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2016 Investment Outlook

Gary Perron, CFA, Portfolio Manager, Founder

With 2015 and January behind us, here's a review of 2015 and a look ahead into 2016.

China is the big economic elephant on the planet, with the Shanghai Composite Stock Index down over 40% since its high in June of 2015. The markets have been focused on the slowing down of the China economy thereby causing downward pressure on commodities and commodity-exporting countries (i.e. Canada, with the TSX down 12% in 2015), and also affecting the world's major stock exchanges. A global GDP slowdown is somewhat discounted in world markets; nevertheless, the markets will be focused on any changes in forecasts for world growth in 2016.

A quote from The Economist's 2016 forecasts:

> *"When asked about China's slowdown, Lloyd Blankfein, the head of Goldman Sachs, likes to point out that although the 20th Century belonged to America, there were years when the economy misfired. In 2016 business plans around the world will be re-written to reflect China's lowest growth rate since the post-Tiananmen slump in 1989-90. Most bosses will find that China's great deceleration hurts them only a little. The bravest will view it as an opportunity."*

PPWM's managed account focus holds a majority in US businesses. The S&P 500 index in the US was basically flat for 2015, but down 3.5% in January this year. The US is where we continue to find our best investment opportunities, while most Canadian companies continue to be hampered directly or indirectly, through their ties to global commodity prices. Also, we are finding growth in revenue and earnings along with increases in free cash flow in the US, where there is lesser negative effect from China's negatives. Canadian businesses and the Canadian dollar (CAD$) are very closely correlated with commodities, and we all know what happened to the CAD$ in the last year; indeed, it is easy to remember when the CAD$ was equal to the US$ – just three short years ago. In our managed accounts, we are currently adding Canadian Exporters, whose revenues and earnings will be positively affected by the lower dollar.

It is also important to note that the US economy is enjoying a strong and improving jobs market with real personal income growth, while the Canadian economy is still decelerating. Domestically, the US economy is showing growth, while the US export market is decelerating in line with US$ strength. This has created some great opportunities in both US domestic and global businesses. We also have the ability to hedge the currency within our private pools, which could make a material difference to CAD$ returns.

This year will have significant driven events, bringing an extra element of unpredictability that will surprise the marketplace and cause inevitable volatility. Our PPWM investment style, and our policies of investing in commercial businesses that generate free cash flow (with the exception of resource businesses), have historically delivered value-added returns and comfort in highly volatile times. In our North American and US private pools, over 90% of our individual stock holdings increased their dividends in 2015. The majority of our holdings have active stock buyback programs. This confirms our private pool investment styles, mandates and returns in 2015. Our private pool alternative portfolios, albeit a short history, are proving that this structure offers similar, or less, market risk and better returns than the traditional, long-only structures. PPWM now has three alternative structures and a traditional monthly income private pool, delivering superior returns.

In this newsletter, Jason Isaac, lead manager on the North American Enhanced Dividend Pool has an article describing our Global perspective, while Darrin Erickson, lead manager of the US Enhanced Growth & Income Pool, describes our US Equity Outlook. Chris Bolton, co-lead of the Monthly Income Pool, addresses our Canadian strategy. Shawna Perron, co-lead of the Monthly Income Pool, describes the option defensive strategy and re-visits our theme on family values. Our investment team has continued to add depth, breadth and strength during the last two years and, together, we look forward to the challenges and, thereby, the opportunities of 2016.

As we move forward, we are asked with increasing frequency what value we bring as an **'Independent Wealth Manager'** when compared to bank-owned investment managers. In January, I saw the box-office hit "The Big Short." In seeing the docu-movie, you too may see examples where banks lose sight of the client's best interests. Perhaps sheer size takes organizations further and further away from their clients. The banks seem full of conflicts of interest. On the other hand, PPWM sits 'shoulder-to-shoulder' with each of you; our revenue comes from a single source of income founded on being close to you, knowing you and looking after you, person-to-person. We don't think the banks can say the same, especially considering that our team has grown with you, over more than 30 years. We know that independence is enormously important to you and we know that independence is equally important to us.

Cheers to 2016!

Gary Perron, CFA
Portfolio Manager, Founder

Global Equity Strategy in 2016: A Canadian's Point of View

Jason Isaac, CFA, CAIA, Portfolio Manager,
Kipling North American Enhanced Dividend Pool

As the dust settles, the cold reality is that 2015 was a very difficult year for risk assets. Global equities were dragged down by a lacklustre US market as investors continually fretted over if/when Fed tightening would occur.

This was coupled with terrible performance from the emerging markets (due to their own structural problems), and further hindered by the stunningly strong US dollar.

Not surprisingly, the prime culprit for the developing world's malaise was the uncertainty over both the extent and depth of the slowdown in the China. Compounding the problem even further were the issues over Greece (Grexit), military upheaval in Eastern Europe, the Middle East tensions and Brazil's massive corruption scandal which caused the country to receive a credit rating of 'junk'.

In the end, the result was that everything and anything commodity-related sold off significantly (case in point, Canada). This weighed on investor sentiment and dampened risk appetites.

1 Year Global Index ETF Total Returns

ETF	Local	CAD
S&P 500 (SPY)	-0.8%	18.1%
Euro 50 (EUN2)	4.7%	12.5%
Nikkei 225 (1320)	9.3%	29.6%
S&P/TSX 60 (XIU)	-9.8%	-9.8%

Source: Bloomberg as of Dec 31, 2015

In 2016, the consensus is looking for an environment characterized by low growth, low inflation and a strong US dollar. The major developed regions, such as the US, Europe and Japan, are all making economic progress, so earnings growth should be reasonable and low energy and commodity prices will eventually

"In 2016, the consensus is looking for an environment characterized by low growth, low inflation and a strong US dollar."

aid consumer spending. Global monetary policy remains loose by historical standards, and China should have enough domestic policy tools (i.e. rate cuts, open market flexibility, adjusting bank reserve requirements) to deal with its issues, even if these tools have been used ineffectively thus far.

From an investment perspective, there is a strong case to be made that 2016 will be better than 2015, but we expect the coming year to be characterized by volatility and a greater range in equity market returns as macroeconomic risks normalize around the world.

Global Equity Strategy in 2016 *Cont'd*

What does this mean? Well, even though it is expected that the economic performance of the various major global regions will be more co-ordinated and grow in tandem in 2016, the fact is that returns in equity markets often have very little to do with the actual economic performance of a particular economy, and have much more to do with local earnings growth. Further, nominal GDP growth is actually a better proxy for revenue growth, and by extension earnings growth, than real GDP (which is inflation adjusted), as it better reflects the actual prices being realized in that economy. Finally, it's the rate of change of nominal GDP, rather than the absolute level of change, that really matters for investment capital decisions. As you can see from the attached chart from Morgan Stanley, there are still significant regional differences in nominal GDP growth, which implies differences in expected earnings growth.

Real GDP	2015E	2016E	2015E vs. 2016E	2017E	2016E vs. 2017E
G10	1.8%	1.8%	0%	1.8%	0%
US	2.4	1.9	-21	1.8	-5
Europe	1.5	1.8	20	1.8	0
Japan	0.5	1.2	140	0.8	-33
UK	2.4	2.0	-17	2.3	15
Emerging Markets	4.0	4.4	10	5.0	14
Inflation					
G10	0.3%	1.5%	400%	2.1%	40%
US	0.2	1.7	750	2.3	35
Europe	0.1	1.3	1200	1.8	38
Japan	0.9	1.0	11	2.5	150
UK	0.0	1.3	NA	1.5	15
Emerging Markets	4.4	3.7	-16	3.2	-14
Nominal GDP					
G10	2.1%	3.3%	57%	3.9%	18%
US	2.6	3.6	38	4.1	14
Europe	1.6	3.1	94	3.6	16
Japan	1.4	2.2	57	3.3	50
UK	2.4	3.3	38	3.8	15
Emerging Markets	8.4	8.1	-4	8.2	1

Source: Morgan Stanley & co. Research, Bloomberg as of Dec. 31, 2015

Regional Equity Outlooks

- **Japan:** This was the best performing major equity market in 2015 and is a favoured region for the coming year. With the nominal GDP growth rate expected to be approximately 57% in 2016, Japan boasts some of highest-quality earnings in the world because of better profit margins and relatively low financial leverage. The market still benefits from very supportive monetary and fiscal policy, thus offering good upside potential with limited downside.

- **Europe:** Prior to the financial crisis, the long term earnings growth for the US and Europe had been approximately the same. However, since then, earnings growth in Europe has fallen well short of what has been experienced in the US. That being said, many European equities performed well last year in local-currency terms and it is expected that this will continue in 2016. Europe is heavily leveraged to global growth and it is experiencing its first sustainable economic upturn since the financial crisis. 2016 nominal GDP growth is expected to show almost a 100% increase (1.6% in 2015 to 3.1% in 2016) and this bodes extremely well for earnings prospects and an extended period of relative outperformance by European equities.

- **US:** US equities have done exceptionally well since the financial crisis, but they are now in the latter stages of the cycle. With 40-45% of the earnings in the S&P 500 coming from outside the US, we think it is prudent to focus on companies that generate most of their revenues from the domestic market. If and when the strength in the US dollar abates, we will shift our US equity strategy accordingly. Additionally, with nominal GDP growth expected to be ~35% and the Fed the only major central bank in the process of tightening, it's clearly 'the longest in the tooth,' relatively speaking. That being said, it is still a very efficient and robust market and it would be premature to abandon it entirely, so going forward we will be taking a more neutral stance on US equites.

- **Canada:** The International Monetary Fund cut its growth outlook for the Canadian economy to just 1.0% for 2015, due to the drop in oil prices and reduced investment in the energy sector. The forecast is down from the IMF's expectation back in February 2015, which was 2.3%. The

Global Equity Strategy in 2016 *Cont'd*

organization also lowered its Canadian outlook for 2016 to 1.7% (down from 2.1%) reflecting a very weak end to 2015, as well as a further retrenchment in capital investment alongside even weaker oil prices. Nominal GDP growth will likely be in the 15-25% range, supported by a gradual recovery in non-resource exports, moderate consumer spending gains, and increased infrastructure investment.

- **Emerging Markets**: EM equities offer the most upside potential if the global economy accelerates faster than expected, but more risk to the downside if it does not. However, Emerging Markets have had three tough years in a row thanks to their outsized exposure to commodities, their dependence on US dollar financing, and China. Assuming we are close to a washout in investor sentiment, there should be a stabilization in commodities as well as in China, and perhaps a breather in US dollar strength. Tactically, it is reasonable to have some exposure here for, at a minimum, a snapback rally.

"With nominal GDP growth expected to be approximately 57% in 2016, Japan boasts some of highest-quality earnings in the world because of better profit margins and relatively low financial leverage."

To conclude, in the context of the global equity environment, our favoured markets are the Eurozone and Japan. Both of these markets should benefit from relatively better nominal GDP growth, which in turn will lead to better earnings growth prospects. In the US, while it is still our largest weight, we have more of a neutral view. We see it likely to provide lower returns than other developed regions, but also with lower volatility. Thus, the risk/return metric remains constructive and value can be added through security selection. Areas such as Canada, Australia, the UK and Emerging Markets all have less support from central banks and there are questions over their government economic policies, yet all remain highly exposed to the risks associated to China and commodity prices.

Sector positioning will take on a barbell approach, with exposure to secular growth themes in Technology and Health Care offset by beaten-up value plays in Industrials, Energy and Materials. Financials should perform as rates rise and Staples should do well with a more stable currency environment.

The Lost Decade & The Importance of Dividends

Chris Bolton, CFA, Portfolio Manager,
Co Portfolio Manager of Kipling Monthly Income Pool

Equity investing in Canada has been challenging. Over the last ten years (ending January 13, 2016), the S&P/TSX Composite Index has increased by a total of 4.9%. This equates to a compound annual return of less than 0.5%.

However, on a total return basis (including dividends) things are better: 39.7% total return, or a compound annual return of approximately 3.4% per year. This highlights the importance of dividends for Canadian investors.

S&P/TSX Composite Composition

Financials now comprise of approximately 38.3% of the S&P/TSX Composite. To state the obvious, returns in the financial sector will have the most important impact on the overall composite. The next two largest sectors are Energy (17.8%) and Materials (9.6%). Together, these three sectors make up nearly two-thirds of the S&P/TSX Composite.

Investment Positioning

Within Canada, we continue to believe that Financials offer attractive risk-reward characteristics. The Canadian banks continue to operate in an oligopolistic environment within Canada, and many of the banks undertook restructuring initiatives in 2015.

As a result, we expect that:

- these efforts will result in operating efficiencies going forward
- the banks will be able to grow earnings at approximately a mid-single digit rate, on average
- earnings growth will lead to share buybacks and dividend increases for the sector
- loan losses will move higher as an effect of the commodity downdraft ripple through the economy

"Within Canada, we continue to believe that Financials offer attractive risk-reward characteristics."

The Canadian banks remain reasonably capitalized (Common Equity Tier 1 ratios of 9.9%-10.8%), so all things equal, we'd prefer the banks that have exposure to the US (BMO, Royal, and TD).

Also, life insurance companies have been hurt by interest rate expectations. Currently, futures are

The Lost Decade & The Importance of Dividends *Cont'd*

implying Canada will reduce short-term interest rates in 2016. In the U.S., futures markets are now pricing in less than one short-term interest rate hikes in 2016. Markets were pricing in four 2016 interest rates hikes as recently as two months ago, and two 2016 interest rate hikes as recently as two weeks ago. Two of the Canadian life insurance companies (Manulife and Sun Life) have meaningful exposure to Asia, which seems to be the epicenter of global worry at the moment. Still, we continue to like the sector's exposure to the U.S. market and the U.S. dollar.

"While equity markets have sold off over the last few weeks, many investment-grade bonds have reached new highs."

We continue to recommend investors avoid the base metal space. With the possible exception of Palladium and Zinc, supply of most metals appears to be greater than demand in 2016. This may be due to the fact that Global mining capex increased precipitously during the 2002-2012 period, which has resulted in excess supply, and we expect most producers (particularly those with debt) will continue to maximize production this year. Also, like most cyclical commodities with long lead times, eventually mines will be exhausted or closed due to economic influence, and this will result in lower supply and ultimately higher prices. However, we do not expect these dynamics to take hold for most base metals in 2016-2017.

The Benefits of Diversification & the Kipling Monthly Income Pool

In periods of volatility such as this, one option for investors is to increase their weighting in fixed income, particularly investment-grade fixed income. While equity markets have sold off over the last few weeks, many investment-grade bonds have reached new highs.

For investors looking for more stability than a typical equity portfolio, Perron & Partners offers the Kipling Monthly Income Pool. The pool is (roughly) equally balanced between fixed income and our very best long equity ideas. While the pool can hold non-investment-grade fixed income investments, the vast majority are investment-grade.

Since the pool's inception in May of 2015, the pool has generated a total return of approximately 8.6% (MSeries, to December 31, 2015). This compares with the pool's benchmark, which declined about 1.7%. Furthermore, the pool only had a negative total return in two of its eight months (during these two months the average return was -0.89%). By comparison, the S&P/TSX Total Return Composite posted a negative total return in seven of the same eight months.

The pool also pays a monthly distribution of $.03 per share. We believe the Kipling Monthly Income Pool is attractive for RRSP contributions and for investors looking for some equity exposure with lower volatility than the S&P/TSX Composite.

Tax Update: Exactly What Changes Are the Liberals Implementing?

Chris Woodward, CA, CPA, Vice President Finance

Last year's Liberal election platform included scores of promises and changes. This brief article reviews just six of these promises, and highlights the proposals brought forward on December 7, 2015 by the new federal government.

Tax-Free Savings Accounts

Not discussed in any depth in their election platform was the Liberal plan to cancel a previously announced increase in the TFSA contribution limit. The December 7 proposals indicated that the 2015 limit will remain at $10,000, but that the 2016 limit will be reduced to $5,500. The cumulative limit up to 2016 (for those who have not contributed under the program since its inception in 2009) is now $46,500.

One minor note: apparently personnel at some financial institutions are not aware that there is a zero limit (i.e. zero "TFSA room") for a non-resident. Contributions, in respect of years, made as a non-resident will be subject to a penalty tax of 1% per month until the excess contribution is removed.

Tax Rate Increase for the Wealthiest One Percent

In their election platform, the Liberals asked the wealthiest one percent of Canadians to give a little more.

The December 7 motion proposed to introduce the new top federal marginal rate of 33% to take effect January 1, 2016 for those with taxable income in excess of $200,000.

The tax credit for donations in excess of $200 in 2016 will be eligible for a federal tax credit of 33% to the extent tax is borne at 33%. The balance of donations not eligible for the 33% credit rate will receive the old 29% rate. The rate increase affects certain other tax matters as well, which are beyond the scope of this article.

"In their election platform, the Liberals asked the wealthiest one percent of Canadians to give a little more."

Tax Update *Cont'd*

The "Middle Class" Tax Cut

The Liberals promised to cut the middle income tax bracket to 20.5% from 22% for taxpayers with taxable annual income between $44,700 and $89,401.

The December 7 announcement indicated that this cut will take place with effect January 1, 2016.

RRSP

There were no changes to this program announced by the Liberals. The current (2015) maximum contribution room (subject to personal tax circumstances) is $24,930 and the deadline for contributions that can be used in your 2015 tax return is February 29, 2016 (a leap year).

However, there was one peripheral promise to change the existing Home Buyers' Plan to increase its flexibility in the face of sudden and significant life changes. No details on this have emerged since the election.

"It is expected that the previously-announced 2% reduction of the federal small business tax rate will proceed as planned."

2016 Corporate Tax Rates

Investment income for private corporations The main changes post-election are to increase private corporation refundable tax rates for dividend and investment income. For example, an Alberta private corporation will be taxed at approximately 50 2/3% (including a refundable tax of 10 2/3%) on investment income. This high rate is intended to discourage keeping investment income at the corporate level. Dividends will be subject to tax at 38 1/3% (all refundable). Refundable taxes are refunded when the corporation pays a dividend.

Active business income for a CCPC It is expected that the previously-announced 2% reduction of the federal small business tax rate (for a Canadian-controlled private corporation's ("CCPC") active business income up to $500,000) will proceed as planned. The rate will decrease from 11% to 9%, ½% per year over 4 years. For a CCPC with active business income up to $500,000, the rate will be 13.5% for 2016 (federal 10.5%; Alberta 3%). As a reminder, the following appeared in the Liberal's election platform: "We will ensure that canadian-controlled private corporation (CCPC) status is not used to reduce personal income tax obligations for high-income earners rather than supporting small businesses." No further details have yet emerged.

General corporations The corporate tax rate for an Alberta non-CCPC will be 27% for 2016 (federal 15%; Alberta 12%).

Employee Stock Option Deduction

This is one area that may significantly affect tax planning. The stock option deduction allows employees to access 50% of the regular tax rate in respect of "stock option gains" in certain circumstances. A paragraph in the Liberal election platform referred to limiting the stock option deduction for those employees with "stock option gains" in excess of $100,000. There is some uncertainty as to the timing of the implementation of this measure, and whether it will be limited to amending the stock option deduction. In his November 20, 2015 announcement, though, Bill Morneau indicated that existing stock options would be grandfathered with respect to any changes.

Alternatives in the face of these potential changes are beyond the scope of this article. To discuss any of the above matters further or other tax issues, please contact me.

2016 US Equity Market Outlook

Darrin Erickson, MBA, CFA, Portfolio Manager, Kipling US Enhanced Growth & Income Pool

The return on the S&P 500 Index was below our expectations in 2015, returning only 1.3% in US dollars. However, Canadian investors with exposure to the US market still benefited from the weaker Canadian dollar, which drove the index higher by 21.4% in Canadian dollars.

Now, at the beginning of 2016, the outlook remains uncertain. Global equity markets have been shaken by both economic data points out of China and geopolitical events, including heightened tension between Iran and Saudi Arabia and between Turkey and Russia. The growing humanitarian crisis in Syria, terrorist attacks in France, and the recent nuclear test by North Korea have exacerbated investor anxiety. Despite these troubles abroad, however, the US economy remains in a state of slow, but steady growth. It is an area that we believe investors should overweight in their portfolios. While the Presidential election adds to this uncertainty and may cause additional market volatility between now and November, the period following the Presidential election is typically strong for markets.

At Perron & Partners, we continuously monitor market conditions and actively reposition our pooled funds, so that we can better protect client assets in weak markets and grow assets in strong markets. One part of our investment process involves periodically comparing expected growth rates and valuation between different segments of the market. This helps us to determine which sectors to overweight and which to underweight.

"Despite these troubles abroad, however, the US economy remains in a state of slow, but steady growth."

The following table shows the expected earnings growth rate for the coming year, as well as profitability and valuation metrics for each sector of the US market:

SECTOR	Expected EPS Growth (%)	Return on Equity (%)	Free Cash Flow Yield (%)	Price/Cash Flow
Healthcare	27.6	17.0	5.2	17.0
Consumer Discretionary	16.2	21.0	4.8	21.0
Information Technology	15.5	21.5	6.4	21.5
Telecom	11.1	11.0	9.1	11.0
Financials	8.9	9.4	12.0	9.4
Materials	6.0	9.0	4.8	9.0
Industrials	4.6	19.8	4.5	19.8
Consumer Staples	4.6	17.0	5.6	17.0
Utilities	4.1	8.9	-0.3	8.9
Energy	-8.6	-2.1	-2.4	-2.1

**As of January 8, 2016*
Source: Bloomberg

2016 US Equity Market Outlook *Cont'd*

As mentioned in our previous quarterly newsletter, it should be noted that the composition of each sector is often quite different from that of the Canadian market. The Materials sector, for example, is made up predominantly of metals and mining companies in Canada, versus chemical and packaging companies in the US.

Based on the above data, the Financial and Telecom sectors look attractive. Both sectors are strong free cash flow generators and are relatively inexpensive, trading at only 6.6 times and 5.3 times cash flow, respectively.

However, looking beyond the data, the fundamental picture for these two sectors provides additional perspective. The prospect of higher rates in the US should benefit the large money-center banks and life insurers in the US, but Telecom, on the other hand, could be hurt by higher interest rates. This sector is already struggling with subscriber losses in the traditional landline business and fierce competition in wireless. Taken together, this leads us to have a positive view on the Financials sector and a neutral view on the Telecom sector.

"The Healthcare and Technology sectors are very attractive on a longer-term basis, in our view."

The Healthcare and Technology sectors are very attractive on a longer-term basis, in our view. Both sectors are more profitable than average, as measured by return on equity, and offer some of the best opportunities for earnings growth. Healthcare appears to be relatively expensive at 15.6 times cash flow, but much of this is due to a handful of biotech stocks that typically trade at higher multiples. That being said, Healthcare as a whole may underperform in the near-term because of valuation and the strong outperformance that has occurred in the sector recently, but in the long-run, demographics and innovation will drive superior long-term returns in this segment of the market.

All factors considered, our current US strategy for 2016 is to weight market sectors as follows:

SECTOR	S&P 500* Weight (%)	Expected Fund Position
Healthcare	15.1	Overweight
Financials	16.4	Overweight
Information Technology	20.6	Overweight
Consumer Discretionary	12.8	Neutral
Industrials	10.0	Neutral
Consumer Staples	10.0	Neutral
Telecom	2.4	Neutral
Energy	6.5	Underweight
Utilities	3.0	Underweight
Materials	2.8	Underweight

**As of December 31, 2015*
Source: Bloomberg

In summary, our short-term view of the market is cautious, but we believe that the second half of 2016 will be positive for the US equity market, especially after the Presidential election in November. While a defensive posture is warranted currently, growth and the "risk-on" trade should reassert itself before the end of the year. This would bode well for Technology, Healthcare and Financials.

Using Options as a Defensive Strategy

Shawnalynn Perron, MBA, CIM, Portfolio Manager,
Co Portfolio Manager of Kipling Monthly Income Pool

It's a new year, with new market challenges. From what we've seen so far, 2016 could be the year we employ some option strategies for our clients, as a way to improve downside protection, while increasing income into the portfolio.

There are two common options strategies that we deploy at Perron & Partners in years where markets are uncertain, or showing little growth potential:

1. Buying Puts
2. Writing/Selling Calls (Covered Call)

Strategy One: Buying Puts

In the first strategy, the belief is that there is downside in a stock price and you would like to buy protection to sell the stock at a set price within a set time frame.

Let's look at an example. You own 1000 shares of General Electric (GE) at a cost of $25.00/share, and it's trading at $29.00/share. You believe that in three months' time (April), the stock is going to be down 10%, so you would like to limit your downside. Remember, buying a put gives you the right (or option) to sell the stock at the set price. You can also choose to let it expire and not exercise your right to sell.

"From what we've seen so far, 2016 could be the year we employ some option strategies for our clients, as a way to improve downside protection, while bringing more income into the portfolio."

April Puts Prices
To sell at $27.00, put cost is $0.75
To sell at $28.00, put cost is $1.00
To sell at $30.00, put cost is $2.10

If we decide to buy 10 April $27.00 puts at $0.75 per 100 shares (all option contracts are based on 100 shares), it will cost us $750.00. Effectively, this increases our cost price from $25.00/share to $25.75/share.

If the stock price of GE in April is $27.00 or less, we will be protected by buying the put and realize a $1.25 gain per share, because we will have

Using Options as a Defensive Strategy *Cont'd*

exercised our put option and sold our shares at $27.00. If GE is trading at greater than $27.00 in April, we can choose to sell our shares on the market or hold onto the stock, thus protecting our downside risk.

Strategy Two: Covered Call

In the second strategy, we are expecting the stock price to remain relatively flat, or to decrease in comparison with the current market price (and our purchase price). A covered call implies you already own shares in the stock that you are going to sell calls on. In this case, if the call option is exercised, we are obligated to sell our shares to the call buyer.

April Call Prices
To sell a call at $27.00, cost is $2.30
To sell a call at $28.00, cost is $1.70
To sell a call at $30.00, cost is $0.60

If we use the same scenario, where GE is trading at $29.00 today on the market, we would sell the April $27 calls at $2.30 per share and realized positive cash flow into our account of $2,300. Effectively, this reduces our cost price on GE by $2.30 to $22.70 per share.

If GE is trading at less than $27.00 come April, the likelihood of the call being exercised is low and therefore we gain the income realized from selling the call, $2,300. If the stock price of GE is greater than $27.00 in April, the call will be exercised and we have an obligation to sell our shares to the call buyer at $27.00, therefore limiting our upside gain potential on the stock.

Overall, options are a great strategy to help us manage our clients' income and downside risk in markets projected to have little or no growth. If we can use covered calls several times throughout the year without getting "called away" (having to sell our stock), we should be able to realize better total returns through the increased income into the portfolios.

If you would like to learn more about our option strategies or would like to participate in our option program, please contact us for more information.

"If GE is trading at less than $27.00 come April, the likelihood of the call being exercised is low and therefore we gain the income realized from selling the call, $2,300."

Your Family & Its Shared Assets

Shawnalynn Perron, MBA, CIM, Portfolio Manager,
Co Portfolio Manager of Kipling Monthly Income Pool

If you have a family cottage, a family business or a family trust, you have shared assets to think about.

Any individual who has an economic or personal-use interest in an asset is considered one of the stakeholders when determining how to manage the asset going forward. It's easy when just mom and dad own the asset and the children are simply using it for enjoyment, with no ownership. However, things can drastically change and create tension if future ownership and management is not discussed ahead of time. The most dangerous assumption is assuming the future stakeholders will know how to manage the asset without conflict when you are not around.

There is a famous saying by Benjamin Franklin that applies without a doubt to shared asset management: "Failing to plan is planning to fail."

"The most dangerous assumption is assuming the future stakeholders will know how to manage the asset without conflict when you are not around."

Depending on the asset, there are many common challenges around planning such as who has the right to it, how maintenance and costs should be attributed, how the value of the asset is determined, how income gets distributed, whether another owner can buy in if a current owner sells his/her share, etc.

What's needed is an 'ownership plan,' and you do not need a lawyer to get started. All you need is a family meeting and, potentially, a facilitator to get the conversation going.

An ownership plan focuses on the future by identifying each party's expectations around who is involved and what each stakeholder's needs or desires are. It's also meant to develop a collective vision and assign responsibilities and accountabilities. Elements such as ownership, governance, management, compensation, profit allocation, communications and entry/exit strategies should all be thoroughly addressed.

Lee Hauser & Douglas Freeman, in their book The Family Legacy, address the details of creating an ownership plan. This book is a great reference if you are starting to think about planning the management of your family shared assets.

For more information or to start a conversation about Family Wealth Planning, please do not hesitate to reach out to us at Perron & Partners for guidance.

"Our services reward families who expect wealth management that is both custom and independent."

Gary Perron, CFA
Portfolio Manager, Founder

- **Truly Independent:** As an independent practice, we have no restrictions, directives or corporate incentives. We are in this business with one agenda: to preserve and enhance our clients' wealth.
- **Flexibility and Tailored Service:** With an open architecture, we have the flexibility to find the lowest costs, best platforms, and latest innovative ideas to meet your specific needs for risk, preservation and growth.
- **100+ Years:** Our core team is guided by over 100 years of combined industry experience.
- **Superior Due Diligence:** Our independence provides us the freedom to explore a variety of resources before selecting the appropriate investments and strategies for you.
- **Risk-Adjusted Investing:** We are experts in generating risk-adjusted returns. We also work to maximize results by controlling tax and identifying low-cost investment options.
- **Business Expertise:** We work with business owners to develop succession strategies, identify taxation opportunities and implement complex investment plans.
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