J.C. HOOD INVESTMENT COUNSEL INC.

Monthly Newsletter – November 2013

Hello Everyone:

Housekeeping: I have attended two conventions in the past two weeks. Last week was the annual NBCN meeting, which examined regulatory changes in the financial services industry and changes at NBCN, the most notable being that they bought out their largest competitor TD Institutional Services. The second event was the Portfolio Managers Association of Canada, which addressed 'best practices' for Portfolio Managers, North American industry trends and 'political risk analysis' by David Frum. There were a few points worth discussing.

How Asset Allocation is Expressed in Client Monthly Statements: I have been complaining for 2 years that client monthly statements do not differentiate between bond ETFs and equity ETFs. Assets are classified into 'Cash and Equivalents' or 'Common Stock' but with no mention of bond ETFs as a distinct asset. As a result, the Asset Allocation section on the first page of statements indicates that your Common Stock position is somewhere between 90-95% equities, which is clearly incorrect. Almost all of our portfolios are app.60% equities and 40% bonds. This is not a NBCN issue alone, it's across the entire industry because most firms use an IBM system that is obviously out of date with current market penetration by ETFs. While NBCN is aware of the problem, there does not appear to be an immediate fix. Fortunately, after much screaming by yours truly over the past year, the correct asset allocation information is available through the CROESUS portfolio management software that I lease from NBCN. If you have any questions about asset allocation, just give me a call. Bond ETFs include XSB (short term bonds) CLF (5 year government bond ladder) HFR (floating rate) and ZXB(target maturity corps).

Investment Policy Statements (IPS): I came away from the PMAC conference recognizing that our IPS needs to be updated on at least once every 1-2 years just to ascertain whether our clients' needs had changed and if they wanted to amend the IPS. So over the next few weeks, I will be resending most clients/families their IPS to see if we need to make any adjustments. This may sound a little tedious but it's to make sure that we are still on the same page.

Euro Markets: As I mentioned in the last newsletter, I purchased Vanguard's VGK for our European exposure. There are several different European ETFs but VGK is the largest at $13Bil followed by EZU$6bil., FEZ$4bil. and IEV$2bil. The VGK is Europe, not just EURO and includes about 600 stocks, mainly large but also some mid caps. VGK also includes the UK, Switzerland and Sweden which the EURO based EZU does not. FEZ is the largest 50 EURO stocks. The IEV is also Europe based but contains about 350 of the largest stocks only. The Vanguard ETF is also the cheapest at 12bps compared to EZU at 53bps as well as being the most diversified. There remains however the issue of currency risk as all of these ETFs are unhedged. Since the EURO countries are expected to begin printing money, this will of course lower the value of the EURO but should provide market stimulation like QE has in the US.

Our exposure to global markets continues to be about 6-10% with 20-25% CDN and 20-25% US equities with the balance in fixed income/dividends.

If you have any questions, please don't hesitate to call.

THANK YOU FOR YOUR BUSINESS

John

Member of the PORTFOLIO MANAGERS ASSOCIATION OF CANADA
And the CFA Institute