



The attached was provided to our great clients at the start of the year – we thought it would be of interest to you as well.

Who would have guessed that the combination of: mega-liquidity; low interest rates; rising cash flow and dividends; low inflation; healthy U.S. economy; slowing, but growing, China; slow, but recovering Europe; and, most of all – declining energy prices – would produce a record DECLINE in world stock markets!! A clearly imperfect, perfect storm, as the black swans swim. In summary, it is all about OIL (political, religion and economics); but aren't there more winners than losers?

We believe that, for quality companies, the fundamentals remain solid, and the prices just got more favourable. Patience and thoughtful research will produce a positive 2016.

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January 22, 2016



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THOUGHTS ON VOLATILITY

Through 2015, Georgian Capital maintained its focus on high quality dividend stocks and minimizing risk. Our belief is that stable businesses with conservative balance sheets and strong free cash flows will be able to sustain dividends and preserve value through uncertain market conditions. We will continue to execute our discipline, and encourage investors to take a long term view.

It was a challenging year for equity markets, with concerns on multiple fronts weighing on investor sentiment. Particularly influencing the stock market was the further slide in the oil price. After showing signs of stabilization during the year, the oil price accelerated to the downside with a 25% drop in the fourth quarter. Georgian Capital continues to have only a small direct exposure to the energy sector, and our sole holding raised its dividend 25% during the year, a testament to the strength of its business.

In addition to oil price concerns, global economic worries were varied, from fears last spring of a Greek debt crisis to concerns in the second half about an economic slowdown in China. All the while, economists fretted about the Federal Reserve, and whether the U.S. economy would be strong enough to prompt the long awaited increase in interest rates. Frequently, such fears did not translate into logical market reactions, which made managing money all the more challenging. The fears of a European debt crisis were quickly forgotten, and many European stock markets outperformed. Hostilities in the middle-east did not prompt higher oil or gold prices, as might have been expected.

It is important, however, to look beyond negative headlines where we see many examples of healthy, sometimes quite strong, economic conditions. U.S. monthly jobs figures and unemployment reports have been consistently positive, giving the Federal Reserve enough confidence to raise interest rates for the first time in nine years. U.S. auto sales hit a record high in 2015, surpassing the previous record, set back in 2000. Home prices in Canada were up over 10% on average, even including the slump experienced in Calgary. The Canadian dollar, which seemed to decline in-line with oil, provided a boost for many export oriented businesses. Ontario and British Columbia, in contrast to Alberta, are expected to show solid economic growth for 2015 and the outlook for 2016 is similarly positive.

Sometimes, when nervousness overtakes the market, stocks trade out of line with their fundamental value. A recent analyst report noted that the Canadian REITs now trade at a 14% discount to NAV, the lowest level since the financial crisis. REITs have traded down due to the fear of higher interest rates, whereas Canadian bond yields have in fact declined. We are reminded of the famous adage of Warren Buffett, renowned for his long term investment approach, who advised to “be fearful when others are greedy and greedy when others are

fearful.” We believe there are good opportunities in the current stock market which should encourage long term investors to take advantage of the recent decline in prices.

Looking ahead, we can confidently say that the global economy remains in slow growth mode. This will keep interest rates low by historical standards, particularly in Canada. With the dramatic move in oil, a function of the tone taken by OPEC, and the slowing economy in China, we can also say that commodity prices, and with them the Canadian dollar, are likely to remain under pressure for the foreseeable future. In this environment, we believe investors will continue to favour quality dividend stocks, with minimal resource exposure. The Georgian Income Growth Portfolio is positioned well, and we will continue to collect our dividends while we await better capital returns.

For the Georgian Income Growth Portfolio, the gross cash yield of the underlying securities is currently averaging 4.3%. A key strategic principal is that yield will make up a significant portion of the total returns in the long-term. We believe the Portfolio also has an adequate cash position to facilitate new investments, should opportunities arise. The Portfolio does not utilize any leverage and has no plans to do so.