RAINTREE®
FINANCIAL SOLUTIONS

The Raintree Report
Issue #8: Summer 2017

Raintree Wealth Management Launch

The second quarter of 2017 marked a major milestone for Raintree, in particular for Raintree Wealth Management. Our new registered Portfolio Management firm officially launched and began accepting clients by referral from our Private Wealth Advisors in June. We are very happy to announce that Raintree Wealth Management is officially open for business!

This is an important evolution in our goal to grow our Core + Explore™ investment philosophy. Raintree Wealth Management was built to manage traditional, liquid assets or as we call it, the 'Core' of our clients' portfolios. With Raintree Financial Solutions providing clients with the 'Explore' component of their portfolios directly through carefully selected private investments, Raintree can now provide Canadians with an end-to-end investment service.

Raintree Wealth Management was designed with careful and deliberate thought. Our priority is the preservation of capital. We didn't shy away from building an investment management platform that is different, innovative, and most importantly, that reflects our core beliefs. Raintree Wealth Management works directly with our clients to understand their unique needs and circumstances so that we can tailor a customized portfolio that fits their requirements. The investment execution (in other words, which stocks, bonds, countries, industries, etc. to invest in) is performed by our investment partners. The four investment partners we've selected are Canadian asset managers which, in our opinion, are the best at each of their respective specialties.

In this issue of the Raintree Report you will hear from two of the investment partners we have selected: Leon Frazer & Associates and ETF Capital Management. What we hope stands out is not only the considerable insight each manager brings to their discipline, but also just how differently the two

managers approach investing. These differences were brought together by design. Diversification of asset classes (think stocks, bonds, countries, sectors) is widely accepted as the most popular method of reducing risk. Diversification of investment styles and strategies can be just as beneficial and we are excited to combine the talents of both.

For more information on Raintree Wealth Management please visit raintreeWM.com or speak with your Private Wealth Advisor.

Sincerely,
Peter Kinkaide, CFA
CEO of Raintree Wealth Management Inc.

Spotlight: The Power of Growing Dividends

At Leon Frazer, we are fortunate to have earned the trust of three generations of clients who, in some cases, have been holding investments for decades. These clients, amongst many others, have benefited from Leon Frazer's fundamental strategy of investing in businesses with stable and growing dividends. One way to measure this benefit is to examine the current dividend of a stock versus the price originally paid for it. Also known as the dividend yield on book value, dividend yield on cost is a fantastic metric that can be used to judge the success of an investment in a dividend-paying stock. It's calculated simply by dividing a stock's current dividend rate by the amount paid for the original stock. Some of our long-standing clients now have incredibly low-cost basis positions that are earning more than the value of their initial investment in dividend payments **every year!** To illustrate, we calculated several 30-year Dividend Yields on Cost in the table below:

30-Year Dividend Yields on Cost

Company	1986 Cost*	Current Annual Dividend	Dividend Yield on 1986 Cost
Royal Bank of Canada	$4.02	$3.32	**82.6%**
Fortis Inc	$4.75	$1.60	**33.7%**
BCE Inc**	$4.38	$2.73	**62.3%**
Johnson and Johnson	$4.10	$3.20	**78.1%**
Enbridge Inc	$3.13	$2.33	**74.4%**
Bank of Montreal	$8.34	$3.52	**42.2%**

* Split-adjusted prices as at Dec 31, 1986
** Spun out Nortel (2001) and Bell Aliant (2006)
Source: Thomson Reuters/Company Websites

If you purchased RBC shares in 1986, you would now earn over 80% **per year** on that investment in dividends alone. You will notice we did not include the current price of the shares. Our long-standing clients are savvy enough to not worry about the current price of shares, something that only matters when you are selling your investment. If you took an equal-weighted portfolio of the six companies above, it would return 62% per year in dividends alone. No wonder many of our more experienced clients couldn't care less whether the market is up or down in the past year!

Longevity is the Key

The trick to using this metric is you need to buy and hold the investment over a long period of time to see the continued progress. As soon as an investment is sold, most investors never look beyond the cost basis established in the new security. We are more uniquely able to use this somewhat forgotten metric of portfolio performance because of our long-term, low turnover, buy and hold philosophy – a strategy that is becoming increasingly rare these days. Calculating the dividend yield on the cost of your investments is a cool-headed way to evaluate the ongoing health of your portfolio, rather than looking at market values that only capture the sentiment at a specific moment in time. Stock prices are almost never correct at any specific moment for any specific company; instead stock prices tend to reflect intrinsic value over longer periods of time.

The yield on cost metric works over shorter periods of time as well. The following table represents a 10-year time period, with six completely different stocks that are newer additions to Leon Frazer portfolios and carry a 10-year dividend yield on cost of over 8.5% per year.

10-Year Dividend Yields on Cost

Company	2006 Cost*	Current Annual Dividend	Dividend Yield on 2006 Cost
Pembina Pipeline	$15.83	$1.92	**12.1%**
Canadian National Railway	$25.04	$1.65	**6.6%**
TD Bank	$34.86	$2.20	**6.3%**
International Business Machines	$97.15	$5.60	**5.8%**
Agrium	$36.54	$4.75	**13.0%**
Vermilion Energy	$35.00	$2.58	**7.4%**

* Split-adjusted prices as at Dec 31, 2006
Source: Thomson Reuters/Company Websites

A Rising Dividend Income Stream Helps Manage Expectations

A dividend yield on cost that rises over time is a great indicator that your investment is performing well. A rising dividend income stream also helps investors manage the unfortunate emotional swings that may tempt them to bail out when they should hang on for the long-term recovery and ongoing dividends.

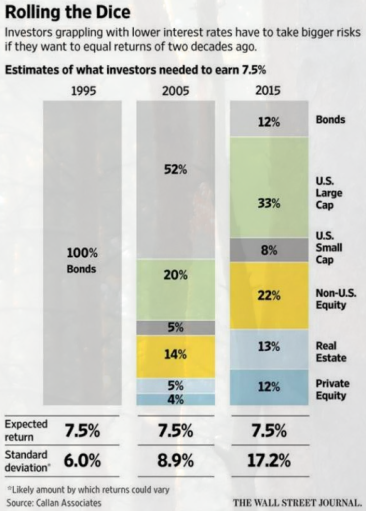
The Holy Grail of Investing

We invite everyone to calculate the dividend yield on cost of both their portfolio and the stocks that comprise it. As time goes by, the results may surprise you. The holy grail of this concept is to get an investment that exceeds 100%. We have clients that hold original shares of Enbridge that were issued at $0.25 per share (split adjusted) in 1953. Those shares currently have a 60-year dividend yield on cost of over 900%. That's the power of growing dividends!

For more information on Leon Frazer & Associates, visit www.leonfrazer.com.

Navigating Markets

It has become increasingly difficult to generate good, low-risk returns for investors over the past few decades. According to The Wall Street Journal, to generate a decent retirement income of 7.5%, investors need to earn almost 100% equity-like returns. We would argue even that is a difficult task. With the yield to maturity (bond yields) of the world at about 1.8% and equity multiples amongst the highest they have ever been historically, generating a 7.5% return is tough. In 1995, you could deliver 7.5% with a lower-risk, diversified basket of high quality corporate bonds. Today, high-yield bonds barely offer a 5% return and come with equity-like volatility (risk). Active asset allocation is, in our opinion, by far the best way to deliver good risk-adjusted returns for investors.



With bond yields so low, far too many investors have abandoned fixed-income markets for higher dividend paying equities, not fully understanding the additional risk one has to assume when making that asset shift. That's fine when equities are rising, but when we hit the next recession or major bear market a lot of people will be caught off guard. We are currently in the third-longest US economic expansion in the past century and the bull market is a bit long in the tooth. While no one knows for sure when the next market downturn will come, it's likely to be a nasty one. Governments have already spent trillions to reflate the world and Central Banks have lowered interest rates to negative levels in Europe and Japan, all while generating the worst economic recovery in history.

The argument for truly active tactical management has never been more compelling. ETF Capital Management has been managing ETF (exchange traded funds) portfolios with a focus on growth at a reasonable price and capital preservation for over a decade. We were the very early adopters of global ETF portfolios and one of the most active ETF investors in Canada. Our Founder and Chief Investment Officer, Larry Berman, has been trading ETFs and researching ETF strategies since their very first days as an investment vehicle in the early 1990s while working at CIBC World Markets as Chief Technical Strategist.

The Sharpe Ratio

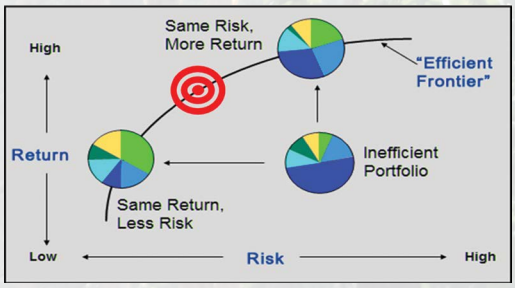
$$= \frac{\bar{r}_p - r_f}{\sigma_p}$$

Where:

$\bar{r}_p$ = Expected portfolio return

r_p = Risk free rate

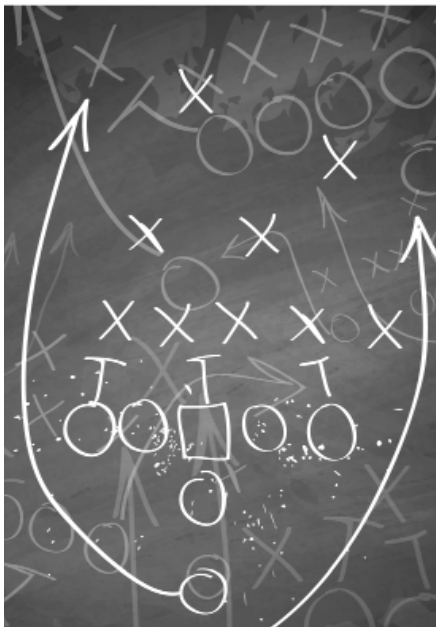
σ_p = Portfolio standard deviation



Our primary focus is on risk-adjusted returns. We strive to get the highest return possible with the lowest amount of risk. Today, ETFs represent just about every asset class, sector and country. Managing risk in global portfolios has never been more elegant. In order to optimize our portfolios to deliver superior risk-adjusted returns, our models calculate what the expected return is likely to be for all the ETFs in our universe and what the volatility risk is (as measured by the standard deviation of returns). We then compare this to the risk-free rate of holding cash in the portfolios to preserve capital if the potential return is not worth the potential risk. When positions are not attractive, we hold cash and write options to generate yield while we wait to buy assets at better prices.

In an effort to optimize returns for investors, we have more exposure to sectors and countries with a superior risk-adjusted return expectation and avoid short asset classes that offer poor expected returns. Our process focuses on delivering superior risk-adjusted returns in a difficult and unpredictable market.

For more information on ETF Capital Management, visit www.etfcm.com.



Behavioural Finance: Herd Behaviour

Herd Behaviour happens when we mimic the actions of a larger group, also known as "jumping on the bandwagon". It is innately human as social creatures to want to belong and be accepted by a group. We also believe that it is unlikely that such a large group can make the wrong decision.

An example of herd behaviour is the "dotcom bubble" when a large number of investors and venture capitalists sunk a great amount of money into internet-related companies without thoroughly analyzing their business models and financial background. This type of behaviour is what drove stock prices up, which ultimately created the bubble that eventually burst, causing one of the biggest market crashes in history.

How To Avoid It?

While it is tempting to follow the herd, remember that the herd does not always make sound investment choices. It is prudent to base your investment decisions on proper research and keep in mind that when the herd favours a particular investment/category, it can quickly drive up prices causing the investment to be overvalued and eventually have a precipitous correction.

Supporting KidSport Edmonton

Raintree has been committed to supporting our "charity of choice", KidSport Edmonton, for the last couple of years. KidSport supports the local community by subsidizing sport registration fees of low-income family children so that all kids can play. Sports often play a critical role in shaping a child's development and success, which is why we are so proud to help raise money for the organization.

This month Raintree held our biennial Summit at the Manteo Resort in Kelowna, BC. Greg Bainbridge, the CCO and CIO of Raintree Wealth Management and a board member of KidSport Edmonton, shared with the group Raintree's dedication to supporting such a fantastic charity. One of our issuer partners from Rockspring Capital decided to take to the stage and began a call for donations where we raised a phenomenal $5,900 bringing our total contribution to KidSport Edmonton to over $30,000!!! We would like to say a huge, heart-felt thank you to Rockspring Capital for starting the donation bidding and all of the attendees who contributed!

RAINTREE®
FINANCIAL SOLUTIONS

Contact Us
Westgate Business Park
10243 – 178 Street
Edmonton, AB T5S 1M3

T 1.855.443.0340
E admin@raintreeFS.com
W raintreeFS.com