an AFC victory likely to result in down year in markets

The old adage says that whenever an NFC team wins the Super Bowl, markets move higher, while an AFC victory points to a down year. According to a study prepared by George Kester, a finance professor at Washington and Lee University, this prediction has proven true for 35 of the past 46 Super Bowls. That's a success rate of 76%. Not bad odds.

This year, the Baltimore Ravens managed to hold off an impressive second half charge by the 49ers to win the game 34-31. Given that the Ravens are an AFC team this doesn't bode well for the markets in 2013, based on history. Or does it? The Ravens were originally the Cleveland Browns, and NFC team until 1996, when owner Art Modell moved them to Baltimore. Considering this, you could make a very strong case that the Ravens history is in the NFC, in which case markets are expected to move higher.

Regardless, we didn't wake up on Monday morning and sell all of our equity holdings. While the success rate of this predictor has been impressive, it is important to note that the correlation does not mean causation. In other words, the outcome of a

football game cannot have any bearing on stock prices in the real world. Equity prices are driven by a number of factors, including corporate profits and earnings, which are driven largely by the economic environment.

Looking at the U.S. economy, the outlook is one of cautious optimism. Housing is on the rebound, and jobs are being created. Corporate profitability remains positive, although it is expected to slow in the second half of the year. The inflation outlook remains muted, the markets are awash with liquidity and interest rates are on hold for the next few quarters. Each of these factors bode well for equity prices. Considering the above, we are cautiously optimistic for equity markets for 2013.

Bottom Line: We really can't put too much stock in the outcome of the Super Bowl as an indicator of stock prices, no matter how successful it has been in the past. Instead, we continue to focus on the real drivers of markets and make our picks based on solid fundamentals and outlook, rather than Super Bowl wins and losses.

Mutual Fund Recommended List. Funds highlighted in Green are new additions to the list. Funds highlighted in Red have been removed from the list.

FUND	FIRST MENTION	RESULTS (to Dec 31)	Q4 Return	COMMENTS
Canadian Equity Funds				
Fidelity Canadian Large Cap	Oct-11	6.0% (1 Yr.)	4.2%	Underweight in materials helped in Q4
IA Clarington Canadian Conservative Equity	Oct-11	5.8% (1 Yr.)	2.0%	Our most defensive pick
RBC North American Value	Jun-11	11.8% (1 Yr.)	3.3%	May be time to take some profits
Fidelity Dividend	Sep-08	12.7% (4 Yr.)	1.8%	With yield of only 0.9% it a core fund
Leith Wheeler Canadian Equity	Jun-06	2.3% (6 Yr.)	5.1%	Takeover activity in fund boosted gains
Mawer Canadian Equity	Jan-05	7.8% (8 Yr.)	5.0%	Less volatile than index and peers
Canadian Small Cap Funds				
Sentry Small Mid Cap Income	Jan-13	NEW	2.5%	Small Cap exposure with attractive yield
BMO Guardian Enterprise Fund	Jan-12	15.6% (1 Yr.)	4.7%	May be time to take some profits
Beutel Goodman Small Cap	Oct-03	9.2% (1 Yr.)	2.0%	Well diversified portfolio
Sector Funds				
CI Global Health Sciences	Sep-11	30.4% (1 Yr.)	2.6%	Best healthcare fund in 2012
RBC Global Precious Metals	Jan-06	12.2% (7 Yr.)	-10.7%	Gold companies sold off on profit taking
Balanced Funds				
Mac Cundill Cdn Balanced	Apr-11	17.9% (1 Yr.)	7.4%	Best performing balanced fund in 2012
AGF Monthly High Income	Oct-10	3.1% (2 Yr.)	0.3%	Asset mix should provide decent year
Steadyhand Income	Oct-10	7.6% (2 Yr.)	1.5%	Expect more modest returns this year
Fidelity Canadian Balanced	Feb-08	9.8% (4 Yr.)	0.6%	Maintains fairly stable asset mix
Income Funds				
TD Mortgage Fund	Apr-12	0.7% (6 mth)	0.2%	Low volatility. 2.5% yield
CI Signature High Income	Jan-12	11.6% (1 Yr.)	2.7%	Pays \$.07 per month. 5.9% yield
RBC Canadian Equity Income	Jan-10	14.1% (3 Yr.)	2.0%	More volatile pick. 4.6% annualized yield
Signature Income & Growth	May-07	3.3% (5 Yr.)	1.9%	Very similar to the RBC Funds
Sentry REIT	Dec-06	2.5% (6 Yr.)	0.6%	2013 looks good for REITs. 7.9% yield
BMO Monthly Income	Nov-05	3.9% (7 Yr.)	1.7%	10% yield will result in capital erosion
Mac Sentinel Income	Feb-05	3.5% (7 Yr.)	0.8%	7% yield. Conservative positioning.
BMO Guardian Monthly Dividend MF	Oct-03	5.4% (9 Yr.)	2.0%	Holds nearly 60% prefs. 3.8% yield
RBC Monthly Income	Jun-03	6.8% (9 Yr.)	1.5%	Very balanced portfolio. 3.8% yield
Bond Funds				
RBC Global Corporate Bond	Jan-13	NEW	1.3%	Well diversified corporate bond fund
TD Short Term Bond	Sep-12	0.3% (3 mth)	0.3%	Lower minimum than PH&N
PH&N High Yield Bond	Feb-10	7.7% (2 Yr.)	2.6%	Continues to perform. Closed to investors
Beutel Goodman Income	Sep-09	5.2% (3 Yr.)	0.0%	We feel other funds better positioned
PH&N Total Return Bond	Aug-08	7.4% (4 Yr.)	0.4%	Active approach should preserve value
TD Canadian Bond	Jan-03	5.6% (10 Yr.)	0.2%	Duration slightly longer than PH&N TRB
PH&N Short Term Bond & Mortgage	May-00	4.5% (12 Yr.)	0.3%	Low cost keeps this our top pick
U.S. Equity Funds				
IA Clarington Sarbit US Equity	Jan-11	4.2% (2 Yr.)	1.7%	High conviction portfolio. Long term pick
Dynamic Power American Growth	Jan-11	3.1% (2 Yr.)	-9.0%	Prefer the more diversified Power Global
TD US Small Cap Equity	Jan-11	7.3% (2 Yr.)	2.6%	Out top U.S. small cap pick
Beutel Goodman American Equity	Feb-09	7.8% (3 Yr.)	2.4%	Attractive portfolio valuation
Dynamic American Value	Aug-06	0.2% (6 Yr.)	-1.2%	Defensive positioning continues to drag
International/Global/North American Funds				
Mutual Global Discovery	Jul-11	12.6% (1 Yr.)	3.1%	Conservatively managed. Long term pick.
Trimark Global Endeavour	May-11	14.3% (1 Yr.)	2.6%	Currently sitting on 20% cash.
Dynamic Power Global Growth	May-11	7.2% (1 Yr.)	-1.9%	After tough year, we expect a bounce
CI Black Creek Global Leaders	Mar-11	20.0% (1 Yr.)	9.3%	Strong gains should trigger rebalance
Mawer International Equity	Oct-09	6.2% (1 Yr.)	7.5%	Great pick for pure int'l exposure
Chou Associates	Nov-02	4.7% (10 Yr.)	5.5%	U.S. focus should outperform

MODEL PORTFOLIO REVIEW

By Dave Paterson, CFA

Portfolios post decent gains in second half of the year.

Investors' risk appetite appeared to have returned in the latter half of 2012, as all major markets and asset classes were in positive territory. Europe was the biggest winner after the European Central Bank stepped in with an aggressive bond-buying program that reduced the likelihood of a blowup in the region substantially. The MSCI Europe Index gained 13.7% in Canadian dollar terms for the six months ending December 31, 2012. Other markets were also positive including the S&P/TSX Composite Index, which gained 8.9%, and the S&P 500, which rose by a respectable 3.4% during the same period.

Not surprisingly, all our portfolios were positive in the second half of the year, with gains ranging from 1.4% for our most conservative to 6.5% for our most aggressive. All the funds in the portfolios were also positive.

Looking ahead, with interest rates expected to remain on hold for the next few quarters and economic growth likely to be modestly positive, we continue to favour equities over fixed income. Still, we do expect that there will be periods of higher than average volatility as much headline risk remains including the debate over the U.S. debt ceiling and the European debt crisis. Because of this, we will not be abandoning our fixed income holdings any time soon. They will continue to be an excellent way to help reduce the overall risk of the portfolios because of their safe haven appeal in periods of uncertainty.

As a refresher for our long time readers and for the benefit of new readers, the following portfolios were created on January 1, 2009, with an initial value of \$25,000 each. All mutual funds and ETFs are eligible for inclusion except those that are only available to "sophisticated investors" through offering memorandum. Here is a quick summary of the objectives of each portfolio.

The Ultra-Safe Portfolio: As the name suggests, this portfolio is designed for people who don't want to worry about their money but are looking for better returns than they'll get from GICs or money market funds. If it is used in a registered account, you'll have to substitute for the **RBC Monthly Income Fund**, which cannot be held in RRIFs, RRSPs, etc.

The Non-Registered Defensive Portfolio: There's a little more risk and extra cash flow in this portfolio. It is best suited to non-registered accounts where safety and income are the main priorities. The fund targets an average annual compound rate of return of between 4% and 6%.

The RRSP Portfolio: This portfolio is structured in much the same way as a conservatively managed pension plan. Risk is kept to a reasonable level consistent with a long-term annualized growth target in the 6% to 7% range.

The RRIF Portfolio: Cash flow and capital preservation are the goals. The portfolio is designed to provide enough income to avoid dipping into capital for as long as possible, while shielding investors from heavy losses in market downturns. The target return is approximately 6% a year.

The Growth Portfolio: This is suitable for investors seeking higher returns over the long term and who are willing to accept more risk. We aim for a compound annual growth rate of 8% or more. To date, the return has averaged 8.7% per year. This target allows us to maintain risk at reasonable levels. We avoid highly speculative funds.

Here are the latest results to December 31:

ULTRA SAFE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market Fund	10%	0.34%	\$2,974.50
PH&N Short Term Bond and Mortgage	20%	0.80%	\$5,976.28
TD Mortgage Fund	15%	0.67%	\$4,476.43
CIBC Canadian Short Term Bond Index	15%	0.55%	\$4,471.09
Beutel Goodman Income	10%	0.94%	\$2,992.29
PH&N Total Return Bond	10%	1.93%	\$3,021.64
iShares DEX All Corporate Bond Index	10%	2.67%	\$3,043.57
RBC Monthly Income	10%	4.62%	\$3,101.38
Totals	100%		\$30,057.17

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Cash Flow - continued from page 5...

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (June 30, 2012)	\$29,644.23
Current value (December 31, 2012)	\$30,057.17
Change since last review	\$412.94
% change since last review	1.39%
% change since inception (4 yrs)	20.23%
Annualized Compound Return since inception	4.71%

COMMENTS

The portfolio continued to do exactly what it was designed to do - protect capital while generating a return that is higher than what is offered by a GIC. All the funds were positive during the second half, but the majority of the gains were the result of the **iShares DEX All Corporate Bond Index ETF** and the **RBC Monthly Income Fund**.

CHANGES

We removed two funds from the portfolio; the **CIBC Canadian Short Term Bond Index** and the **Beutel Goodman Income Fund**. The reason that we made these changes was that they were very highly correlated to other funds in the portfolio that offered better risk reward characteristics. As a result, there was no meaningful benefit to having the funds remain in the portfolio. We also changed the weightings of some of the other funds in the portfolio. The result is a portfolio that offers a higher expected return with less expected volatility.

BUILDING WEALTH

Mutual Funds / ETFs Update

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REVISED ULTRA SAFE PORTFOLIO

Fund Name	Weight
PH&N Canadian Money Market Fund	10%
PH&N Short Term Bond and Mortgage	25%
TD Mortgage Fund	30%
PH&N Total Return Bond	15%
iShares DEX All Corporate Bond Index	10%
RBC Monthly Income	10%
Totals	100%

DEFENSIVE PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market Fund	10%	0.34%	\$3,215.03
PH&N Short Term Bond & Mortgage	15%	0.80%	\$4,844.65
TD Mortgage Fund	10%	0.67%	\$3,225.60
PH&N Total Return Bond Fund	10%	1.93%	\$3,265.97
Steadyhand Income	10%	4.23%	\$3,339.67
Mackenzie Sentinel Income (Series B)	10%	2.69%	\$3,290.33
BMO Guardian Monthly Dividend Classic	10%	5.03%	\$3,365.30
RBC Monthly Income Fund	15%	4.62%	\$5,028.25
Mackenzie Ivy Foreign Equity	10%	1.88%	\$3,264.37
Totals	100%		\$32,839.17

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (June 30, 2012)	\$32,041.34
Current value (December 31, 2012)	\$32,839.17
Change since last review	\$797.83
% change since last review	2.49%
% change since inception (4 yrs)	31.36%
Annualized Compound Return since inception	7.06%

COMMENTS

As the name suggests, this portfolio is very defensively positioned, with only modest direct equity exposure. In June, we added a 10% weighting in the **Mackenzie Ivy Foreign Equity Fund**. We did this because with interest rates on hold for now and moving higher in the future, we need some equity exposure to provide return. During the past six months, the portfolio gained 2.49% and the equity exposure contributed positively to that. It was the **RBC Monthly Income Fund** and the **BMO Guardian Monthly Dividend Fund** that were the main contributors to performance.

CHANGES

This portfolio remains very defensive. We are making a few

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Model Portfolio Review - continued from page 6...

changes to improve the expected return and to reduce duplication and simplify the portfolio. The first thing we are doing is selling the **PH&N Money Market Fund**. With those proceeds, we are adding to our position in the **TD Mortgage Fund**. This move was made to provide the potential for higher returns without taking on substantially more risk. We increased our exposure to the **Steadyhand Income Fund** and the **PH&N Total Return Bond Fund**. In both cases, we believe that the funds are well positioned for the current interest rate environment. Finally, we sold the position in the **Mackenzie Sentinel Income Fund**. The reason is that it is highly correlated to the **RBC Monthly Income Fund**, which has a more compelling risk reward profile. The net result of these changes is a portfolio with less volatility and a modestly higher expected return profile.

REVISED DEFENSIVE PORTFOLIO

Fund Name	Weight
PH&N Short Term Bond & Mortgage	10%
TD Mortgage Fund	20%
PH&N Total Return Bond Fund	20%
Steadyhand Income	20%
BMO Guardian Monthly Dividend Classic	10%
RBC Monthly Income Fund	10%
Mackenzie Ivy Foreign Equity	10%
Totals	100%

RRSP PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Canadian Money Market	5%	0.34%	\$1,547.54
PH&N Short Term Bond and Mortgage	15%	0.80%	\$4,663.89
PH&N Total Return Bond	15%	1.93%	\$4,716.17
Steadyhand Income Fund	15%	4.23%	\$4,822.59
BMO High Yield US Corporate Bond	5%	7.92%	\$1,664.44
Fidelity Canadian Large Cap Fund	15%	3.27%	\$4,778.17
BMO Guardian Monthly Dividend Classic	15%	5.03%	\$4,859.61
Mackenzie Ivy Foreign Equity	15%	1.88%	\$4,713.86
Totals	100%		\$27,052.41

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (June 30, 2012)	\$30,845.82
Current value (December 31, 2012)	\$31,766.26
Change since last review	\$920.44
% change since last review	2.98%
% change since inception (4 yrs)	27.07%
Annualized Compound Return since inception	6.17%

COMMENTS

The portfolio gained nearly 3% since our last review, with the equity funds contributing more than half of the gains. We still believe that the portfolio may be too conservatively positioned to meet its return target going forward.

CHANGES

We are keeping the broad asset mix roughly in line with the previous period – 60% fixed income focused funds and 40% equity focused funds. Within the fixed income portion, we are increasing our exposure to the **Steadyhand Income Fund** and **BMO High Yield U.S. Corporate Bond ETF**, while selling all of our **PH&N Money Market Fund** and most of our **PH&N Short Term Bond and Mortgage Fund** holdings. This positioning will give a higher expected return with less expected volatility. Despite the increase in risk, we believe there is better downside protection. As we move forward, we will have to increase our equity weighting further to be able to generate the necessary return. We will continue to do this in a deliberate way and not take on excessive volatility risk.

REVISED RRSP PORTFOLIO

Fund Name	Weight
PH&N Short Term Bond and Mortgage	5%
PH&N Total Return Bond	20%
Steadyhand Income Fund	20%
BMO High Yield US Corporate Bond	15%
Fidelity Canadian Large Cap Fund	15%
BMO Guardian Monthly Dividend Classic	15%
Mackenzie Ivy Foreign Equity	10%
Totals	100%

RRIF PORTFOLIO

Fund Name	Weight	6 Month Return	Value	Yield
PH&N Short Term Bond and Mortgage	20%	0.80%	\$6,655.17	2.40%
Beutel Goodman Income	15%	0.94%	\$4,998.31	2.90%
iShares DEX All Corporate Bond Index	10%	2.67%	\$3,389.32	3.90%
BMO High Yield US Corporate Bond	10%	7.92%	\$3,562.63	7.30%
Mackenzie Sentinel Income B	10%	2.69%	\$3,389.98	7.10%
BMO Guardian Monthly Dividend Classic	15%	5.03%	\$5,200.84	3.90%
Fidelity Monthly Income	10%	3.72%	\$3,423.98	2.40%
iShares S&P/TSX Capped REIT Index	10%	4.49%	\$3,449.40	4.40%
Totals	100%		\$34,069.6	4.00%

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Model Portfolio Review - continued from page 7...

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (June 30, 2012)	\$33,011.74
Current value (December 31, 2012)	\$34,069.61
Change since last review	\$1,057.86
% change since last review	3.20%
% change since inception (4 yrs)	36.28%
Annualized Compound Return since inception	8.05%

COMMENTS

Performance in the second half of the year was on pace for our 6% annualized target, gaining 3.20%. For the year however, return lagged, with a 5.25% gain for 2012. All the funds were positive during the period, with the **BMO High Yield U.S. Corporate Bond ETF** and the **BMO Guardian Monthly Dividend Fund** contributing the bulk of the performance. At current prices, the portfolio generates an annualized yield of 4.0%.

CHANGES

This being an income focused portfolio, our goal is to continually improve the yield and total return profile, while cutting overall volatility. The first change we made was to switch out the **Beutel Goodman Income Fund** for the **PH&N Total Return Bond Fund**. This change improved the risk reward profile of the portfolio and increased the overall yield. We increased our allocation to the **BMO High Yield U.S. Corporate Bond ETF**, which increases the yield. We added an allocation to the **CI Signature High Income Fund**, which offers a strong expected total return profile and a compelling 5.9% yield. We sold our position in the **Sentinel Income Fund** because it was very similar to both the **Fidelity Monthly Income Fund** and **Signature High Income Fund**, both of which we like more. We also sold out our **iShares S&P/TSX Capped REIT Index ETF** because REIT valuations are at or above fair value and better opportunities exist elsewhere at the moment. With these changes, the yield of the portfolio is increased to approximately 4.5% while there is an increase in expected return and a reduction in expected volatility.

REVISED RRIF PORTFOLIO

Fund Name	Weight	Yield
PH&N Short Term Bond and Mortgage	20%	2.70%
PH&N Total Return Bond	20%	3.40%
iShares DEX All Corporate Bond Index	10%	4.10%
BMO High Yield US Corporate Bond	15%	7.80%
Mackenzie Sentinel Income B	0%	7.10%
BMO Guardian Monthly Dividend Classic	15%	4.60%
Fidelity Monthly Income	5%	2.90%
iShares S&P/TSX Capped REIT Index	0%	4.40%
CI Signature High Income Fund	15%	5.90%
Totals	100%	4.52%

GROWTH PORTFOLIO

Fund Name	Weight	6 Month Return	Value
PH&N Total Return Bond	10%	1.93%	\$3,335.16
Fidelity Canadian Large Cap	15%	3.27%	\$5,068.51
Mawer Canadian Equity	15%	9.58%	\$5,378.20
Beutel Goodman Small Cap	15%	8.68%	\$5,334.03
Beutel Goodman American Equity	15%	5.83%	\$5,194.15
Mackenzie Ivy Foreign Equity	15%	1.88%	\$5,000.29
Mawer International Equity	15%	12.78%	\$5,535.26
Totals	100%		\$34,845.60

PERFORMANCE TO DATE

Initial value (January 1, 2009)	\$25,000.00
Value at last review (June 30, 2012)	\$32,720.10
Current value (December 31, 2012)	\$34,845.60
Change since last review	\$2,125.50
% change since last review	6.50%
% change since inception (4 yrs)	39.38%
Annualized Compound Return since inception	8.66%

COMMENTS

Performance was well ahead of our target return for year. The portfolio gained 6.50% in the past six months and is up 10.2% for the year. The **Mawer International Equity**, **Mawer Canadian Equity** and the **Beutel Goodman Small Cap Fund** accounted for the majority of the gains.

CHANGES

We have been quite happy with all the funds in the portfolio and will not be making any changes. We will be modifying the weightings to improve the risk reward profile of the portfolio. Key changes in clue a reduction in the **Beutel Goodman American Equity** and the **Beutel Goodman Small Cap Fund** while increasing the **Fidelity Canadian Large Cap Fund** and the **Ivy Foreign Equity Fund**.

REVISED GROWTH PORTFOLIO

Fund Name	Weight
PH&N Total Return Bond	10%
Fidelity Canadian Large Cap	20%
Mawer Canadian Equity	15%
Beutel Goodman Small Cap	10%
Beutel Goodman American Equity	10%
Mackenzie Ivy Foreign Equity	20%
Mawer International Equity	15%
Totals	100%