SAGE PAGE

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"LOOKS GOOD FROM FAR, BUT FAR FROM GOOD"

As we write this investment update, we see 3 positive developments that appear good from afar:

1. ***Oil Prices (WTI) have risen by 58% from $27.30 to $43.09***
2. ***Corporate America is set to beat analysts' earnings expectations again this 'Earnings Season'***
3. ***Canada's economic growth expectation has been revised upwards from 1.4% to 1.7%.***

But at closer inspection these developments are FAR FROM GOOD. We will address each of them below…

1. **THE OIL RALLY:** Oil's 58% climb does not square with the data which points to continued excess supply:

   a. North American Crude oil inventories resumed their climb rising 6.6 million barrels to a record 536.5 million barrels (as of April 8th). Globally, according to the March Energy Information Agency ("EIA") data, supply is exceeding demand by 1.45 million barrels per day.

   b. There were 1,551 rigs active last month in the countries covered by Baker Hughes, the least since September 1999 and down nearly 60% in little more than a year. But one part of the world is bucking the trend and drilling furiously to add the capacity needed when demand once again exceeds supply. Three countries on the Arabian Peninsula -- Saudi Arabia, Kuwait and the United Arab Emirates -- all saw drilling activity reach 20-year record HIGHs in 2015. That's a doubling of drilling activity from 2010 levels. Go to this *Bloomberg article* for more details.

   c. For Saudi Arabia, the expansion is as much about gas as oil. The number of rigs drilling for gas there has jumped from about 20 in early 2013 to 60 last month, as the country tries to develop its own resources to support a growing petrochemicals industry and free up oil for export.

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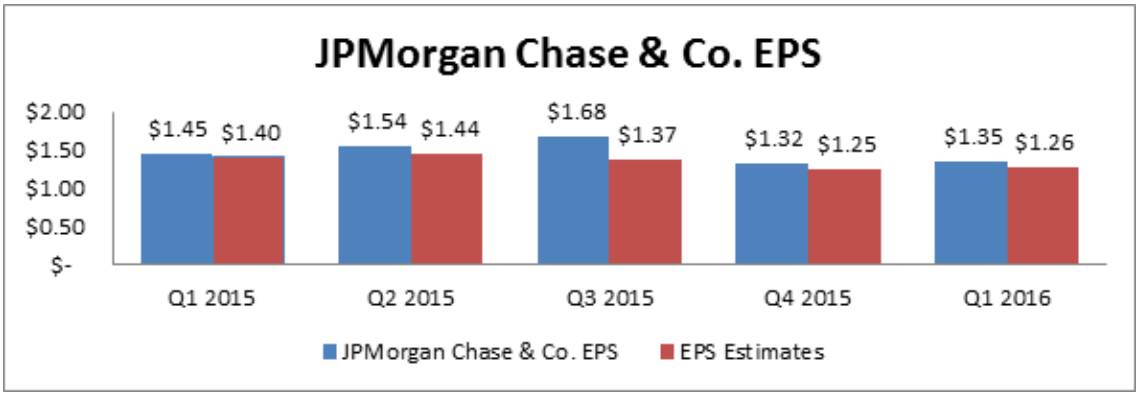
2. **BEATING EARNINGS ESTIMATES:** What's more newsworthy to us is that analysts recently reduced their earnings estimates for Q1 2016 by 8.5%! One of the first to report was JPMorgan (NYSE: JPM) which reported Q1 earnings per share ("EPS") of $1.41, beating the analysts' estimates of $1.26. However, the JPM EPS estimates were CUT SIX TIMES leading up to earnings season (from $1.52 down to $1.29) and in fact the EPS figure represents a year over year decline of 6.90%. EPS beats in this scenario may be more misleading than fuel for optimism.



3. **CANADA'S IMPROVING GROWTH PROSPECTS:** Bank of Canada Governor, Stephen Poloz, just increased his gross domestic product ("GDP") growth expectation for Canada in 2016 from 1.4% to 1.7%. His upward revision flies in the face of facts pointing to the contrary:

   a. The International Monetary Fund also revised their thoughts on GDP growth by revising both the Global and Canadian growth prospects DOWNWARDS:

   - *Global GDP growth down from 3.4% to 3.2%*
   - *Canada's GDP growth down from 1.6% to 1.4%*

   b. A department of the United States Federal Reserve (FED) just slashed its GDP growth estimate for the US from 1.9% to a miserable 0.6%. Weak US growth leads to weak economic growth in Canada.

   c. The Canadian dollar has increased against the US dollar by more than 12% so far this year. Making our goods and services more expensive, thus dulling exports to the US - and consequently our growth prospects.

   d. Capital investment in the Oil and Gas sector is expected to fall 62% to $31 billion in 2016, down from $81 billion in 2014. According to the Canadian Association of Petroleum Producers, this is the greatest two-year decline since records began in 1947.

These four items clearly do not support Poloz's cheery outlook….

Source: National Geographic by Laura Parker

"LOOKS GOOD FROM FAR, BUT FAR FROM GOOD"

Like the ocean, things have the ability to look beautiful from afar, however, at SAGE it is our responsibility to critically think about the information that is presented and dig deeper. As we can see with the recent market developments and the ocean there is often more than what meets the eye.

The plastic pollution numbers are staggering: There are 5.25 trillion pieces of plastic debris in the ocean. Of that mass, 269,000 tons float on the surface, while some four billion plastic microfibers per square kilometer litter the deep sea.

SAGE'S METHODOLOGY IS DESIGNED TO THRIVE IN ALL MARKET CONDITIONS.

Here again are the three cornerstones of our equity management methodology:

1. **STOCK SELECTION.** SAGE's equity model holds the 40 best stocks identified in our database of 22,000 companies according to the following criteria:

   i. Highly Profitable Companies. We rank our company universe by return on equity ("ROE"). Our model's average ROE is 27%. From this elite group, we select companies that have a long history of generating great earnings despite variable market conditions. Sectors like: food, staples, utilities and healthcare.

   ii. Best Value. We identify bargains by searching for stocks with a low price to earnings ratio ("P/E"). The SAGE equity model holdings have an average P/E multiple of 12.6X.

   iii. Dividend Payers. Companies that pay a dividend are typically more stable, more profitable AND generate better total returns than companies that do not. So we only own companies that pay dividends. The SAGE model dividend yield is 2.86%. On top of all that, these companies have been growing their dividends by 16% per year.

2. **INVESTMENT ALLOCATION.** Our two main considerations are the volatility of the stock, relative to the market and relative to itself. From this information, we make the following adjustments:

   a. Allocate more capital to less risky (low beta) stocks
   b. The lower the stock is within its own price range, the more capital we allocate to it

3. **HARVESTING VOLATILITY.** In times of volatility, investors tend to "throw out the baby with the bath water." They shun the stock market and sit on the sidelines. At SAGE, we have developed a Systematic MeAn Reversion Trading ("SMART") process that mitigates risk and generates incremental profits over 'buy and hold' strategies. Critical to this process is the strength of the companies identified with our stock selection criteria.

   When earnings remain intact, large fluctuations in their stock price present opportunities to:

   a. Trim the position when they trade significantly above their average price
   b. Add to positions when they trade significantly below the average price

The more volatile the markets, the more often these opportunities present themselves. Execution of this repeatable SMART process is the gift that keeps on giving.

We are very happy to report the good results that our methodology, processes, and people have produced. Below is a summary of SAGE's performance:

	SAGE	MSCI World*	TSX**
ROE of the Portfolio	26.99%	18.66%	11.84%
PE of the Portfolio	12.58	15.13	15.15
Dividend Yield	2.87%	1.74%	2.95%
Dividend Growth	16.93%	2.72%	5.82%
2015 Total Return (CAD)	16.93%	18.89%	-7.76%
Annualized 3 Year (CAD)* **	13.73%	15.77%	5.60%

Source: SAGE Model Portfolio Total Return (CAD), MSCI Total Return (CAD), TSX Total Return (CAD).
SAGE Model Inception Date: June 30, 2010

**Client's performance may differ from that of the model performance described due to timing of cash flows, etc.*

**MSCI World ROE, PE, Dividend Yield and Growth numbers were taken from iShares MSCI World ETF data, and the performance numbers were taken from the MSCI official website.*

***All TSX data was taken from iShares S&P/TSX 60 Index ETF.*

****3 Year Annualized performance time period: March, 2013 – March, 2016.*

In closing, we reiterate the theme of our *2016 Investment Outlook* "Better to Play it Safe than Sorry". To that end we have two suggestions:

1. Use this recent strength in the oil prices and resource stocks to remove the weakest of your resource stocks.
2. Use this Canadian dollar strength to buy more of the strongest companies in the world, most of which are found outside of Canada.

We look forward to your questions and feedback. **Best wishes from the SAGE Team.**

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