Quarterly Portfolio Review
As at June 25, 2014

NELSON
PORTFOLIO MANAGEMENT CORP.

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Disclosures: "Douglas Nelson is registered as Portfolio Manager for Nelson Portfolio Management Corp. and is responsible for making all final decisions regarding client accounts and the NFC Tactical Asset Allocation Pool. Doug was the author of this report, but any reference to "our" or "we" represents the collective efforts and contributions of various members of the Nelson team."

NELSON
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Announcements

Portfolio Management Announcements:

- As of April this year we have made a new investment into another software tool.
- This is a product available through Morningstar Canada that provides data on over 3000 Canadian and US stocks.
- The product helps to sort and rank these securities based on a wide range of criteria.
- We are able to enter our preferred criteria today so that we can see two things: i) how our current holdings compare with other investment options and ii) which stocks have better metrics than our current holdings. As the market environment changes we will adjust our ranking criteria to either take advantage of positive momentum in the market, or to find more defensive investments.
- This is an investment of $12,000 per year, but is well worth it.

Financial Planning Announcements:

- We have begun to roll out our new financial planning platform: Financial Desktop. This is the 2014 version of our traditional, paper based Green Binder program that many of you will be familiar with. However, this platform is now based in an electronic environment that provides an unlimited amount of space and customization for each financial plan. My goal is to have a Financial Desktop environment created for each of our investment clients over the next twelve months.

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Market Commentary: (as of June 24, 2014)

Canadian Stocks (ie: the growth side of the portfolio):

- The Toronto Stock Exchange has been one of the top performing stock markets in the world so far this year, with a year to date gain of +11%. This is great, but where are these gains coming from?
- The Financial Services stocks have produced a decent year to date gain of +5.3% while the Real Estate sector is +5.6%.
- The really big driver of growth in Canadian stocks has been the energy sector, which is showing a year to date gain of +23.7%. Since the Energy sector represents close to 1/3 of the value of the Toronto Stock Exchange, this has been a major driver to the increase in the overall index (ie: as noted above, with a year to date gain of 11%).
- There are several factors that are driving this gain:
  - o February through to May / June is typically the strongest period of time during the year for energy stocks. Therefore, it is typical to see the energy sector out-perform the overall index at this time.
  - o Increased tensions in Libya, Iraq and the Ukraine have all contributed to this rise as well. It is difficult to know just how much, but political unrest in oil related regions will typically result in a rise in the price of oil.
  - o The price of oil has risen only about 12% since the start of the year, so to see the oil stocks rise by 23.7% may be suggesting that the stocks have moved too far, too quickly. This may pan out to be a very speculative move in the price of oil and energy stocks.
  - o Yet, at the same time, the continued growth of the global economy (even though the rate of growth is quite slow) and the new discoveries of oil in North America is certainly contributing to some of the growth in the oil stocks.
- However, from a risk management perspective, the energy sector now has one of the larger downside risks. We measure the one year downside risk to be approximately 14%, which is double that of the overall Toronto Stock Exchange. By comparison, the downside risk for the financial sector is calculated to be approximately 6% and 4% for the real estate sector, which is less than the market overall.

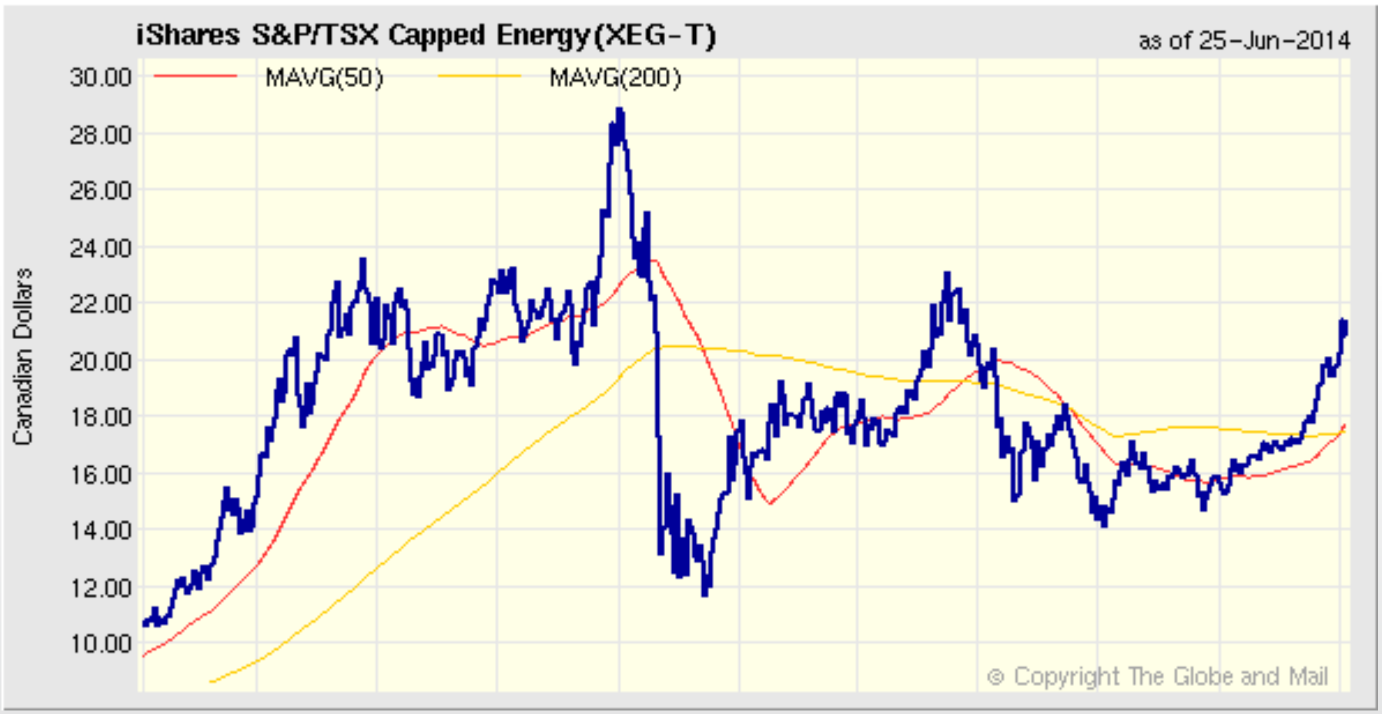
The Toronto Stock Exchange has been one of the top performing stock markets in the world so far this year, with a year to date gain of +11%.

Commentary

Commentary - continued:

- What does this mean? In our approach, we wish to either take profit pro-actively or set a stop loss in place to protect capital just in case the stock changes direction. This means that we are watching our energy positions very closely and looking for other investment opportunities that are considered to have a lower degree of downside risk.

- In the chart attached you can see the longer term returns of the energy sector stocks in Canada. You can see that since 2005 the energy sector has not been a long term producer of wealth. We saw the same pattern for much of the 1990's as well. This means to me that we need to be thankful for the returns received from the energy stocks, but to not assume that this trend will continue forever.



Commentary - continued:

Canadian Fixed Income (ie: the defensive side of the portfolio):

- The year to date gains for the defensive holdings are also very good.
- Government bonds, corporate bonds, high yielding bonds and preferred shares have all produced year to date total returns of 4% to 8% (this is the capital growth plus the distribution received). At this pace, these investments would produce annual, total returns in the 8% to 16% range. This is very significant to say the least, but is unlikely to happen.
- Last year at this time the great concern in the market was about rising interest rates. Everything that was interest sensitive declined by 10% to 20% between the end of May and August. The decline took place because "the market" was concerned that with less stimulus provided by the US Federal Reserve, interest rates were bound to increase. As the last 10 months illustrate, this has not taken place. The US Federal Reserve has reduced its stimulus efforts by half, yet interest rates have declined and interest sensitive / defensive holdings have increased in value.
- So what does all of this mean? Will interest rates continue to decline even though the stimulus efforts by central banks around the world is reduced? Does this also mean that the stimulus efforts by these same central banks was completely unnecessary? History will answer these questions soon enough.

Last year at this time the great concern in the market was about rising interest rates.

Commentary

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Commentary - continued:

Other Markets:

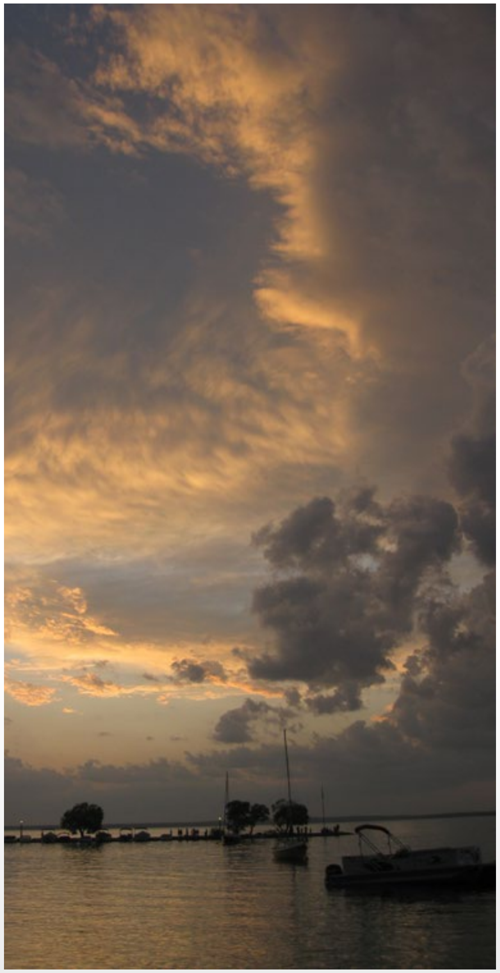
- The S&P 500 (ie: the index of the 500 largest companies in the United States) has produced a year to date return of only 5.4% and the Dow Jones Industrial Average is only +1.5%.
- Europe / Asia and the Far East (ie: symbol EFA) has a year to date return of +4.2%.
- Brazil, Russia, India & China (ie: symbol CBQ) has a year to date return of 1.5%.
- Gold, interestingly enough, is +9.4%.
- The Canadian Dollar has declined in value by 2.4% over the past year and has declined by 1.1% since January.

Summary:

- In 2013 the best place to be was the US market. This is not necessarily the case for 2014, just yet.
- This emphasizes the importance of having a well-diversified portfolio. The defensive holdings will protect us well if the growth component drops in value in the coming weeks or months. The defensive component can also contribute to the growth of the portfolio, even during times when the economy is growing at a moderate pace.
- This also emphasizes how "the market" can be wrong. At times the market will push certain investments much lower than they should be, such as what we have seen with interest sensitive / defensive investments over the past year. But it is also important to remember that the market will also push certain investments much higher than the should be. Is this the case with energy stocks today? Maybe.

Our Approach:

- Our plan going forward remains the same.
- We are happy to participate in the rising value of investments, but as the level of risk on this investment increases, we will proactively choose to protect capital by either selling the investment or by placing a stop-loss order to sell a security at a specified price in order to protect capital or to minimize losses.
- We continue to have a bias towards under-valued, dividend oriented stocks as we believe that the markets are at risk of a moderate correction this summer.



NFC Tactical Asset Allocation Pool

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Current Values:

- Over the past three months the rate of return of the pool has been just under 1% per month.
- Since inception, based on actual cash flows into and out of the pool, the return is +12.33%. If the pool continued to grow at this same pace, the 1 year return would be approximately 14.5%. The 12 month anniversary date is August 30th, 2014.
- Asset Mix: The current asset mix of the pool is 50% defensive and 50% growth, with a yield of 3.3%.
- Geographic Mix: Today the pool has 23% invested outside of Canada, most of which is in the US.
- Sector Mix: Financials: 20%. Real Estate: 13%. Utilities & Pipeline: 9%. Consumer Staples: 9%. Energy: 8%. Materials: 6%. Telecommunications: 6%. Transportation: 5%. Information Technology: 5%. Industrials: 4%. Health Care: 4%. Other: 11%.
- Between April 1 and June 20th, 2014, 17 securities were sold out of the pool. 15 of these securities were sold because their stop loss level was breached while 2 of these securities were sold pro-actively. 13 of the 17 securities were sold at an average gain of 15%. 4 of these securities were sold at an average loss of 17.2%. A loss of 15% is typically our threshold to take action on a security.

If the pool continued to grow at this same pace, the 1 year return would be approximately 14.5%

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- Between April 1 and June 20th, 2014, 25 new securities were bought in the pool. Today 2/3 of these securities have positive returns.
- I am very pleased with the performance of the pool. The returns have been very good with below average levels of risk.
- At this time we continue to have a number of stop loss levels in place to protect capital while we look for other securities with strong upside potential.
- Should you have any questions or concerns about the NFC Tactical Pool, please let me know.

Between April 1 and June 20th, 2014, 25 new securities were bought in the pool. Today 2/3 of these securities have positive returns.

Lower Fee Portfolios, With Lower Levels of Risk, Produce Great Results Over Time

The ideal outcome of every retirement plan is to have a secure, tax-efficient income with a low risk, low fee portfolio. As a matter of fact, minimizing investment management fees in a retirement portfolio can add hundreds of thousands of dollars of additional income and wealth through the retirement years, often with less risk. In this article I will demonstrate how and why one of the best and most simple strategies for investment success is simply to reduce costs and take less risk.

To begin, it is important to recognize that different types of portfolios have different types of risk. Risk can most often be measured by something called Standard Deviation.

To illustrate this reality we turn to the Morningstar Paltrak software and create 7 sample portfolios, each with a different asset mix. See the table below for the outcome:

Defense	Growth	SD	Return
100%	0%	4.40%	6.20%
80%	20%	4.80%	6.60%
65%	35%	6.20%	6.90%
50%	50%	8.10%	7.20%
35%	65%	10.10%	7.50%
20%	80%	12.30%	7.80%
0%	100%	15.30%	8.30%

Disclosure: Each portfolio is a combination of the Government of Canada Total Return Bond Index (Defense) and the Toronto Stock Exchange Total Return Index (Growth). The most conservative portfolio is the one that has 100% Bonds (ie: 100% Defense). The next portfolio is 80% bonds and 20% stocks. The next portfolio is 65% bonds and 35% stocks and so on from there. Each portfolio is thus a higher risk portfolio as we move from the top to the bottom of the table. The last portfolio is 100% stocks (ie: 100% growth), which is the most risky and volatile of all the portfolios. The next two columns show the average annualized standard deviation (SD) and investment return (Return) for the 20 years ending December 31, 2013. The standard deviation is used to illustrate the degree of volatility and risk in the portfolio.

Education

Education - continued:

The table shows us that to achieve a higher return, considerably greater volatility needs to be adopted by the client portfolio. Remember that these are rolling annual figures over a 20 year period so they present a very good indication of year over year volatility in a portfolio.

Looking at a specific example, the difference in return and volatility for a portfolio that is 65% defense vs. 65% growth is as follows:

	Average Annual Return	Standard Deviation
65% Defense - 35% Growth	6.9%	6.2
35% Defense - 65% Growth	7.5%	10.10
Difference	0.7%	4.8
Percent Difference	10% higher return	77% higher volatility

The difference between a 7.5% return and a 6.9% return is a very big deal because to create this higher return the degree of risk will need to be increased by a whopping 77%! To increase the return each year by just 10%, we need to increase the degree of volatility by 77%. Using the data of the past 20 years (1994 – 2014) we can see that the relationship between risk and return is not a smooth or consistent relationship. Instead we see that the degree of risk increases quite considerably to create just a small amount of additional return.

I mention these points because it is our view that much more can be accomplished over time with a lower risk, lower cost portfolio. Specifically, the fee structure created by our new venture (Nelson Portfolio Management Corp.) plays a very significant role in reducing long term costs, increasing wealth and generating significantly more income over time.

1. Our fee structure is based on charging specific dollar fees for specific services.
2. Our fees, as a percent of the portfolio value, decline over time.
3. If you wish to pay these fees personally, rather than from the portfolio, you may do so.

Education - continued:

What's the impact of this type of fee schedule? Let's take a look at the outcome and compare it to two other portfolios.

	Value at 65	Total Withdrawals	Value at 85
2.5% MER Portfolio (A)	$1,098,000	$1,109,000	$410,000
1.5% MER Portfolio	$1,232,600	$1,523,100	$630,800
Nelson Portfolio with all fees paid in portfolio.	$1,308,850	$1,710,000	$744,300
Nelson Portfolio when client pays flat fees by cheque (D)	$1,489,300	$2,054,000	$947,900
Portfolio D - Portfolio A: Difference in Imbedded Fees in Dollars	$391,300	$945,000	$537,900
Difference in Percent	35% More Money at 65.	85% More Income in Retirement	130% More Capital in the Estate

This scenario begins at age 40 with an initial investment of $250,000. Each year $10,000 (indexed at 1% each year) is invested to age 65. The Value at 65 illustrates the total estimated market value of the portfolio at that time based on each different fee structure. The minimum RRIF withdrawal calculation is applied to this scenario between age 65 and 85. The total of each year's minimum RRIF withdrawal, for 20 years, is the Total Withdrawal's figure shown above. The Value at 85 is the estimated remaining value at that time. The gross investment return is 6% before fees and the total time period is 45 years.

In the table above we see some very, very significant differences. For the Nelson client who i) benefited from our declining fee structure, ii) a fee structure that was based on specific dollar fees charged for specific services (rather than a percent on assets) and iii) had the opportunity to pay for these dollar fees out of their bank account rather than having these fees deducted from their portfolio the outcome was significant:

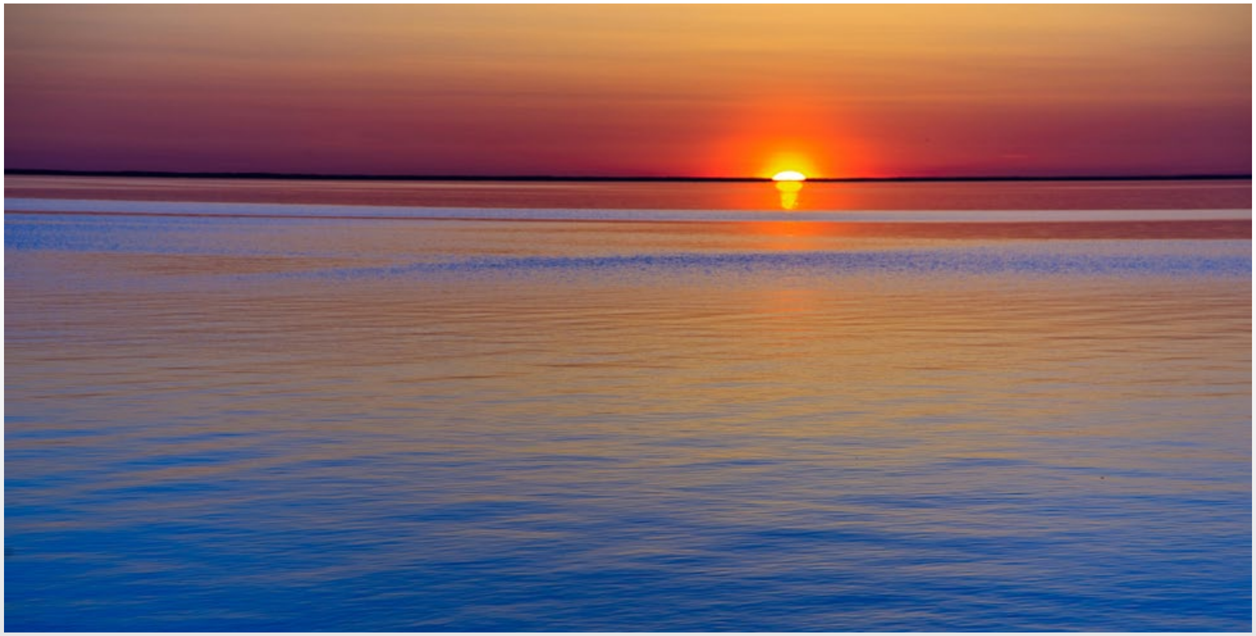
- Approximately 35% more money at age 65.
- Approximately 85% more income received in retirement.
- Approximately 130% more capital remaining at age 85.

Education - continued:

What do we learn from this?

In our view, we learn that "the environment unto which you manage your portfolio is often significantly more important than the return on the portfolio". Simply put, if your portfolio could have the type of head-start illustrated above, by having an efficient and declining fee structure, then you can take less risk in your portfolio, which results in more consistent returns year over year.

Remember, the ideal goal is to have a safe, tax-efficient income from a low risk, low fee portfolio in retirement. When you create this outcome, the results in retirement are that much more predictable, which in turn, may result in potentially many hundreds of thousands of additional income and wealth in retirement.



About Us

NELSON
FINANCIAL CONSULTANTS

We are an integrated financial services boutique that provides customized financial planning, portfolio management and insurance services. Even though we have three distinct entities, our services are designed to be seamless to you.

NELSON
FINANCIAL PLANNING CORP.

- Fee for Service, Custom Financial Planning & Retirement Planning Services
- The Financial Planning Monitoring Service
- 25 Point Portfolio Inspection Service

NELSON
PORTFOLIO MANAGEMENT CORP.

- Custom Portfolio Design
- Fixed and Variable Fee Schedule to Reduce Portfolio Management Fees
- The NFC Tactical Asset Allocation Pool is a core holding to increase efficiency in the portfolio management process

NELSON
INSURANCE SERVICES CORP.

- Licensed as independent insurance brokers so as to provide to you a wide selection of insurance options
- Life, disability, critical illness and long term care insurance for individuals, couples and business owners
- Individual, joint, lifetime or term certain annuities

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