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Strategic Outlook, April 2013

Dear Clients,

At the beginning of the second quarter of the year, I thought it would be appropriate to summarize the events that occurred in financial markets since the start of the year. I would like to share my thoughts on the management of your portfolio for the next period, but first, let's begin with a brief review of the first quarter.

At the end of March, the U.S. stock market reached the high previously attained in October 2007. This exceptional performance at the beginning of the year and the agreement with the U.S. Congress avoided the "fiscal cliff" that would have led to massive spending cuts with the potential of plunging the U.S. into recession once again.

Three facts are worthy of note regarding the performance of U.S. stock markets during the first quarter:

1- Driven by a booming start in January, the U.S. stock market appreciated by more than 10% and most certainly influenced the surge of international markets. But, a note of caution: Last year, the U.S. stock market appreciated by 13% during the first three months, only to lose most of what it had gained in the second quarter due to concerns surrounding the European economy.
2- Despite newspaper headlines on the banking crisis in Cyprus and ongoing problems in Greece, the European stock market rose by 7% (in local currencies) during the first quarter. I believe that although Greece and Cyprus made headlines, the performance of European stock markets will depend on the major countries of the region. It is now possible to consider that the reconfiguration of Europe in the coming years is a possibility.
3- The massive and unusual quantitative easing announced by the Bank of Japan propelled Japanese stock markets upward and resulted in the depreciation of the yen. We took positions in this market and hedged the risk of a depreciation of the yen at the very beginning of January 2013.

The returns of the major indices for the first quarter are shown below:

First Quarter Monthly ReturnsIn local currencies [1]

Canada	U.S.	Japan	Emerging Markets	International
(S&P TSX)	(S&P500)	(Nikkei225)	(MSCI Emerging Markets)	(MSCI All Countries ex-US)
3.3%	10.6%	20.13%	2.98%	3.26%

It would no doubt be interesting to know what Warren Buffet, the legendary investor from Oklahoma, thinks of the current situation and what he recommends.

Remember that Mr. Buffet has obtained a return nearing 20% on his investments in Berkshire Hathaway since 1966! Quite a performance! This is why it is important to read the recommendations contained in his most recent letter to shareholders published in Berkshire Hathaway's annual report.

Mr. Buffet suggests transcending the prevailing uncertainty that is inhibiting capital expenditures by the business community. He states that uncertainty has always been present in the U.S. and, by extension, all over the world, since 1776. The only variable that can easily be identified with regard to uncertainty is to find out whether individuals are ignoring it completely (this happens when financial bubbles occur) or whether they have a fixation on uncertainly. Mr. Buffet professes his faith in the U.S. economy just as he did during the October 2008 crisis during a public appearance.

In his annual letter, Mr. Buffet also recommends continuing to participate in financial markets and avoid dancing in and out of markets in an attempt to predict the future. According to him, the risk of being out of the market is huge compared to the risks of being in. You can read his letter by clicking here.

What are the implications for your portfolio:

1- Stay the course. With the exception of our "prudent" and "conservative" mandates, we have increased the weight of stocks versus bonds over the last six to eight months. We are maintaining this recommendation for the near future.

2- Diversification. Need we say it again? Diversification is achieved by asset class (i.e., bonds, stocks, real estate, etc.), by sector and geographical allocation. Diversification outside Canada, of course, but also outside North America and this, despite the fact that the U.S. stock market has performed very well. As a matter of fact, U.S. market capitalization accounts for approximately 40% of global capitalization. Investment opportunities abound. You will also have noted that we have significantly increased our positions in Europe, in China and in Japan in recent months.

3- Generating investment income. Portfolio income plays an essential role regardless of prevailing uncertainty or economic concerns. Moreover, if income is reinvested as it is generated, it compensates the effects of a market downturn.

I hope these comments will be useful. If you have any questions, please do not hesitate to contact me or a member of my staff.

I would like to take this opportunity to thank you for the confidence you have placed in me by allowing me to act as your investment counselor. Rest assured that we are fully committed to managing your financial assets intelligently.

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