DYNAMIC ADVISOR • WINTER 2017 • EXPERT ADVICE TO HELP BUILD YOUR BUSINESS

ADVISOR

MENTORING SUCCESS:
DEVELOPING THE ADVISORS OF TOMORROW

Clay Gillespie, Financial Advisor and Managing Director at Rogers Group Financial with Dave MacIver, Vice President, Business Development, Dynamic Funds and Brett Simpson, Financial Advisor and Chairman at Rogers Group Financial

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Invest with advice.

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If you have questions or comments about anything you've read in *Dynamic Advisor*, please contact us at magazine@dynamic.ca

Follow us on our corporate LinkedIn page to keep up to date with all the news, events and initiatives at Dynamic.

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FIRST-OF-ITS-KIND

I'm excited to tell you that Dynamic iShares Active ETFs have launched, bringing together Dynamic's active management investment philosophy with iShares' market knowledge and technical capabilities to create a unique, first-of-its-kind investment opportunity.

The growing need for investments with trading flexibility, simpler administration and competitive pricing played an important role in our decision to reinvent the exchange-traded fund with Dynamic's Legitimately Active Management™ and one of the world's most respected ETF providers – iShares by BlackRock.

There are five Dynamic iShares to choose from, and as the industry and your needs evolve, we will continue to look at different types of investment vehicles and wrappers that allow you to take advantage of Dynamic's Legitimately Active Management™ in innovative products that set new standards for the industry.

Articling advisors

Speaking of innovative, it's a word often used to describe Vancouver-based Rogers Group Financial, the subject of our cover story starting on page 16. The Group has a well-earned reputation for excellence in everything it does, but its in-house mentoring process for new advisors really sets it apart. The process – based on the legal community's articling program – has consistently produced highly credentialed, highly professional advisors.

Veteran investor and portfolio manager David Fingold is profiled in *Meet the Manager*. David builds high active share, concentrated portfolios consisting of great businesses and is one of the many Dynamic managers bringing their active management investment philosophy to Dynamic iShares Active ETFs. You can find out more about his philosophy, approach and process starting on page 10.

You don't want to miss Myles Zyblock's fascinating article documenting the foundational shifts we're witnessing in the macro landscape. Whether it was Brexit, Trump or the fall of the Italian government, a significant portion of the developed world's population is tired of the old ways of doing things. That may lead to a wide dispersion in investment outcomes in the years to come, which is the focus of Myles' piece on page 14.

Natural resources repeat?

The natural resources sector produced eye-catching returns in 2017, and we asked Dynamic energy and precious metals investors Jennifer Stevenson and Robert Cohen to weigh in on the chances of a repeat. Their insights can be found on page 20.

Dynamic's tax expert Evelyn Jacks is with us again just in time for RRSP season. She takes us through a little-known but sweeping change to tax compliance rules for homeowners ushered in by Finance Canada last fall. The change impacts all homeowners and may be of value to you as you meet with clients in the coming weeks.

Mark Brisley
Managing Director and
Head of Dynamic Funds

Trailing commissions

The early-January request for comment on the potential banning of trailing commissions is the latest regulatory development facing the advice business. We provide you with our perspectives on this and broader regulatory issues on page 23.

Finally, sweeping regulatory change, market uncertainty and a shifting dealer landscape made for a difficult 2016 and 2017 is shaping up to be no different. Amid the challenges, Dynamic will continue to support you, your practices and the value of advice just as we have since our founding 60 years ago.

Sincerely,

Mark Brisley
Managing Director and Head of Dynamic Funds

To find out more about Dynamic iShares Active ETFs, go to **dynamic.ca/ActiveETF** or talk to your Dynamic Funds representative.

DYNAMIC OPINIONS

JANUARY 2017

Dynamic Fund's portfolio managers are committed to keeping you up to date with their view of current and future market conditions and the **ONE** thing that they look forward to in 2017.

CORE

Dana Love, MSc, CFA
Vice President and Portfolio Manager

Seeking international opportunities

The 'Great Reflation Rotation' that has occurred following the U.S. election victory by Donald Trump has pushed many developed equity markets higher. On a relative basis, international equity markets continue to offer compelling opportunities to identify world-class businesses that are trading at attractive valuations when compared to their North American peers. As always, we continue to take advantage of these prospects by purchasing an ownership interest in companies on behalf of our investors when the market price differs from a reasonable estimate of long-term intrinsic value and offers an adequate margin of safety.

Vishal Patel, B.Comm. (Hons.), CFA
Portfolio Manager

Less focus on macro

2016 was a year with significant emphasis on macro events. Brexit, the U.S. presidential election, oil prices, OPEC, inflation, deflation and negative bond yields were all amongst the significant headlines of the year. What I'm looking forward to most in 2017 is more of an emphasis on bottom-up fundamentals of individual businesses, and finding long-term opportunities for our unitholders.

Amy Glading, MBA, CFA
Portfolio Manager

The first 100 days

As the chaos of 2016's election cycle fades and we move onto the business of governing, I'm looking forward to seeing the first 100 days of President-elect Trump's administration and what his priorities and focus will be. Markets have already 'baked in' some of the speculation about the incoming administration's policies including trade, financial regulation and infrastructure spending, and as we move into 2017, we look forward to seeing further policy details and what is able to be implemented quickly.

SPECIALTY

Robert Cohen, BASc. (Min. Process Eng.), MBA, CFA
Vice President and Portfolio Manager

Inflation on the horizon

Not that we should be looking forward to it, but it's good for gold – inflation. Globally, I believe we will see a continued strain on fiscal spending, which in turn will spur monetary reflation. U.S. trade protection, if it emerges as a theme under Trump, will likely support a revised change upwards in inflation expectations. Whilst the FED may be hiking rates somewhat during 2017, inflation could very well outpace that, setting up the environment for negative real rates, one of the main drivers for the gold price.

EQUITY INCOME

Oscar Belaiche, HBA, FICB, CFA
Senior Vice President and Portfolio Manager

Encouraging signs

As we look forward to 2017, the election of Trump has certainly re-awakened the animal spirits of business confidence. Trump has appointed senior business persons to drive a pro-business, lower tax and anti-regulatory environment, which is a pleasant change from the regulatory-driven and anti-business sentiment of the Obama years in office. Now on to execution of his agenda, and as we know, nothing goes up in a straight line, but I am encouraged by what I have seen so far.

Eric Benner, B.Comm., MFE, CFA
Vice President and Portfolio Manager

When opportunities emerge

As recently as November, the market consensus was clear: Hillary Clinton would become President, but if she somehow lost, equity markets would fall. Now, the consensus is equally clear: Donald Trump was always destined to win, and his victory will revive economic growth, inflation, and the stock market. Each time the market changes its mind, new opportunities emerge to buy fantastic businesses at attractive prices. I look forward to several more such opportunities in 2017.

John Harris, Hons. BA, ICD.D, CIM
Vice President and Portfolio Manager

Interesting moments ahead

"May you live in interesting times" is a curse, ironically wishing the recipient times of turbulence. A feared credit crisis, fueled by the energy crash, at the beginning, followed by Brexit in the middle and the election of Donald Trump near the end made 2016 especially interesting. With U.S. rates and inflation seemingly headed up and high expectations of tax cuts and fiscal stimulus, 2017 may have its share of interesting moments, and I am looking forward to the challenge.

Damian Hoang, BASc., MBA
Vice President and Portfolio Manager

Flexibility can provide an edge

Dispersion in sector performances will be an important theme in 2017. With extraordinary monetary easing from 2008 to mid-2016, a rising tide lifted all boats. Under President-elect Trump's administration, fiscal and regulatory changes, by contrast, are likely to favour some sectors at the expense of others. In that environment, investment strategies that allow more flexibility in terms of investment styles and sector exposures could provide an important edge in 2017.

Jason Gibbs, BAcc., CPA, CA, CFA
Vice President and Portfolio Manager

Focus on the dividends

Twelve-month forecasts are impossible. Most of them turn out to be dead wrong. Those who make them, hope no one actually keeps score. The one thing you can take to the bank is the quarterly dividend cheque that companies pay.

Frank Latshaw, CPA, CA, CBV, CFA
Vice President and Portfolio Manager

What we would welcome

A normalization of interest rates and inflation, along with improved business, consumer, and investor confidence, should this occur in 2017, would be welcome.

POWER

Noah Blackstein, BA, CFA
Vice President and Portfolio Manager

The rollback of numerous regulations could be bullish for many U.S. growth companies

We hold a concentrated set of names in our mutual funds, most of which are not found in the major indices. Many of the domestically focused U.S. growth companies we own are burdened by numerous regulations such as the Affordable Care Act, overtime pay legislation that will take effect in the U.S., and one of the world's highest corporate tax rates. Under a President Trump administration, we believe the potential of a rollback in these various burdens faced by U.S. companies combined with a competitive tax rate, is very bullish for a number of the companies in our portfolios.

Alexander Lane, Hons. B.Comm., CFA
Vice President and Portfolio Manager

Looking forward to an exciting 2017

We believe optimism will be a theme in 2017 as economic data, earnings and sentiment have all inflected positively and are poised to improve through at least the first half of next year. We will concede that certain areas of the market, particularly financials, may have run a little ahead of the fundamentals and areas like interest-sensitives and golds may have over-corrected. In our opinion, any early 2017 corrections in the areas of post-election leadership should be used as a buying opportunity.

Jennifer Stevenson, B.Comm., MBA
Vice President and Portfolio Manager

Inventory normalization

For 2017, I look forward to the normalization of global oil inventories, which should put a solid floor under oil prices and allow them to rise on fundamentals. An oil price outlook with less dramatic volatility (we will always have day-to-day variances) allows companies with long-term assets to plan and execute most effectively, keeping operations efficient, costs reasonable, expanding margins and providing growth. Profitability and growth do not accrue evenly across the sector, which will make stock picking rewarding.

Tom Dicker, B.Comm., (Hons), CFA
Vice President and Portfolio Manager

A defensive comeback

One thing to look forward to in 2017 is a comeback in the defensive stocks. With expectations higher on the cyclical trade, we like our predictable, stable dividend growers.

Vim Thasan, MBA, CFA
Portfolio Manager

More clarity from Trump

In 2017, I look forward to (some) clarity on which Trump will be inaugurated (pro-business or populist), and what is actually done (as compared to his bold statements and tweets). Trump has created several distortions in the market in 2016, many driven by the speculation on what Trump can and will do. With his inauguration, we hope to have more clarity, which will likely create another series of shifts in the market, as we adjust closer to a new reality.

Steven Hall, BBE, MBA, CFA
Portfolio Manager

Fear and greed

The one thing I am most looking forward to in 2017 is something that returns year after year to the financial markets with regular consistency – fear and greed. Like a pendulum, these two primal emotions can swing particularly wide in the consumer sector as even the best run companies can fall temporarily out of favour with investors. You can expect us to take advantage of Mr. Market's mood swings in 2017 by adding to our favourite names when they become reasonably priced.

Yassen Dimitrov, MBA, CFA
Portfolio Manager

Rotation reversal

The sharp post-election rotation in U.S. interest-rate-sensitive financials and out of U.S. financial technology companies has presented good opportunities on both sides: to realize large gains in financials and to take advantage of attractive valuations in fintech. The one thing we look forward to in 2017 is the reversal of this rotation.

FIXED INCOME

Michael McHugh, Hons. BA, MA, CFA
Vice President and Portfolio Manager

Fixed income in 2017

We expect the bond market to remain volatile in 2017 in response to unfolding global events and swings in investor sentiment. It will remain important for investors to be aware of fundamental conditions and valuations to effectively position their fixed income risk exposure. We believe many opportunities will evolve over the year for investors to reposition their exposure to enhance yield and adjust portfolio duration.

Domenic Bellissimo, MBA, CFA
Vice President and Portfolio Manager

Taking advantage of volatility

The prospect of increased fiscal stimulus within the United States should be supportive in extending the credit cycle. That said, we anticipate increased volatility relative to the past year as central banks gradually reduce stimulus globally and markets contend with the prospect of both higher yields and a higher U.S. Dollar. I believe investors should approach volatility as an opportunity to add higher quality credit exposures at cheaper valuations.

VALUE

David L. Fingold, BSc. Management
Vice President and Portfolio Manager

Bullish for 2017

We're bullish and we're fully invested. We believe that investors should be as well, but we wouldn't suggest doing so by investing in an index or with a closet indexing manager. There's plenty of opportunity in high quality cyclical companies and plenty of risk in high dividend payers. If we're wrong, we'll do what we've always done, which is we'll raise cash if we have to. But right now, we see nothing on our indicators that would cause us to be anything less than bullish.

Don Simpson, BBA, CFA
Vice President and Portfolio Manager

Don't listen to market noise

As we close out 2016, we are bombarded with research from strategists and market "experts" on how we should position our investments for the upcoming year. We look forward to surprises happening throughout the year that we are unable to predict today. Often these events can cause panic or euphoria in the investment community. This can lead to buying or selling opportunities for long-term investors who concern themselves with the fundamentals of companies and don't get caught up in market noise.

Eric Mencke, CPA, CA, CFA
Portfolio Manager

A stock picker's environment in 2017

The recent momentum in equity markets has increased intra-stock correlations, as valuations are up across almost all sectors regardless of fundamentals. With that in mind, I am looking forward to the market returning to a stock picker's environment in 2017, an environment where active managers can excel and prove their value to investors.

Cecilia Mo, MBA
Vice President and Portfolio Manager

A focus on valuation

While Canadian markets have outperformed in 2016, in 2017 I'm really looking forward to the opportunities I believe we'll see in the U.S. Valuation levels in the U.S. currently look more attractive relative to Canada, and in my view offer greater upside. Specifically, I'm seeing value opportunities in the U.S. information technology, healthcare and consumer staples sectors, which have not yet experienced the rallies seen in other sectors. This coupled with an improving U.S. growth story should provide good upside potential for investors.

Chuk Wong, BBA, MSc, CPA, CGA, CFA
Vice President and Portfolio Manager

Investment opportunities overseas

The recent move by India to demonetize its high-denomination currencies to fight "Black Money" has raised my optimism about the country's long-term economic outlook. Already the world's fastest-growing large economy, we believe India will offer tremendous investment opportunities if it can sustain its pace of economic reform such as the financial inclusion of more than 200 million farmers and the forthcoming introduction of Goods and Services Tax (GST).

Ben Zhan, MBA, CFA
Portfolio Manager

Europe's potential

European political zigzags will continue, but their impacts on stock markets have been marginal. European stocks are where strengthening business fundamentals meet cheap valuations, and supportive ECB policies make them even more attractive. For the Dynamic European Value Fund, our strong stock picks have been masked by falling currencies in 2016, but currencies tend to reverse. Like energy and commodities in 2016, unloved Europe has the best chance to surprise in 2017.

FIXED INCOME

Marc-André Gaudreau, CPA, CGA, CFA
Vice President and Portfolio Manager

Fiscal vs. monetary policy

With a Republican sweep in the U.S. elections, I am looking forward to supportive fiscal policy, especially on corporate taxes, overtaking monetary policy, which might help extend the business cycle as we move forward. With corporate balance sheets stretched, a favourable environment is needed to support business activity. Markets likely got ahead of themselves towards the end of 2016, so we remain cautiously optimistic about 2017 as potential favourable policies may take some time to translate into stronger economic activity.

Roger Rouleau, B.Comm., CFA
Portfolio Manager

From headwind to tailwind

Since the surprise rate cut of January 2015, the Canadian preferred share market has faced the terrible headwind of falling rates. In 2017, I'm looking forward to seeing the asset class perform with the tailwind of rising rates. This asset class is one of the few in the fixed income universe that actually benefits from rising rates.

PORTFOLIO SOLUTIONS

Jason Agaby, CFA, CIM, FCSI, CFP®
Vice President and Portfolio Manager

Rock-paper-scissors

Whether from geopolitical, industry or market perspectives, the cynic in me worries about the uncertainties, and the certainties, facing us in 2017. My optimist alter ego, however, correctly points to an improving global economic backdrop. I believe that both myself and I are right! I worry that 2017 will have its fair share of surprises. I hope that it will still be generally rewarding for investors. And I look forward to sound analysis and careful selection to trump speculation and emotions.

FIXED INCOME

Christine Horoyski, CFA, MBA, CPA, CA
Vice President and Portfolio Manager

Reality meets expectations

The year 2016 ended with a great deal of optimism around the new Administration's plans to stimulate the U.S. economy through deregulation, tax cuts and fiscal spending. Bonds experienced a vicious selloff due to this sentiment shift, and investor confidence in bonds was shaken. As reality meets expectations in 2017, opportunities in bond markets will emerge, and will be capitalized on by nimble investors with the skills, experience and confidence to take the non-consensus view. I look forward to these opportunities in 2017.

Gary Lew, CFA, MBA
Portfolio Manager

Volatility creates opportunities

We invest in companies that create long-term value for bond holders by focusing on improving their core skill set. The companies that are creating the biggest gaps between themselves and their competitors in terms of productivity, service levels or technology will do well in the long run regardless of whether their sector is in favour or not. Volatility creates opportunities when the market sells off and makes no distinction between good and bad companies. I look forward to the opportunities that volatility will bring in 2017.

For more opinions from our portfolio managers, watch their videos on the Dynamic Advisor site **advisor.dynamic.ca** or visit **dynamic.ca/opinions**

TIME-TESTED
Q&A WITH DAVID L. FINGOLD

From the U.K.'s Brexit decision to negative interest rates and Donald Trump's election victory, there was no shortage of market-moving events this year.

That led to periods of high volatility in global markets and 2017 could bring more of the same as Trump settles in the White House, the Fed contemplates rate hikes and populist movements gain ground around the world. Against this backdrop, we sat down with respected global investor and Portfolio Manager **David Fingold** who has managed through a variety of market cycles – booms and busts – over the past 25 years. We asked him how he views the current investment landscape, how he decides what to hold and what to trade and whether the contrarian label fits his style.

Q: How does the world look to you?

David: The world's really changed and it's presenting some exciting opportunities for those who are selective, active investors. The prospect of higher U.S. interest rates, the apparent end of globalization and the potential break-up of the European Union are all positives in my eyes. Another big positive is the U.S. election outcome. You now have a Republican majority in Congress and a Republican president, which points to tax reform and deregulation south of the border. The U.S. represents more than 60% of global markets, so if it's the only place we see change, it will be more than half the world's market float. There's no other way to interpret that than positively.

Q: What about the investing climate?

David: It's also changing for the better. For the past several years, we've been in an environment where indexing is rewarded. I don't really care for a rising tide that lifts all boats. I prefer to see individual companies rewarded and I think we're headed in that direction.


David L. Fingold

Q: Will you alter or adjust your investment approach to take advantage of this unfolding new order?

David: My approach to investing never changes. We invest in high-quality companies with good prospects that have the potential to perform throughout the market cycle in a range of conditions. More specifically, we're investing in companies that, relative to their peers, have better balance sheets, have superior profitability and more consistent profitability. Every time I pick a company, I'm thinking about their prospects three to five years from now and if we can make an attractive enough return to commit our capital with a level of risk that's tolerable. When we do experience periods of short-term underperformance, we do not react by changing strategy. We intentionally avoid building portfolios that only do well when tides are rising. Rather, we focus on constructing rigorously researched, concentrated portfolios that give us a chance to deliver strong returns in a variety of market environments.

Q: There are 20 companies in Dynamic Global Discovery Fund; 10 of them have been held for more than five years, five of them for more than seven years, and some are going to become greater than five-year holdings as we move through the next 12 months. How do you determine what's a trade and what's a buy and hold?

David: I'll use two examples – one a buy and hold and the other a trade – to answer the question. One of our largest holdings, Frutarom, is a company that produces natural food flavours. We acquired the stock in 2006, and it's performed well. There is some cyclicality to the consumption of natural food flavours; the company does trade down when there's a recession, but it's a business that can be a buy and hold because it can weather just about any market condition. Then there are trades. A trade can be something you're buying for two to seven years. For instance, we entered the defense industry 18 months ago. Last year was the first year defense spending rose in seven. So, six years down, last year was the first year up. The cycles are usually 7 to 10 years. I wouldn't be shocked if I start selling defense stocks six years from now. That's what I consider a trade.

Q: Does the macro view ever come into play?

David: I pick stocks bottom-up but I worry top-down. So, if I invest in a company, I want to think about the risks to it. Here's an example. I'm constructive on U.S.-based First Republic Bank, but if interest rates went negative in the States they'd have a big problem. And if that did happen, I wouldn't say, "look at the valuation, it's great." I wouldn't say, "look at how good management is." I'd say, "That's a material adverse change." So I use macro for risk management purposes only.

Q: How do you describe your investing style?

David: I am a value investor. I invest in companies that generate strong free cash flows, have good margins and are valued at a discount to my assessment of their intrinsic value. I also have to have a catalyst. The catalyst is usually that they have a cycle in their favour that people have not recognized.

I mentioned defense a moment ago – that's an industry that is only just into the first or second year of its up cycle. The up cycle is the catalyst.

Q: You've been called a contrarian. Does the label fit?

David: I love the label, but I don't think most people understand it. Most people think the contrarian thinks black is white and day is night. They think a contrarian catches falling knives and runs into burning buildings. The way you define a contrarian is not what they do but how they do it. In other words, lots of people can do things that are out of favour, but if they lose money, they're fools. You're a contrarian if you make a profit. The difference between a contrarian and a fool is that a contrarian makes a profit.

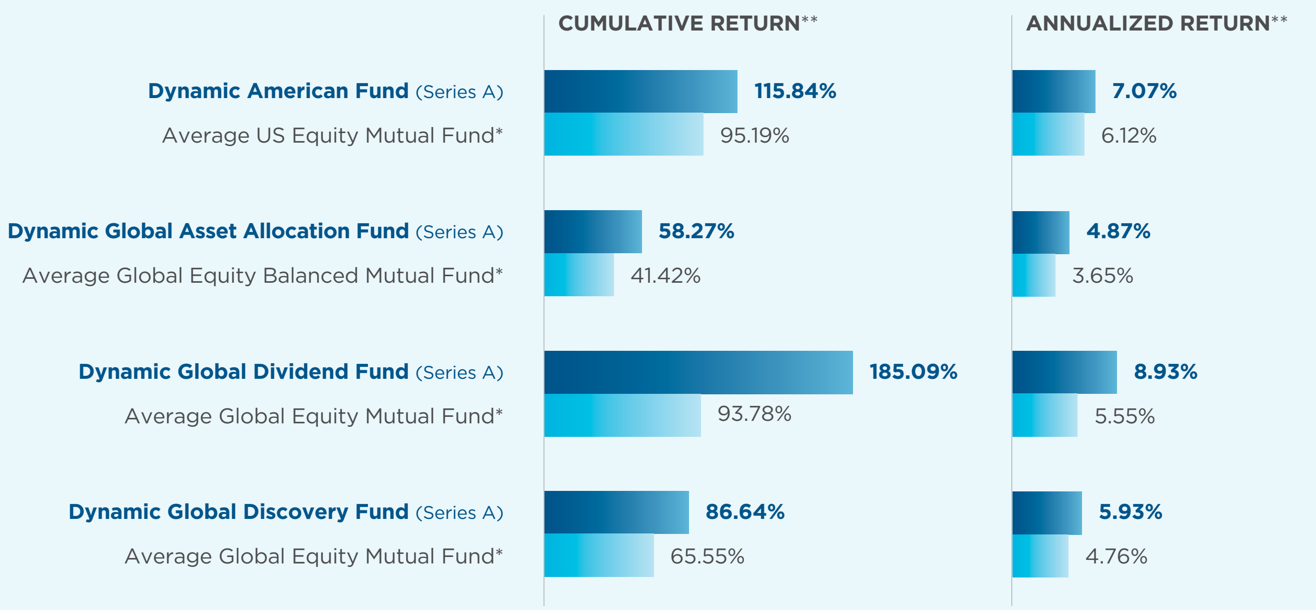
> "The difference between a contrarian and a fool is that a contrarian makes a profit."

Q: When assessing one company's prospects versus another, what do you focus on?

David: Among the many things we look at, I'd say balance sheet strength and profitability are the top two. If you buy a company that has a solid balance

EXPERIENCE MATTERS

David Fingold has been managing Dynamic Funds mandates for more than 15 years, in which time he's navigated the Iraq War, the U.S. sub-prime housing bubble and the Great Recession. Through it all, he has managed to outperform the respective category averages on a cumulative basis during his portfolio management tenure.



PERFORMANCE (as of December 31, 2016)	1 Year	3 Year	5 Year	10 Year	Since Inception (Inception Date)
Dynamic American Fund (Series A)	4.6%	11.6%	13.2%	6.2%	9.9% (Aug-79)
Average US Equity Mutual Fund*	5.9%	12.4%	16.6%	6.0%	–
Dynamic Global Asset Allocation Fund (Series A)	-0.4%	8.9%	10.3%	–	4.9% (May-07)
Average Global Equity Balanced Mutual Fund*	4.9%	6.6%	9.4%	3.8%	–
Dynamic Global Dividend Fund (Series A)	-0.8%	10.0%	12.7%	5.1%	6.8% (Mar-06)
Average Global Equity Mutual Fund*	3.3%	6.6%	9.4%	3.8%	–
Dynamic Global Discovery Fund (Series A)	-0.1%	10.2%	12.5%	5.6%	5.9% (Nov-00)
Average Global Equity Mutual Fund*	3.3%	6.6%	9.4%	3.8%	–

*The category averages include all mutual funds in the respective Morningstar category; it excludes segregated funds from its calculation.
**During manager tenure: Dynamic American Fund (Sep-05), Dynamic Global Asset Allocation Fund (May-07), Dynamic Global Dividend Fund (Mar-06), Dynamic Global Discovery Fund (Sep-04).

The indicated rates of return are the historical annual compounded total returns including changes in units value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns.

sheet and it's profitable, you can potentially make an unlimited amount of money. The only thing between you and that unlimited profit is the quality of your research and your patience. So, it makes more sense than in any other space to look for clean balance sheets in equities. If an equity is a call on the surplus cash flows of a company and it has a very clean balance sheet, you'll have a call option on surplus cash flows that's perpetual.

Q: How do you assess balance sheet quality?

David: We do credit work on all of our equity investments. That's unique in our business. I've never understood why we're among the very few (if any) people doing this, but as an equity investor, I stand to lose 100% of my investment in a company before bondholders can lose anything. When I say "balance sheet quality" I mean rigorous credit work. We have a strong bench of credit experience on our team because the credit requirements of an equity investor are radically different than those of a fixed-income investor.

Q: How so?

David: If a fixed-income manager is picking a credit, there are levels that if they're getting the right part of the capital structure, they don't care if the issuer goes bankrupt. In fact, with the right part of the capital structure, they might want an issuer to go bankrupt because then they can get all the equity on a recapitalization. Further, a fixed-income investor who is incredibly senior may not care if the equity has any value. In fact, they may see it as a positive that the company is in a position to issue stock and dilute shareholders. So, as a shareholder, my interests are diametrically opposed to those of the creditors. I think equity investors need to have a credit procedure. But it is not the credit procedure of a fixed-income investor because the equity guys are the most junior tranche of the capital structure.

Q: Do you invest in your funds?

David: It's important to understand that I do. I have no equity investments except for those in my funds. Seventy-five percent of my deferred compensation goes into my funds. There's no such thing as other people's money in the funds because my money's right there with you. So when I say I don't like corporate bonds, I'm saying it because I don't want to lose money. When I say I don't like utilities, I'm saying it because I don't want to lose money. There's no such thing as other people's money. Skin in the game matters.

David L. Fingold, BSc. Management

Vice President and Portfolio Manager

David has been a key member of Dynamic's investment team since his arrival in 2002. He is lead portfolio manager for a number of U.S. and global value funds overseeing more than $3.5 billion in assets. He has over 25 years of business, operational and investment experience including senior positions in corporate finance, sales, purchasing and marketing in the manufacturing, transportation and distribution industries. Prior to joining Dynamic, he spent seven years as part of a team actively managing equity portfolios for a privately owned merchant bank. Graduating in the top decile of his class, David earned a Bachelor of Science with High Distinction in management from Babson College in Wellesley, Massachusetts, in 1988.

Mutual Funds

Dynamic American Fund (Class)*
Dynamic Global Asset Allocation Fund (Class)
Dynamic Global Discovery Fund (Class)
Dynamic Global Dividend Fund (Class)

Private Investment Pools

Dynamic Global Equity Private Pool Class
Dynamic Global Yield Private Pool (Class)

Exchange Traded Funds

Dynamic iShares Active Global Dividend ETF
Dynamic iShares Active U.S. Dividend ETF

*Formerly Dynamic American Value Fund

To find out more about David, the Funds he manages and to sign up for his weekly blog, go to **advisor.dynamic.ca**

RUMINATING ON A REGIME SHIFT

The dominant macro regime, which can be characterized by an excessive reliance on central banks, increasing openness to trade and relentless price disinflation might now be giving way to a new and very different arrangement.

Myles Zyblock, B.A. (Hons.), M.A., CFA
Chief Investment Strategist

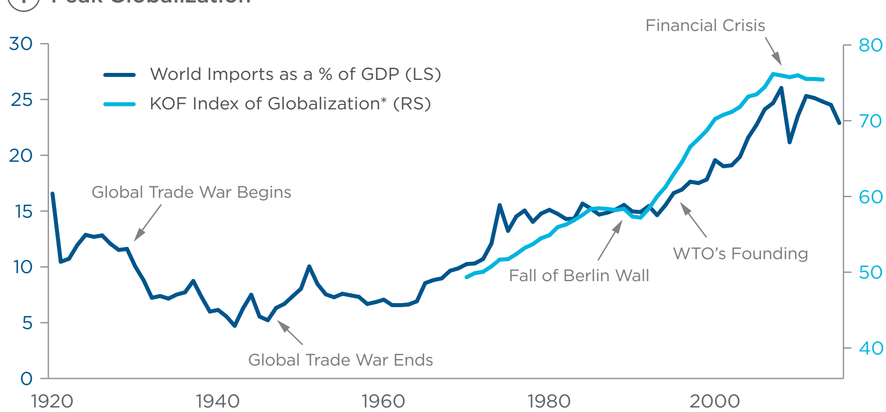
This past year might be remembered as the beginning of a foundational shift in the macro landscape. We say this not because of some grand economic improvement; in fact, global GDP growth was disappointingly slow for the fifth consecutive year coming in at 2.9% and well below the long-run average of 3.5%. The turning point could very well prove to be political, when the surprise U.K. referendum result in the summer offered the first clear and definite evidence of public dissatisfaction with existing organizational structures. The impetus for change has only gained momentum with Donald Trump's election victory and Italian Prime Minister Renzi's recent resignation in response to his defeat in a referendum on constitutional reform. A significant proportion of the population is tired of the old ways of doing things and is looking for change.

The social, economic and financial consequences from these potentially important swings are still very difficult to gauge given that most of the details remain absent. Despite a recent High Court ruling, U.K. Prime Minister May assures the public that Article 50 will be triggered in March 2017 thereby allowing Britain to leave the European Union within the following two years. Even if this represents an accurate timeline, there are no particulars to help determine what the effects might be on trade, industry, immigration or regulation. As for Donald Trump, the spirit of his agenda clearly points towards the potential for significant fiscal stimulus. He aims to lower the corporate statutory tax rate to 15% from 35%, reduce and simplify individual corporate income taxes and invest $1 trillion into infrastructure projects over the next decade. Opacity with respect to his other agenda items, like regulation, still leaves us guessing about many of the eventual distributional outcomes.

However, one thing is clear: The dominant macro regime, which can be characterized as an excessive reliance on central banks, increased openness to trade and relentless price disinflation might now be giving way to a new and very different arrangement. The powerful push to lowering global barriers to entry, such as those signified by NAFTA, the WTO and TPP might be soon branded by less cordial and more costly interactions between countries (Figure 1). With this comes the possibility of higher final selling prices and a reversal in what has been a massive multi-year rotation out of stocks and into bond and bond-like investments. It might be setting up for important shifts away from globalization's beneficiaries, such as U.S. Technology, and towards areas that have been starved of capital, like European or Asian Financials (Figure 2). Also, we might become more mindful of the prices we are paying for the assets we buy. Many stocks have risen over the past few years, not because of improving fundamentals, but because central banks around the world artificially dampened the discount rate. This is no longer the case now that the Federal Reserve is raising interest rates. Higher discount rates will probably make investors fuss more about the price they choose to pay for a dollar's worth of future corporate earnings.

While many of our thoughts are still early and speculative in nature, there can be no denying that important changes are sweeping across the developed world. And, perhaps, this only marks the beginning of the transformation. In 2017, a potential referendum on Catalonia Secession and major elections in Germany, the Netherlands and France will keep political, economic and financial market uncertainty at an elevated level. Large fundamental shifts like these are usually met by equally important behavioural changes within and across asset classes. What worked in the inflationary 1970s, like Materials and Energy stocks, was very different from what worked in the 1990s internet era, such as Technology, Media and Telecommunications stocks. In today's investment environment, we anticipate that lingering uncertainty around trade, taxation, regulation and government spending arrangements will probably lead to a wide dispersion in investment outcomes. This is already starting to surface in the stock market, where performance correlation among stocks is moderating from the peak level set a couple of years ago (Figure 3). Single-stock risk is on the radar screen. Duration risk in the bond market is making a comeback. As a result, the investing environment is becoming a friendlier and more rewarding place for the skilled active manager.

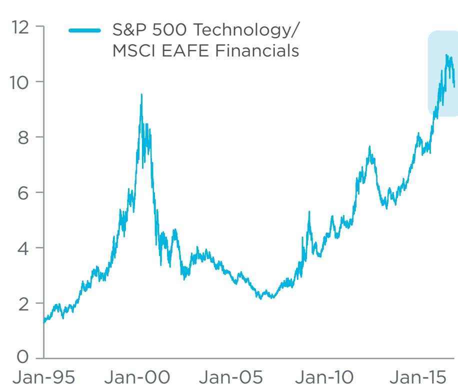
1 Peak Globalization



*US, Japan and Europe

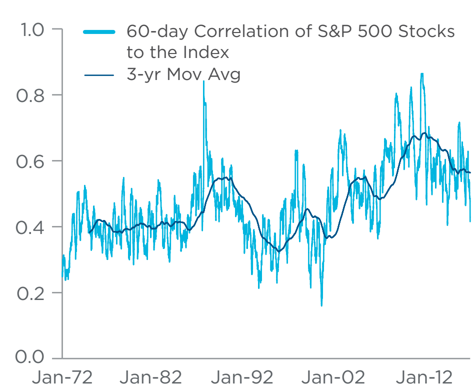
Source: Dynamic Funds, KOF, ETH Zurich, American Sociological Review February 2000

2 The start of a major shift back to value from growth?



Source: Dynamic Funds, Bloomberg

3 Peak Correlation = Greater stock-selection opportunity



Source: Ned Davis Research, Dynamic Funds

Keep up to date with Myles Zyblock's latest market views by reading his weekly Macro Musings and monthly Investment Junction reports on **advisor.dynamic.ca** or contact your Sales Representative for more details.

MENTORING SUCCESS: DEVELOPING THE ADVISORS OF TOMORROW

Brett Simpson and Clay Gillespie

It was the word "articling" that caught Ethan Astaneh's eye.

The young, recent graduate of the University of British Columbia was looking to join a financial planning firm and of the many job postings he was looking at, only one mentioned an advisor articling program.

"I was intrigued," recalls Ethan, "and the more I learned about the articling program, the more attractive the opportunity became."

That was in 2008 and the firm was Vancouver-based Rogers Group Financial, currently a 60-plus employee practice made up of 17 independent advisor businesses, serving more than 8,000 clients. Of the total number of advisors (24) spread across the businesses, nine are articling graduates – including Ethan, who completed the program in 2011. In addition to being one of Canada's largest, privately held planning firms with over $1.5 billion in assets, Rogers Group Financial is also an IIROC dealer firm (through its subsidiary Rogers Group Investment Advisors Ltd.). It may also be the country's one-and-only firm with a proven, highly standardized process for developing the advisors of tomorrow.

The roots of the articling program – based on the legal community's mentoring process – stretch back to 1992. That's when Rogers Group Financial – first established by Jim Rogers in 1973 – decided to create a program to train up-and-coming advisors to help meet the needs of a rapidly expanding client base.

A path to excellence

"We needed additional advisory personnel to help with the operational capacity of established practices," explains Brett Simpson who joined the group in 1991 as an established advisor and has mentored three graduates of the program. Brett continues to oversee his own advisory business, in addition to being the Chairman at Rogers Group Financial. According to Brett, the firm could do one of two things when it comes to training advisors in waiting: let them learn by trial and error or create a path to excellence.

"We opted for excellence," says Brett, "and the choice was easy because we wanted quality, knowledgeable personnel who could deliver the results and experience Rogers Group Financial clients deserve."

In addition to becoming a great way to train advisors, the program also paved the way for seamless, no-surprise succession planning.

"We have built our firm to survive from generation to generation and the articling program is an important component of that," says Clay Gillespie, an original articling advisor who now manages his own practice, as well as being the Managing Director of the firm.

The journey begins

The program starts, as Ethan described, with a job posting. Normally, it's for a supporting role in client services or as an administrative or marketing assistant, but the posting hints at the opportunity to apply for the advisor articling program once on the job and if there is a need.

The need would come from one of the individual advisor businesses at Rogers Group Financial. As mentioned, the firm is made up of 17 separate advisor businesses, each owning their revenue stream and the rights to their clients, with the ability to move if they desire. Rogers Group Financial Advisors Ltd. is an independent facility company in which every advisor business has an equity stake. Operational and overhead costs are shared proportionately by associated advisor businesses.

Raymond James Correspondent Services provides the custodial platform for nominee accounts, holding securities for safekeeping, while performing other services such as account administration, trading and transaction settlement.

Advisor businesses are responsible for hiring their own personnel. If a need for a new team member is identified by one of the businesses, the vetting process starts with them because each advisor business is different in terms of specialty, range of services and clientele.

"We don't have an overall human resources function that hires people and then places them with individual advisory businesses. It's better to start with the business owners to determine if the candidate is a good fit for their team and vision; someone who would naturally align with them," says Brett.

Finding a good fit

If there is a good fit, the next step is to pre-screen and test, with a third-party consultant, to ensure the candidate meets firm-wide standards.

"I know it sounds formal," says Brett, "but all of the advisors in each business represent our shared brand, and it's important for us to protect and maintain our reputation for entrepreneurial independence, a commitment to excellence and the desire to do the right thing for the client."

What does Rogers Group Financial look for in an articling candidate?

"We look for self-starters who are curious, who want to learn, who care about others and who have a relentless commitment to continuous improvement through education," says Brett. The way to identify these traits, according to Brett, is to measure for aptitude and attitude.

> "It all comes down to aptitude and attitude. You can't train people in these areas. They either have it or they don't. If they have it, we can teach the rest," says Brett.

To determine levels of aptitude and attitude, prospective articling candidates are asked to complete a range of psychological and personality tests as well as undergo emotional and intelligence quotient assessments.

Three-year program

If a suitable candidate meets the needs of the advisor business, is sponsored by its owner, and approved by the firm, then formal articling begins. In total, it's a three-year program that must be completed while the articling advisor meets the expectations of their current role at Rogers Group Financial. When it comes to the exact components of the program and sequence in which they unfold, it can vary due to each candidate's unique circumstances.

The first leg of the journey focusses on starting or completing educational requirements. That could be the Certified Financial Planner (CFP®), Certified Investment Manager (CIM) or Chartered Life Underwriter (CLU) designation, and/or insurance and investment licensing – whatever education is deemed most appropriate for the sponsoring business.

While working towards completing the educational requirements, the articling candidate will be mentored by their sponsoring advisor. The two meet every month for a minimum of 12 hours annually to discuss all facets related to the running of a financial advisory business.

"This was invaluable experience," says Ethan.

Jon Knutson agrees. He started at Rogers Group Financial in 2001 as an administrative assistant with Brett Simpson's team. He became a marketing, then financial planning assistant, and applied to the articling program in 2010. Jon graduated from the program in 2013 and found his time sitting in on different advisors' client meetings one of the most beneficial aspects of the training.

"Every advisor has their own style in terms of how they speak with clients, what they talk about, what their meeting agendas look like. You get to learn individual styles and that helps you to formulate your own," says Jon.

Individual coaching

The mentor also acts as an important coach providing accountability for hours logged in other advisor's client meetings and making note of educational progress.

John Hale, another graduate of the articling program agrees. John started at Rogers Group Financial as an administrative assistant in 2010, entered the program in the fall of 2013 and graduated in October 2016. He now works as a financial advisor alongside Clay Gillespie at his practice.

If the first year's priorities are geared toward achieving educational designations and one-on-mentoring, the second year's priority is focused on the ins and outs of business management.

"This is the part of the program where we learn what makes a business successful. So we take a range of practice management courses in areas such as marketing, communicating, time management and prospecting," says Ethan.

The courses, which could be as short as an afternoon or as long as a couple of days, are offered by a mix of third-parties, subject-matter experts and industry specialists.

One course – Counsellor Selling – is how Dynamic Funds wholesaler Dave MacIver was first introduced to Rogers Group Financial. It was in 1993 when he was asked to deliver the course to articling advisors, and five of them are now financial advisors at Rogers Group Financial, including Clay Gillespie.

"I knew the articling program was special the moment I heard about it," says Dave who visits Rogers Group Financial two to three times every quarter. On these visits, Dave may knock on the doors of two, three or even four advisor businesses. Those visits usually take the form of due diligence and he has been accompanied by a number of Dynamic portfolio managers over the years including Oscar Belaiche, David Fingold and Chuk Wong.

"The due diligence is important because Rogers Group Financial doesn't limit the product shelf and any advisor has the opportunity to add anything they want by completing their investment and operational due diligences and providing their proofs," says Brett, who often relies on Dave and his team for his product expertise.

Associate meetings

Dave has also attended "Associate Meetings" which bring together all Rogers Group Financial advisor businesses at an offsite for three days to learn, share ideas and exchange best practices on everything from investments to financial planning and business management. The rationale behind "Associate Meetings" – to discover, learn and share – is a hallmark of Rogers Group Financial, which manifests itself in a number of ways – including the articling program.

"We ask our advisors who are associates of our firm to go out in the world every year and bring back ideas so the firm can be stronger as a whole. In fact, we have a corporate requirement that people attend global financial planning and national industry conferences. We apply the same thinking to the articling program requiring advisor trainees to go out and get outside course and meeting information, as well as attend conferences. We then ask them to bring their learnings back to the firm to share with others in order to make the firm stronger as a whole," says Brett.

Ethan says that happens within the articling group on a quarterly basis. "The group gets together every three months to review items like case studies, talk about their experiences at conferences and share the knowledge that's new in nature and relates to our work," says Ethan.

With two years of education and learning under their belts, articling advisors enter the final stage of the program, which is when the rubber hits the road. Articling advisors have to put together real-life financial plans, develop investment policy statements, build portfolios and make planning decisions based on actual clients, their financial circumstances and goals.

Presentation day

The articling advisors do not, however, present their work to clients. They present to the senior financial advisors of the firm in a dry run to demonstrate their knowledge, to showcase their delivery and to illustrate that they're ready to become an advisor.

"It's a presentation of an actual case that was done under the supervision of the sponsoring advisor, but the expectation is that you do the work bringing all of what you learned together. We have to explain the circumstances, recommendations and strategies we've developed. This brings the program full circle," says Ethan.

At the end of the program, after all requirements are completed, the sponsoring advisor makes a submission to the Board of Directors recommending the articling advisor for a financial advisor role. The board, in turn, decides whether the advancement is appropriate based on the person, their expertise and the training they've completed.

"The board will then decide whether the articling advisor would be a benefit to our financial advisory contingent and the Rogers Group Financial brand," says Brett.

If there's strategic wisdom in "growing their own" advisors, there may even be more wisdom when it comes to succession.

Succession planning

"When there's an opportunity for a natural succession, there's no more perfect individual than one who already has a relationship with existing clients and knows the advisor's business inside out," says Brett.

THE GRADUATES

Since the articling program began in 1991, there have been many articling graduates. We asked some of them – along with one who just entered the program – to share their best memories and tell us what stood out.

Linson Chen
Financial Advisor
Class of 2016

"My sponsoring advisor completely supported me as I finished my CIM, my CLU and my FCSI. It was the kind of support I never imagined I'd get."

Brian McGuire
Financial Advisor
Class of 2016

"There's a lot of interconnectivity of teams working together on different cases. That's really put me on a strong growth trajectory."

Kelsey Penty
Articling Financial Advisor
Class 2019

"What really drew me to the program was the mentorship aspect and support system in place to help you with your career."

Shaun Sun
Financial Advisor
Class of 2016

"If I have a question about something or if I want to know why we do something a certain way, I just have to ask and everyone has time for me, which is amazing."

When it comes to the commercial aspects of succession, Rogers Group Financial has a comprehensive buy/sell agreement between business owners. A valuation formula is embedded within the agreement to ensure a reasonable metric to value practices.

"We have good transparency across all advisor practices so every associated owner knows what all the businesses are worth," says Brett.

Although Brett says the articling program has been a success since day one, it doesn't mean it hasn't evolved. In fact, the program has gone through several evolutions over the years. What's interesting is that the people who do most of the evolving are the ones articling. Upon graduation, all articling advisors sit down to talk about the experience and how it may be improved or modified to make sure it remains current and relevant for those who come after them.

"As one of the older mentees, I have watched the program evolve and get better each year. It makes me feel good to give back and make things better," says financial advisor Cecilia Tsang who now heads up her own team at Rogers Group Financial.

But it isn't just the next wave of articling advisors who'll benefit. Brett makes it clear that everyone benefits thanks to continuous improvement of the articling program – clients, advisors and Rogers Group Financial.

"Excellent outcomes are a win-win for everybody," says Brett.

That is called mentoring success.

Visit **advisor.dynamic.ca** > **Your Practice** for articles on growing and managing your business.

NATURAL RESOURCES: READY FOR AN ENCORE?

Is the rebound built on rock or sand?

That's the question facing a number of natural resources investors who watched the sector surge in 2016. Scotiabank's Commodity Price Index posted positive returns for the first time in six years ending 2016 24.9% higher. Some of the best performers were base metals – zinc, tin, nickel and copper – whose prices rose in the double digits, but it was energy that got most of the attention with the prices of natural gas up more than 50% and oil (West Texas Intermediate) up more than 40%. Precious metals performances were also noteworthy with the price of gold having its best first half of the year since 1980 according to the World Gold Council. Although the safe haven metal retraced some of its steps before year-end, it was still up 8.6% in USD (5.6% in CAD) at the close of December.

All of which begs the question: can the rebound continue?

"I think there's a really good, upward bias for oil," says veteran energy investor and Portfolio Manager **Jennifer Stevenson**. According to Stevenson, the stars have been aligning for higher oil prices over the past 12 to 18 months as the price of crude lost more than half its value.

"There's basically no energy business at US$26 a barrel and there's not very much of one under US$40, so when prices are that low, you know it's only a matter of time until supplies fall," says Jennifer.

With supply falling and demand rising, it was only a matter of time before the price of crude ticked upward, but in this case, it happened faster than most anticipated due to two key events. The first was a meeting among the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC oil producers last spring in Doha. The group had hoped to reach an agreement to cut production to further reduce supply, but there was no such deal. Despite the lack of an agreement, the price of oil nudged higher – staying above the US$40 a barrel mark after the talks – on the hopes of a future possible agreement.

Oil cuts

That's what happened last December in Vienna at the OPEC meeting where an agreement was signed, based on an accord reached in September in Algiers, among OPEC members to cut production. OPEC then added certain non-OPEC producers to the agreement for total cuts of 1.8 million barrels a day this year. The key success factor at this round of talks – it was the first time since the financial crisis in 2008 that oil producers were able to agree on a curb – was the leadership shown by Saudi Arabia. The oil-rich country simply couldn't wait any longer.

"If you're Saudi Arabia with the same large, young populations that have taken down neighbouring governments (Arab Spring), you're beginning to worry how much you can cutback in government salaries, electricity subsidies and water subsidies before your people think about a regime change," says Jennifer.

According to her, the Saudis are growing increasingly concerned about their finances and have burned through US$175 billion in reserves since March 2014. To further illustrate how stretched budgets are becoming, Saudi Arabia tapped international debt markets for the first time ever last October raising US$17.5 billion – the largest issuance ever by an emerging market sovereign.

"These moves tell me the Saudis were serious about achieving a production cut and are just as serious about sticking to it," she says.

That is, in itself, a significant tailwind for the price of crude. In terms of investments, the past 12 months have also provided her with plenty of opportunities to buy quality energy companies at what she considers to be great prices.

"When oil hit $26 last February and people were selling left and right, I knew it was time to buy because many of these stocks weren't going to be cheap forever. I didn't know how long I'd have to wait, but I knew it wasn't going to be forever. So I invested our cash and added to the portfolio with a quality focus," Jennifer says.

Picks and shovels

More recently, she's been adding to her oil field services holdings because she believes the next dollars of upside in the oil price will more directly flow to the picks and shovels businesses such as drillers and completions equipment and services providers.

"As cash flows increase and balance sheets repair in the oil patch, I think you'll see more companies becoming active and they call the service providers first," says Jennifer who has also added a number of small-cap oil companies in anticipation of added cash flow as the price of oil rises.

One area she's backed off of is oil futures contracts. Through the Dynamic Strategic Energy Class, Jennifer is able to apportion up to 10% of portfolio assets to the physical commodity. According to Jennifer, the time to buy physical oil was about a year ago when it was plumbing new lows. She bought January futures contracts, which she let roll over this year.

"At this stage, I think there's more upside in the stocks than in the commodity directly," she says.

That includes natural gas stocks. As mentioned, the price of natural gas outpaced the gains in oil in 2015, and Jennifer has added a number of producers to her funds as the year progressed. Aside from natural gas producers, she also owns a number of gas infrastructure companies.

Pricing anomalies

More generally, she's also starting to see pricing anomalies among a range of companies, which suits her active, non-benchmark approach to investing where Jennifer can put her research to work.

As bullish as the energy story may be at this stage, the one big fear is that higher oil prices may spark a return to the oil fields for many companies – particularly U.S. shale oil producers – once again leading to an oversupply problem. There has already been an uptick in the number of rigs being reactivated south of the border since the Doha accord and more are expected to come on stream as oil maintains recent price gains.

Jennifer says those fears are overblown as to volumes given availability of suitable projects, labour and capital.

"If in two years we are full bore back to where we were in '13 and '14, we could add a million barrels a day of oil production in the United States, but that growth rate is not maintainable plus it dramatically increases the decline rate that has to be offset.

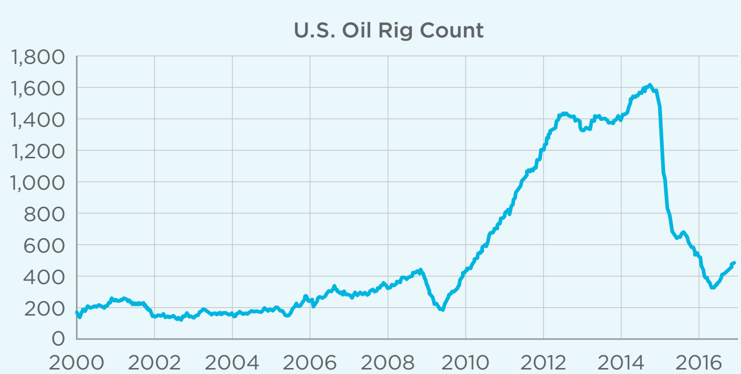
In addition, globally we are still seeing production declines and we will, in the future, feel the impact of the trillion dollars of capital that was not spent in the past 2-3 years on long-term international projects that typically take five years to develop to first oil production. When we are looking for these volumes a few years from now to feed demand and offset declines, they won't be there as that capital isn't underway, and North America can't fill that hole.

And what about Trump?

"The tone is completely different in the U.S. on the commodity side, and on the regulatory side, and that's another tailwind," says Jennifer who continues, "Trump is very supportive of the energy business, so I think there's a more constructive view for fossil fuels, be it oil or natural gas."

DOWN BUT NOT OUT

Over the last two years the focus has been on the massive plunge in rig counts south of the border back to financial crisis levels. With oil pushing past US$40 a barrel, that's brought a small number back.



Source: Baker Hughes

Jennifer Stevenson, B.Comm., MBA
Vice President and Portfolio Manager

Jennifer joined Dynamic in 2010 as a portfolio manager bringing 26 years of experience to her energy and natural resources mandates. Prior to joining Dynamic, her most recent role was Managing Director, Portfolio Management at a Calgary-based investment management company where she oversaw oil and gas investment opportunities.

Funds managed
Dynamic Energy Income Class
Dynamic Strategic Energy Class

Funds co-managed
DMP Resource Class
Dynamic Resource Fund
Dynamic Strategic Resource Class

There has been some concern lately about a border tax on U.S. imports, which could theoretically hit oil and gas, but that is difficult to see coming to fruition given Trump's support for the energy business, the fact that they import 7.6 million barrels a day of oil (about 3 from Canada) and an import tax would boost U.S. gasoline prices by an estimated 20-30 cents per gallon, which seems politically unpalatable.

When it comes to gold – the other cornerstone of natural resources – veteran precious metals expert and Portfolio Manager **Robert Cohen** says the falling price of gold in the second half of the year may have presented a good entry point for the yellow metal.

Gold shines

The safe haven metal had a great year rising 24.6% in USD (16.9% in CAD) through the first half of the year primarily on political fears stemming from the U.K.'s referendum on leaving the European Union and the U.S. presidential election. To the surprise of many, gold made an about face post-Brexit and after Trump won the presidential election. The final leg down came after the U.S. Federal Reserve raised its benchmark interest rate by a quarter percentage point in December.

Not surprisingly, Robert is more constructive on equities than physical gold at the moment. He, like Jennifer, is able to purchase bullion in the Dynamic Strategic Gold Class and fully expects to take advantage of that in advance of inflation hitting the headlines.

"I think the elephant in the room is inflation," says Robert who believes most investors have been lulled into a false sense of security when it comes to rising prices. He believes that most simply look south and see a lot of positives for the U.S. economy, all the while ignoring the reflationary policies Trump is proposing.

"I think many people have it wrong and we're going to see high inflation, which is a net positive for gold," he says. If inflation is a longer-term catalyst for the price of gold, another catalyst would be a flight from the U.S. dollar. According to Robert, gold is the natural destination if investors sour on the dollar.

Perhaps one of the biggest near-term catalysts for gold may stem from geopolitical risk. Again, Robert turns to Trump who ruffled feathers in many areas of the world – Russia, China and North Korea – before he even took office in January.

Electric cars

Turning to base metals, Robert likes the unfolding energy storage theme behind cobalt, nickel, lithium and copper. Each of these metals is playing a role in the development of electric vehicles, which currently use, for example, 75 kilos of copper wiring in each car versus 25 in a traditional one. Lithium, a key ingredient for batteries (smart phones, laptops and electric cars) was one of the best-performing metals in 2016, and he says demand may triple or quadruple over the next ten years.

Robert advises that one should always hold some gold (5-10% in a portfolio for example) and advises against trying to time resource markets. Gold and resources always represent a great portfolio diversifier.

Jennifer agrees. And she uses the stellar returns of 2016 to illustrate how important it is to stick with an allocation and rebalance when necessary.

"That way you'll always be ready for an encore whether it comes this year or next," she says.

Robert Cohen, BASc., MBA, CFA
Vice President and Portfolio Manager

Robert has over 25 years of experience in the mining industry and joined Dynamic in 1998 as a member of the global equities team. Prior to joining Dynamic, Robert worked as a mineral process engineer at Canadian, Chilean and Australian copper and gold mines for Lac Minerals, BHP and Aurex Resources.

Funds managed
Dynamic Strategic Gold Class
Dynamic Precious Metals Fund

Funds co-managed
DMP Resource Class
Dynamic Resource Fund
Dynamic Strategic Resource Class

For more insight from Robert Cohen and Jennifer Stevenson, please visit **advisor.dynamic.ca** for recent videos, webcasts and commentaries.

REGULATORY WATCH: PERSPECTIVES ON THE POTENTIAL BANNING OF TRAILING COMMISSIONS

On January 10, the Canadian Securities Administrators (CSA) released Consultation Paper 81-408, which – among other things – raises concern that the payment of trailing commissions may create a conflict of interest for advisors when recommending funds. The paper, entitled *Consultation on the Option of Discontinuing Embedded Commissions* asks for public comment until June 9, 2017 regarding the possible banning of embedded commissions. Although it's impossible to know what – if anything – will come to pass after the consultation period closes, we will continue our dialogue with regulators in support of the advice channel with the following views guiding our approach.

We believe regulators need to take the time to let the results of CRM2 and the POS initiatives work their way through the system before determining if more regulatory changes are required.

We believe in closely monitoring global regulatory reforms in countries like the U.S., Australia and U.K. to learn from the implementation of their regulatory initiatives and avoid or minimize unintended consequences that may have resulted in those countries.

We believe change is already underway as increasing numbers of advisors move to a fee-for-advice model in the independent advisor channel and we expect that to continue regardless of what the CSA does.

We believe in providing the products and pricing that's right for your clients without additional regulatory changes as evidenced by Dynamic Private Investment Pools and Dynamic iShares Active ETFs, which are both designed for fee-based and discretionary channels.

We believe investors with small sums of money to invest may be left behind with the banning of embedded commissions as there may be fewer opportunities to access advice.

We believe both compensation models – embedded commissions and fee-based – can co-exist providing investors with greater choice when it comes to their individual financial circumstances.

We believe the benefits of financial advice can be delivered effectively regardless of the compensation structure chosen.

81-408 BACKGROUND AND NEXT STEPS

When it comes to embedded commissions, the CSA has voiced its concern for many years over conflict of interest for financial advisors when recommending funds.
As well, the CSA is questioning whether funds that pay higher trailing commissions may influence advisors to choose those funds over lower-paying funds. At this stage, it's important to remember that nothing has been decided. Once the CSA has considered the feedback received through the written comment process and any in-person consultations, it will decide on the appropriate policy response, if any, communicate the policy direction and propose any necessary rule changes to implement the policy. Any rule proposal would be published for comment in accordance with the regular rule-making process.

To gain added perspectives on this and other related regulatory issues, go to **advisor.dynamic.ca** and click on the Standing Up for Advice resource centre.

TAX RULES FOR PRINCIPAL RESIDENCES

A SPECIAL REPORT FOR DYNAMIC FUNDS

Evelyn Jacks
President of Knowledge Bureau

Evelyn Jacks is Founder and President of Knowledge Bureau and author of 52 books on tax planning and family wealth management.

Follow her on twitter **@evelynjacks**

In October, Finance Canada made sweeping changes to tax reporting rules for homeowners. All dispositions of principal residences must be reported on the tax return starting in tax year 2016. In addition, a new "failure to report" penalty will be introduced. That penalty can be as high as $8,000, and the new rules give CRA the power to look back to review principal residence dispositions for an indefinite period.

Whether your clients just bought their first home, inherited a second home when grandmother passed away, acquired a vacation property or changed the use of the property from personal to rental, you will add tremendous value by understanding when principal residence dispositions are taxable when they are exempt, together with the paperwork behind it all.

But, these common transactions regarding one of the most significant assets Canadians have – their principal residence – can be complicated. Therefore, working in tandem with a tax specialist is also a good idea.

What's a principal residence?

This is a property that you own (in whole or in part) and that you (or a member of your family) will "ordinarily inhabit" in each year of ownership. The appreciation in value of the property is completely tax exempt, so long as the property is designated for each year in the ownership period as your tax exempt principal residence.

Which types of homes qualify?

Whether situated in Canada or abroad, a principal residence might be a house, cottage, condo, duplex, apartment or trailer. Except where the principal residence is a share in a co-operative housing corporation, the principal residence includes the land immediately subjacent to the housing unit and up to one-half hectare of adjacent property that contributes to the use of the housing unit as a residence.

If the lot size exceeds one-half hectare, it may be included in the principal residence if it can be shown to be necessary for the use of the housing unit. Additional land required because of the location of the home may also be eligible for the exemption, but land and buildings used principally for the operation of a business, such as a farm, will not qualify.

Selecting one per household

Each household (defined as an adult taxpayer and/or that person's spouse) may choose one property as the tax exempt one for each year that it is owned. But what happens if you own both a home and a cottage? Let's look at both scenarios.

One principal residence only

If the family owned only one property and lived in it every year while they owned it, there will be no taxable capital gain on the property. But do you have to report this sale? Technically, the *Income Tax Act (ITA)* has always required that a taxpayer file a "principal residence designation" for the year in which the property is sold using Form T2091 *Designation of a Property as a Principal Residence by an Individual (Other Than a Personal Trust)*, however, it was CRA's administrative practice not to require the form if the property was the principal residence for all the years owned. Starting in 2016, you must complete page 2 of Schedule 3 to designate the principal residence as exempt for all the years of ownership.

What happens if there is a loss?

A principal residence is considered to be "personal-use property," and under this classification in the ITA, any loss on disposition is deemed to be nil. The sale of the personal-use property should be reported in Section 7 of Schedule 3 although the loss would not be deductible.

The Capital Cost Allowance traps

The claiming of CCA on any of your residences, even if only a small portion of the home is used in a home-based business, will compromise your tax exemption on that part of the home. Be sure this is avoided.

More than one residence

Where a family owns more than one property and both properties are used by the family at some time during the year, the calculation of the tax exemption on disposition of one or both of the properties is slightly more difficult. Back in the day, (for periods including 1971 to 1981) each spouse could declare one of the properties as their principal residence, which allowed a family to shelter gains from tax on a home and a cottage, for example.

But starting in 1982, only one property per year can be designated as a principal residence for the family. This means that any accrued capital gain on one of the properties (that is not designated as a principal residence) will be ultimately subject to tax when sold.

This is where Form T2091 comes in handy. It is used to calculate the exempt portion of a capital gain on a principal residence. Here's how it's done:

1. **First calculate the gain.** The capital gain on the property is first calculated, using regular rules for capital gains and losses. (Proceeds of disposition less adjusted cost base and expenses and outlays of sale. Remember the ACB will include any significant improvements to the property, so keep all receipts.)
2. **Calculate the exempt part of the gain.** The exempt portion is then subtracted from the capital gain. The exempt portion of the gain is calculated as follows:

$$\text{Total gain} \times \frac{\text{(Number of years designated as Principal Residence + 1)}}{\text{Number of years the property was owned}}$$

Note the "+ 1." Because the numerator in the exemption formula adds 1 to the number of years that a property is designated as a principal residence, it is only necessary to designate a property for one year less than the total number of years it was owned to exempt the entire gain. This is because two residences will be owned in the year that the taxpayer moves from residence to another. However, effective on dispositions after October 3, 2016, the "+1" year is not available to purchasers who were non-residents at the time the property was purchased.

Another wrinkle: the 1994 Capital Gains Election

The taxable capital gain is further reduced by any capital gains election made to use up the $100,000 Capital Gains Deduction as of February 22, 1994. Look for Form T664 *Capital Gains Election* from the 1994 return to find the amount of the election. Where the capital gains election was made on the property being designated, use Form T2091(IND)-WS *Principal Residence Worksheet* in addition to T2091. Warning: this is complicated. Best to have a tax specialist help.

Top Tax Actions

The rule of thumb is to determine which property has increased in value more for each year it has been owned. The property with the highest appreciation should be chosen as your tax exempt principal residence. If that's not the property being disposed of this year, designate it as the principal residence only for the years when it was your sole qualifying property.

UPDATES FROM DYNAMIC FUNDS

PRODUCT

NEW Introducing active ETFs

Dynamic Funds and BlackRock Canada's iShares businesses are excited to launch a suite of active ETFs that bring together the strengths of the two prominent investment managers. Dynamic Funds is a leader in actively managed products and its investment strategies will power the active ETF lineup. BlackRock is recognized globally for its ETF management and operational capabilities expertise.

Investment changes to DynamicEdge Portfolios

Equity component changes

To enhance geographic diversification, Dynamic Global Equity Income Fund will be added to DynamicEdge global equity allocations while Dynamic Blue Chip Equity Fund will be reduced and Dynamic U.S. Dividend Advantage Fund eliminated.

Fixed-income component changes

Dynamic Aurion Total Return Bond Fund will be added to all DynamicEdge portfolios while Dynamic Canadian Bond Fund and Dynamic Corporate Bond Strategies Fund will be scaled back to make room for the new allocation. We expect to complete the transition by the end of January 2017.

NEWS

Dynamic Private Investment Pools

Dynamic Private Investment Pools, first launched in 2014, break through the $2 billion AUM threshold as of December 2016.

SNAPSHOTS

NEW Snapshots Life Event Program brochure for advisors

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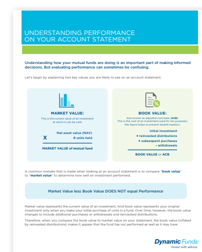
This one-pager helps advisors explain the relationship between reinvested distributions and ACB, which can result in negative perception of mutual fund performance, specifically income-producing funds.



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