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Markets have given investors a bumpy and frustrating ride thus far in 2015. The TSX Composite and S&P 500 indexes are both essentially flat through the first six months of the year, although that statistic camouflages a fair degree of volatility during the period. At their highs, the indexes increased by 5.6% (TSX) and 3.4% (S&P500), but handed back all of those gains.

Equity returns have also varied considerably by sector in 2015. Health care, consumer products and information technology have been strong performers, while the materials, utilities and energy sectors have declined significantly.

We have written much in the past about the difficulties of investing in commodity-oriented businesses. History continues to repeat itself on this front as prices for oil, gold and other metals continue to plunge as demand in China weakens and the market braces for Iranian oil to come on stream later in the year. It is hard to say when the pain for commodity investors will abate given the multitude of factors impacting demand and supply for various commodities and the resulting lack of predictability in pricing.

Canada's GDP contracted slightly in Q1 as result of the drop in oil prices and the resulting impact on activity in Western Canada. Fearing we could fall into a mini recession, the Bank of Canada cut its overnight rate on July 15. It is not clear whether the drop in rates will stimulate the economy, but it certainly won't cool the overheated housing market in many parts of the country nor will it support the Canadian dollar, which has dropped to levels not seen for 10 years.

Perhaps the biggest news of the quarter was the ongoing saga in Greece. While North American companies and financial institutions generally have limited exposure to the situation in Greece at this point, the possibility of a Greek exit from the Euro has created uncertainty for the currency, the European banking sector and the future of the European Union as a whole.

Despite all this turmoil, our equity portfolios have generally performed well on a year-to-date basis compared to the major indexes. We are of the view that the recent pullback in most global stock markets is positive as it has instilled a degree of caution amongst investors and will hopefully allow for a period of more favorable fundamental valuations going forward.

Moving on to our income portfolios, we have seen a rotation out of income oriented equities in the last several months. The Canadian financial sector, for example, has declined 5.4% year-to-date after consistent returns in the last few years. Bond yields have also been particularly choppy in 2015 with U.S. 10 year treasury yields sinking to a low of approximately 1.7% at the start of the year before reaching highs in June of about 2.5%. In Canada, 10 year government bond yields have followed a similar pattern, dipping down to 1.1% in March 2015 before climbing to a high of 1.9% in June. These changes in yields translate into an unusually high level of volatility for assets the industry describes as "risk free".

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In light of all of these conditions, we have reviewed all of the positions in our portfolios. We remain convinced of our bottom-up approach to both the equity and fixed income markets and are comfortable with the resilience of the operating results of our various businesses. We do remain cautious, however, and may look to take profits in a few long held positions that have appreciated significantly.

We value your continued support and please feel free to call us should you have any questions.

Yours truly,

John Fisher

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