QUARTERLY MARKET COMMENTARY – QUARTER ENDED DECEMBER 31, 2015

Overview

The fourth quarter of 2015 saw a strong upward push from most major equity markets around the globe bringing an end to a volatile year. And while positive returns marked the fourth quarter, the final tallies for 2015 were much lower than they have been over the previous several years. From the perspective of a Canadian investor, currency played a significant role over the past year, with the Canadian dollar declining dramatically against both the US dollar and the yen and, to a lesser extent, against the euro. In the case of the US equity market, our currency impact translated the S&P500's modest local currency return of 1.4% into a 21% return in Canadian dollars. Similarly, the MSCI EAFE (international equity) index was up 5.3% in local currency terms and 18.3% when reported in Canadian dollars. As always, there were several factors that led to this result with the primary impact coming from continued downward pressure on oil prices and the effect that this has had on the Canadian economy in general. These same factors also contributed to a very weak Canadian equity market performance. In fact, the Canadian equity market was amongst the weakest of the major developed markets around the world with a decline of 1.4% in the fourth quarter and 8.3% for the full calendar year. This marks the fifth consecutive year in which the return for the global equity market (in Canadian dollars) has exceeded the Canadian equity market.

One of the major storylines from the fourth quarter was the US Federal Reserve's decision to finally raise interest rates, an indicator of their confidence in the US economy. Even with the increase, rates remain extremely low and the focus now turns to the pace at which the Fed continues to move these rates upward. On the flipside is the Bank of Canada, which lowered interest rates twice in 2015 and, while holding off on further rate cuts for the balance of the year, discussed the possibility of a negative rate environment in the future, if necessary (though unlikely). These differing monetary policy tracks have further exacerbated the divergence between the US and Canadian dollar.

Global Equity (in local currency terms unless noted otherwise)

After generating weak returns in a difficult third quarter, the broad developed global equity market generated a strong positive return in the fourth quarter with the MSCI World index gaining 6.2% (in local currencies), lifting returns for 2015 into positive territory at 2.1%. However, the currency benefit of these non-Canadian investments far outweighed the actual return of the indices themselves. From the perspective of a Canadian investor, the MSCI World has generated an annualized return of 20% per annum over the past four years. Both the US and international equity markets contributed to the overall rebound for the global market with many of the same sectors leading in the fourth quarter, and for the full year (Health Care, Information Technology, Consumer Staples and Consumer Discretionary). The Energy and Materials sector (much smaller allocations in the global market) remain the largest drag on global equity market performance. Emerging markets declined 5.8% in 2015, marking the third consecutive year of disappointing returns for the developing markets relative to their developed counterparts.

Canadian Equity

The S&P/TSX Composite generated a negative return for the third consecutive quarter leading to a decline of 8.3% for the past twelve months. Surprisingly, the Energy and Materials sectors were not the largest detractors in the quarter as is often the case, and, in fact, the Materials sectors was up 3.8% in the quarter, driven by forest products and packaging companies. However, these two sectors did represent the largest decliners in the year, with Energy and Materials declining 22.9% and 21% respectively in 2015. As in the third quarter, the Health Care sector declined largely due to a single stock (Valeant) and was the largest detractor, down 36.9%. The Financials component of the index continues to grow (now at almost 39%) and was a positive contributor (up 1.7%).

Fixed Income

Weakness in the Canadian equity market, and the negative sentiment that accompanied it, led bond markets higher in the fourth quarter with the quarterly return of 1% contributing to the full year return of 3.5% for the broad market. Government bonds (both federal and provincial) outperformed corporate bonds in 2015, with high yield bonds, particularly Energy-related bonds, the greatest detractors. The yield on 10-year Government of Canada bonds at the end of the year was 1.39%, representing very little change from the 1.45% yield at the start of the quarter, though well below the 1.79% from the start of the year. Long-term bonds were the strongest segment of the bond market with a return of 1.6% in the fourth quarter and 3.8% for the full year with short-term bonds lagging with returns of 0.5% and 2.6% respectively over those periods. Global bonds (in Canadian dollars) had another strong quarter gaining 2.4%.

January 13, 2016

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Bull Capital Management Inc. - Research Report

Capital Market Performance for the Period Ending December 31, 2015

Benchmark Index	Asset Class	Quarter	Year to Date	One Year	Three Year	Five Year	Ten Year
MSCI World (C$)	**Global Equity**	9.41	18.26	18.26	22.39	14.94	6.82
MSCI ACWI (C$)	**Global Equity (incl. Emerging Markets)**	8.92	16.48	16.48	20.21	13.34	6.60
S&P500 (C$)	**US Equity**	11.01	20.95	20.95	28.52	20.26	9.19
MSCI EAFE (C$)	**International Equity**	8.59	18.33	18.33	17.23	10.68	4.84
MSCI EM (C$)	**Emerging Markets**	4.39	1.50	1.50	4.08	1.69	5.43
S&P/TSX Composite	**Canadian Equity**	-1.40	-8.32	-8.32	4.63	2.31	4.38
S&P/TSX Small Cap	**Canadian Small Cap**	1.11	-13.33	-13.33	-3.07	-5.74	0.02
FTSE TMX Corporate Bond	**Canadian Corporate Fixed Income**	0.63	2.71	2.71	3.66	5.07	5.46
FTSE TMX Universe Bond	**Canadian Fixed Income**	0.97	3.52	3.52	3.62	4.80	5.02
FTSE TMX 91 Day T-bill	**Canadian Cash**	0.08	0.64	0.64	0.85	0.91	1.74

Source: FTSE TMX Bond, MSCI Barra, S&P Dow Jones Indices