BASKIN
WEALTH MANAGEMENT

January 1, 2016

The Current Situation

Some years, it is hard for investors to make money. As it turns out, 2015 was one of those years. Investors have a large and increasing menu of asset class choices. Take a look at the total returns (including dividends or interest) for some possible investment choices for last year:

- Canada S&P/TSX - 10.8%
- U.S. S&P 500 + 1.7%
- U.S. Dow Jones Industrials + 0.2%
- Emerging Markets - 15.5%
- Developed Markets (non U.S) - 5.3%
- Oil in US$ - 30.1%
- Gold in US$ - 11.9%
- U.S. High Yield Bonds - 4.6%
- Canadian Bond Index + 3.5%
- Canadian 90 Day Treasuries + 0.2%

As can be seen, there was some safety, if not great returns, to be had in bonds and in the giant U.S. stocks that dominate the S&P 500 (particularly Facebook, Amazon, Netflix and Google, known collectively as FANG). These stocks together accounted for all of the gains in the S&P 500. About 80% of the stocks in the S&P 500, or 400 out of 500, fell during the year, as did the majority of the stocks in the Dow Jones Industrial Average. Efforts to diversify into alternative assets such as commodities, foreign stock markets of either developed or emerging economies, or high yield bonds only led to deeper losses for most buyers in 2015.

At Baskin Wealth Management we made some strategic decisions going into the year. We decided to eliminate energy stocks from all of our client portfolios, and we opted to maintain a zero-weight position in gold and other precious metals. We also eliminated all holdings of base metals. More importantly, starting in 2012 we systematically increased our portfolio weighting in U.S. large cap stocks. By the end of last year we were at a record level for U.S. equities. This helped our clients in two ways: the U.S. stocks outperformed the Canadian ones on average, and the sharp drop in the Canadian dollar gave us some welcome currency gains.

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MARKET CONDITIONS IN THE FOURTH QUARTER OF 2015

Following a truly horrible 3rd quarter in which the TSX index fell by over 14%, the 4th quarter was something of a relief. While the TSX was down, it was only by a modest 2%. This was more than balanced by a sharp increase of 6.4% for the S&P 500. The most important moves of the quarter were in oil and the Canadian dollar. Oil fell by 18% in the quarter, following its 24% drop in the previous period. For the year oil lost about 40%, and for the two year period, about 60%. This had a predictable impact on the smaller oil producers and explorers, and on the oil field service companies. Many of these firms are ripe for insolvency or takeover by better financed firms in Canada or more likely, the U.S. The Canadian dollar ended at a multi-year low, having lost 3.7% in the quarter and a shocking 17% on the year.

As predicted, the U.S. Federal Reserve lifted interest rates by 0.25%, its first upward move since the great recession and stock market crash of 2008. The move had little impact on longer rates in the U.S., which remain very low. With the Bank of Canada moving in the opposite direction, the yield on the 5 year Canada bond hit a startling new low of 0.57%, which had a negative impact on both re-set rate and floating rate preferred shares.

DOW JONES 17,425

Past quarter:	+	1,140	+	7.0%
Year over Year:	-	398	-	2.2%

NASDAQ COMPOSITE 5,007

Past quarter	+	387	+	8.4%
Year over year	+	271	+	5.7%

S&P 500 INDEX 2,044

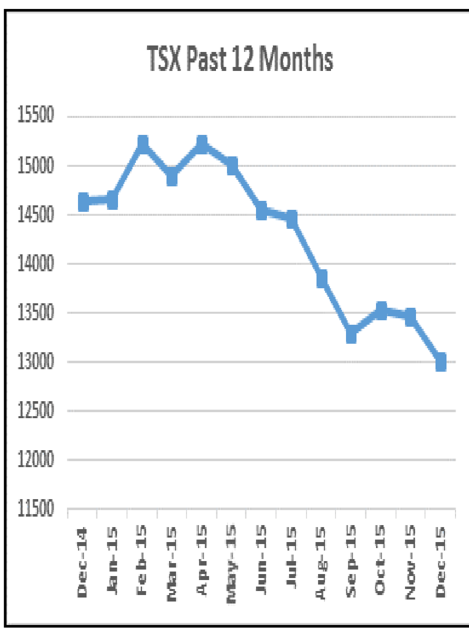
Past quarter	+	124	+	6.5%
Year over Year	-	15	-	0.7%

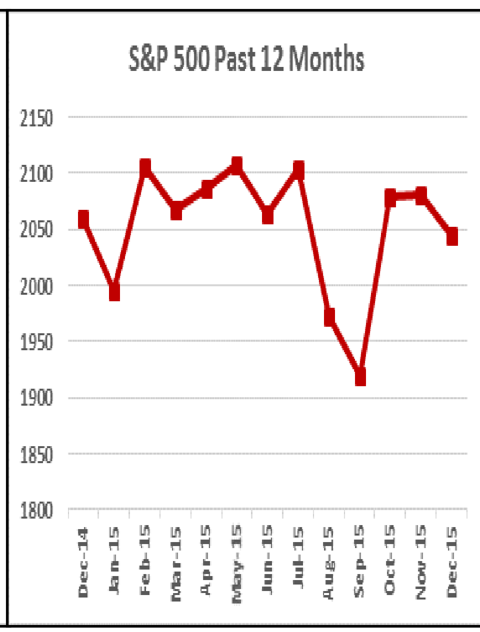
TSX COMPOSITE 13,010

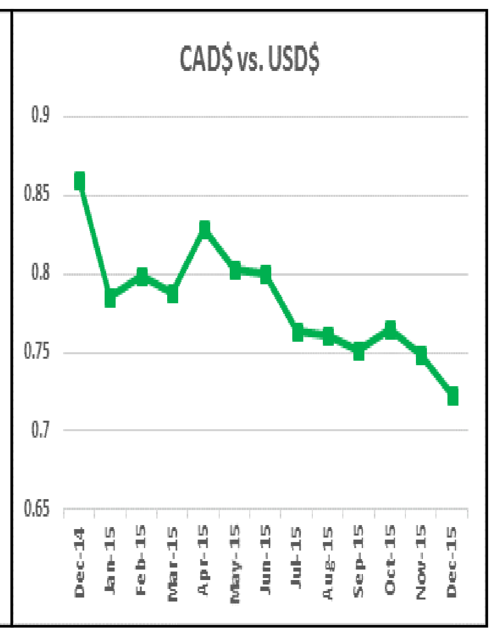
Past quarter	-	297	-	2.2%
Year over Year:	-	1,622	-	11.1%

CANADIAN DOLLAR $.723 U.S.

- 3.8% For the Past 3 Months
- 16.0% Year to Date







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A particular problem we experienced in 2015 was in the preferred share market. The record low level of interest rates in Canada put tremendous pressure on preferred shares that will re-set their dividend rates in the next few years, and also affected floating-rate preferred issues. With the 5 year Government of Canada bond closing the year at less than 0.7%, investors are concerned that the future yield on these instruments will be lower than they had originally expected. Tax-loss related selling at year-end and illiquid markets for some of these instruments exacerbated the problem.

One statistic that we measure regularly is "downside capture". Simply, when the market declines (say 10%) how much do our clients' portfolios decline? A downside capture ratio of 100% would mean that our clients did exactly as poorly as the market. A ratio of 200% would mean they did twice as badly as the market; and a ratio of 50% would mean that they only suffered half of the market decline. When looking at your portfolio's return for the year, we suggest you compare its performance (which may include management fees paid) to that of the various asset classes shown above. You will likely find that your downside capture was considerably less than 100% for the year. If you enjoyed a positive return, your downside capture was less than zero.

We tell our clients, at the start of our relationship, that our emphasis on protection of capital means that they may lag behind the markets in terrific years, but that in poor years, they should enjoy better than market returns. We are gratified that this is exactly what happened in the difficult conditions of 2015, depending in each individual case on the timing of your initial investment with us, and the make-up of your portfolio.

Those who saw, read or viewed our Outlook 2016 presentation should not be surprised that the world is in a low-growth period. We outlined the reasons why we think the major world economies will grow slowly for the next few years, why commodity prices will be slow to recover and why corporate profits will also show sluggish progress. In other words, the things that seem to have alarmed investors in the last few weeks should not have been news to our clients. We don't know what will happen to markets in 2016, and neither does anyone else. Our job, as managers, is to protect our clients' capital by taking a long term view based on fundamental value. We are gratified that this worked in a difficult year for 2015. In spite of a shaky start to 2016, we hope that our clients will enjoy a profitable and happy New Year.

RRSP UPDATE FOR 2016

Income tax rates will be higher in 2016 and subsequent years for high income earners, topping out at about 53.5% for Ontario residents in the highest bracket. This increases the value of an RRSP contribution, and also increases the value of the deferral of tax on income earned inside the plan.

Here is an update of the RRSP limits and rules for the 2015 and 2016 tax years.

- The contribution limit for the 2015 tax year is $24,930.
- The contribution limit for the 2016 tax year is $25,370.
- Contributions cannot exceed 18% of last year's earned income. Earned income is income from employment, not from investments or pensions.
- Unused contribution room is carried forward to future years and does not expire. You can find your unused contribution amount for the 2015 tax year on your 2014 CRA income tax assessment.
- **The last date to get your cheque to us is Thursday, February 25th**. The last date for contributions is Monday, February 29th.
- **PLEASE NOTE THAT DUE TO NEW RULES IMPOSED DURING 2012, IT IS ESSENTIAL THAT YOUR CHEQUE COME FROM AN ACCOUNT OWNED BY THE CONTRIBUTOR, ALONE OR JOINTLY, AND THAT IT IS PAYABLE TO YOUR BROKER, NOT TO BASKIN FINANCIAL.**
- You can transfer securities "in kind" from a cash account. However, the transfer is a taxable disposition which will result in a capital gain or loss.
- We can transfer cash from a cash account at your request.
- The last year for contribution is the year in which you turn 71.
- The last year for contribution to a Spousal plan is the year in which your spouse turns 71.
- An RRSP may be transferred to a surviving spouse upon death, tax free.

TFSA UPDATE FOR 2016

As promised during the election campaign, the new government has reduced the annual TFSA contribution limit from $10,000 to $5,500. Here are the rules for 2016.

- The life-time cumulative contribution limit is $46,500.
- You can catch up for missed contributions, up to the cumulative limit.
- Accounts may be opened for Canadian residents who turn 18 in 2016.
- You may withdraw funds from your TFSA at any time, but you may not return them to the plan until the next calendar year
- As with RSPs, funds must be contributed directly by the account holder from an account controlled by the account holder.

Please contact your portfolio manager with any questions you may have.