



Checkmark
Investing™

Heathbridge
Capital
Management Ltd.

COMMENTARY

July 2017

TOP TEN TOUGH QUESTIONS TO ASK YOUR FINANCIAL ADVISOR



INSIDE:

WHAT IS IN A VOWEL?

WHO ARE THE WORST OFFENDERS?

THE F WORD—FIDUCIARY

IS YOUR PERFORMANCE RECORD INDEPENDENTLY VERIFIED?

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WHAT'S IN A VOWEL? THE POWER OF “ E ”

CBC Source:

Larry Elford is a former certified investment manager with RBC and lead researcher of the Small Investor Protection Association (SIPA) report.

WHAT'S IN A VOWEL?

A common trick for misleading customizers, according to Larry Elford, is the banking industry's use of the term “financial advisor” – spelled with an “o.”

He says “advisor” is an unregulated title that anyone can use, whereas the title “adviser” – spelled with an “e” – can only be used if the employee has a fiduciary responsibility to the client.

“Advisors can sell you the third, fourth, fifth or least beneficial product to you,” Elford said. “They do that a great deal of the time if it makes them more commissions, or if their bank manager is telling them they need to sell more of the house-brand product.”

The Ontario Securities Commission confirms that “adviser” is a legal term under securities law that describes a person or company that is registered to give advice about securities, whereas “advisor” is not.

In an email to Go Public, the **Canadian Securities Administrators** confirmed that it does not regulate most titles used by employees in the financial industry.



‘IT’S COMPLETELY ABOUT SELLING’

Many bank employees who have contacted Go Public say they act more like salespeople than anything else because of pressures from “high up” to hit revenue targets. CBC is concealing their identities to protect their jobs.

Source: Erica Johnson, CBC News, March 29, 2017

‘I feel duped’: Why bank employees with impressive but misleading titles could cost you big time: Most financial professionals in Canada are licensed as salespeople with no fiduciary duty to clients.

AT HEATHBRIDGE, WE ARE ADVISERS.

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THE F—WORD

FIDUCIARY



ARE YOU A FIDUCIARY?

**DO YOU HAVE TO PUT
MY INTERESTS FIRST?**

Financial advisors only have to invest in “suitable” investments. They may invest clients in products that pay them high fees or which their firm is selling.

All five of Canada’s Big Five Banks have recently paid multi-million dollar fines for charging customers excess fees for investment products!

THE PORTFOLIO MANAGERS AT HEATHBRIDGE ARE FIDUCIARIES.

UNLIKE FINANCIAL ADVISORS, WE HAVE TO PUT CLIENTS’ INTERESTS FIRST.

OUR THREE PARTNERS ARE CHARTERED FINANCIAL ANALYST (CFA) CHARTERHOLDERS AND WE ARE BOUND BY THEIR CODE OF ETHICS. WE EVEN PUT THIS INTO OUR CONTRACT WITH EACH CLIENT IN OUR INVESTMENT MANAGEMENT AGREEMENT.

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HOW MUCH ARE YOU GETTING PAID TO BE MY ADVISOR? ... AND WHERE CAN I SEE THIS?

Most financial advisors get paid in many hidden ways in addition to commissions and fees disclosed.



Such as:

- » Trailer fees on mutual funds sold and investment savings accounts
- » Hidden mark-up spreads on bonds sold
- » Commissions on new issues of common shares, preferred shares, GICs and bonds
- » Commissions on selling Structured Products (e.g. the dreadful Principle Protected Notes)
- » Commissions on selling insurance products
- » Referral fees on mortgages, credit cards



Even with the new CRM2 (Customer Relationship Model rules), many of these compensation mechanisms remain hidden and you will never truly know how much your advisor makes from your account. The banks themselves make additional money from layers of fees, especially for structured products.

IN CONTRAST,

Your statements from Heathbridge show you clearly and in detail all the fees paid.

Transparency has been one of our hallmarks since the beginning.

Each quarter we charge your account a base management fee. It is deducted straight from your account. We disclose these fees to you to the penny in our quarterly reports for all our segregated clients.

Each quarter, where warranted, we charge your account a performance fee based on the trailing one year and three-year periods. This fee is deducted straight from your account, we send a separate letter explaining the mechanics and we show you how much was charged.

The Heathbridge fees are tax deductible for taxable accounts, whereas the multiple fees and commissions charged by financial advisors are generally not.

7 WHAT IS YOUR INVESTMENT PHILOSOPHY?

What is your Investment Philosophy?

Most financial advisors don't have an investment process or philosophy. They really just peddle what their bank or firm is pushing. They are more sales people than true investment people.

In contrast, Heathbridge has a sound investment philosophy.

By now our clients should be familiar how we apply the Time-Tested Discipline™ of Checkmark Investing™.

KEY FOUNDATIONS OF CHECKMARK INVESTING™

✓ Invest in Quality Companies which have:

- » Key Competitive Advantage(s)
- » Financial Strength
- » Management Capable of Delivering the Potential of the Company

✓ Diversification Discipline

- » Focus on 20 investments, highly differentiated from each other, to control diversification variables
- » Each investment is roughly equally weighted to amplify the diversification effect

✓ Timing Discipline, with an emphasis on the Long-Term

- » We will initiate buys only after a price decline, which means that we in fact Buy Low and don't just say so
- » Because we trim at pre-determined prices, it also means that we in fact Sell High and don't just say so

✓ Patience and Intestinal Fortitude

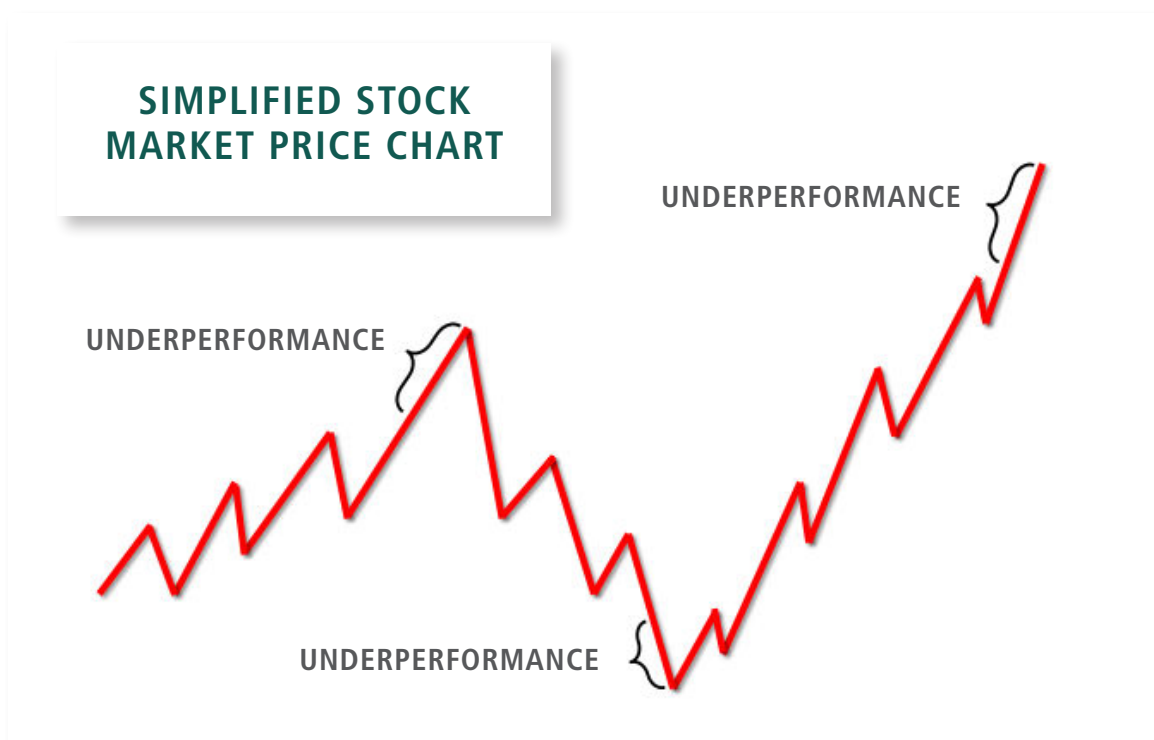
- » We don't get swayed by gloomy forecasts or unwarranted pessimism or optimism

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YOU TELL ME HOW GREAT YOU ARE ...ARE THERE TIMES WHEN YOU WON'T BE SO GREAT?

If you stick to an investment discipline, as opposed to chasing the hottest fad or momentum stocks, there will inevitably be periods of short-term underperformance.

We wrote about this in our Q3 2016 Investment Strategy report when we determined there are four types of market conditions when our performance tends to lag our competitors and the market. We show one of these conditions again below. That is, we tend to underperform near the tops of markets when we are trimming more and our competitors are fully invested. We also tend to underperform near the bottoms of markets when our cash tends to be fully deployed and others are in cash, cowering in the corner.



**HOWEVER, IN THE LONG RUN,
WE BEAT EVERY ONE OF OUR KNOWN COMPETITORS!**

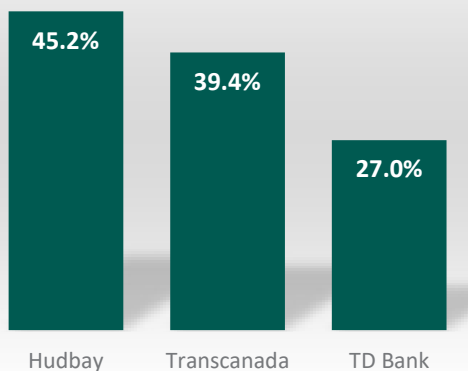
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YOU HAVE TALKED ABOUT SOME OF YOUR SUCCESSES ... WHAT WERE SOME OF YOUR MISTAKES?

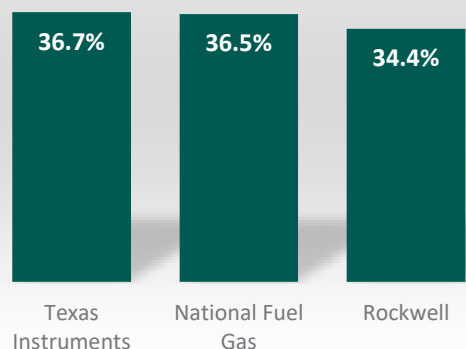
You don't see good answers to this question very often. The Investment Industry (and human nature) tends to steer towards touting successes.

Every year, we highlight our best and worst stocks. As part of our transparency mantra, we never hide our mistakes. Here is a copy from our 2016 Year End Report:

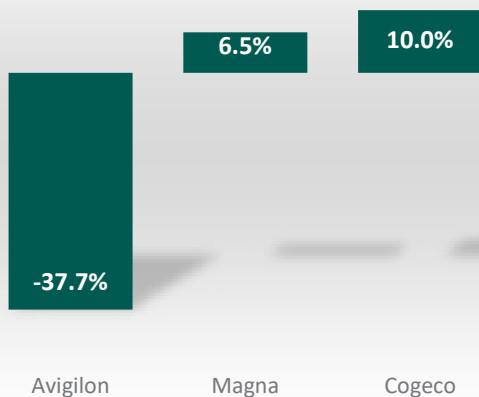
**Top Checkmark Investing™
Canadian Stocks
During the Year (C\$)**



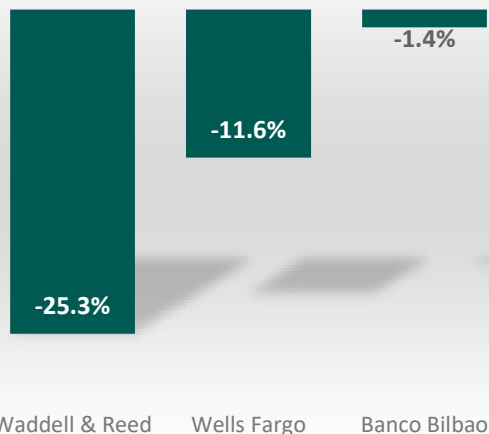
**Top Checkmark Investing™
Foreign Stocks
During the Year (US\$)**



**Worst Checkmark Investing™
Canadian Stocks
During the Year (C\$)**



**Worst Checkmark Investing™
Foreign Stocks
During the Year (US\$)**



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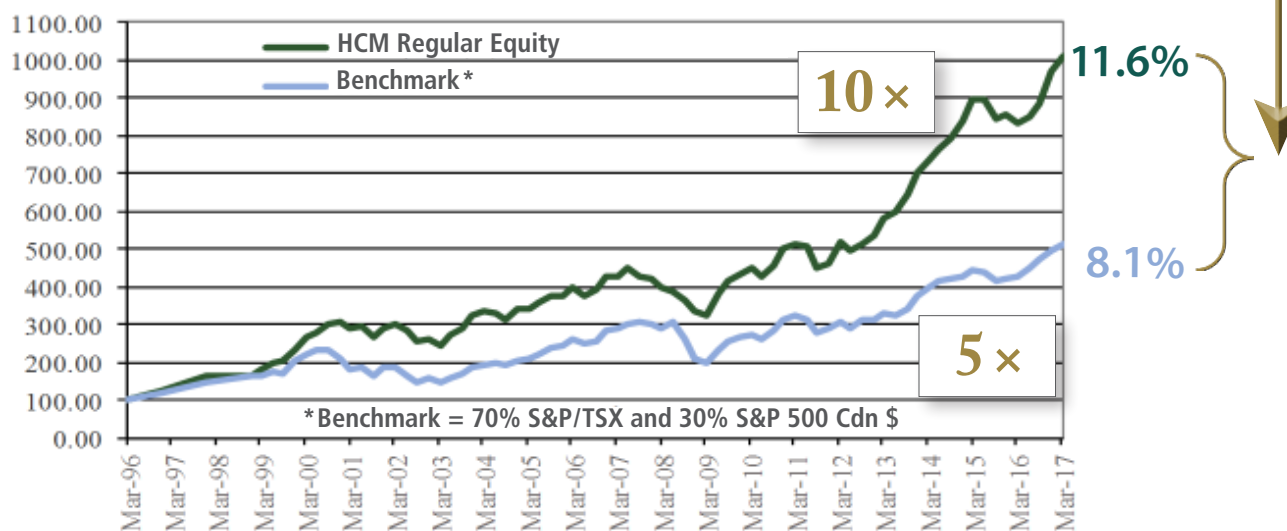
WHAT IS YOUR PERFORMANCE TRACK RECORD?

The fund industry is notorious for highlighting performance for selected periods or for selected products. We notice that companies with multiple funds tout only those funds which are performing well and ignore those who are struggling. In effect, they are cherry-picking the hot funds.

Our track record with blemishes and mistakes along the way is highlighted below:

HEATHBRIDGE CAPITAL MANAGEMENT LTD. Cumulative Return of Heathbridge Regular Equity Composite Versus the Benchmark*, March 1996 to March 2017

3.5% Out-performance



Composite Index Source: Bloomberg

The chart above shows how our Regular Equity (3-ranked risk) accounts have performed over the 21 years from March 1996 to March 2017, after fees, trading costs, etc.

In dollar terms, this means \$1 million invested would have grown to over \$10 million, twice the return of the comparable index benchmark (which excludes fees).



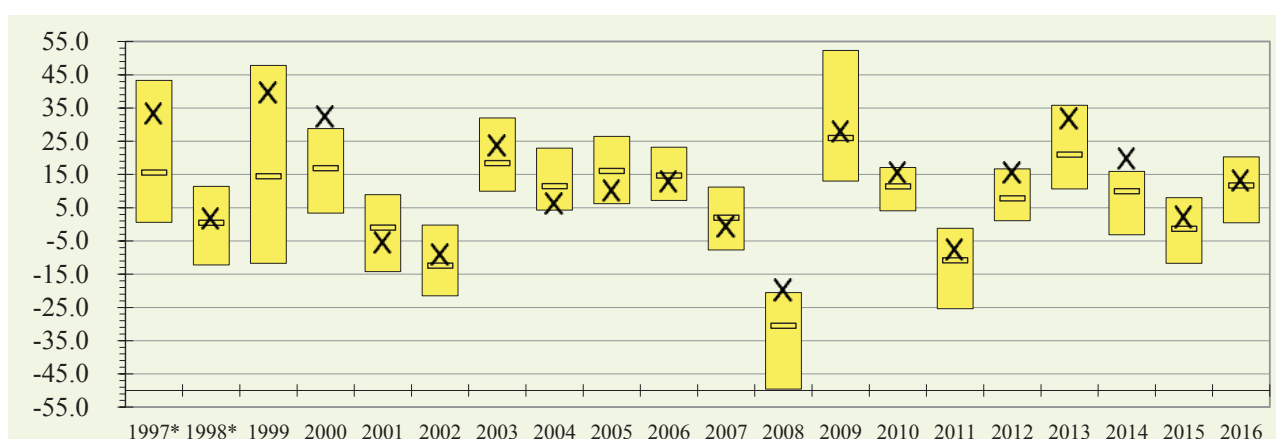
Heathbridge Regular Equity Composite (C\$)

Annual Returns by Calendar Year (%)

Compared to Morningstar Inc. CIFSC Universe of Canadian Focused Equity Funds

% Annual Returns by Calendar Year

As of December 31, 2016



	1997*	1998*	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
5th Percentile	43.3	11.4	47.8	28.8	8.9	-0.2	32.0	22.9	26.5	23.2	11.2	-20.5	52.3	17.1	-1.2	16.7	35.8	15.9	8.0	20.3
1st Quartile	21.1	3.6	24.4	20.4	4.8	-6.9	21.7	15.0	21.1	17.1	5.3	-27.2	34.9	13.6	-7.8	9.7	25.8	12.0	1.7	14.3
Median	15.6	0.5	14.5	16.9	-1.0	-12.4	18.4	11.5	16.1	14.7	2.0	-30.5	26.0	11.4	-10.8	7.8	21.0	10.0	-1.3	11.7
3rd Quartile	10.9	-3.2	3.9	12.1	-6.8	-15.0	13.7	8.5	11.0	12.1	-0.6	-34.5	19.8	8.8	-14.0	5.6	17.3	7.1	-3.8	8.2
95th Percentile	0.6	-12.2	-11.7	3.4	-14.2	-21.5	10.0	4.3	6.2	7.2	-7.7	-49.6	13.0	4.1	-25.4	1.1	10.7	-3.1	-11.7	0.5
Heathbridge Regular EQUITY Composite	33.1	1.5	39.4	32.2	-5.5	-9.3	23.5	6.0	10.0	12.7	-0.7	-19.9	27.7	15.6	-7.6	15.6	31.8	19.6	2.1	13.1
Benchmark (70% TSX ,30% S&P 500)	22.2	10.2	26.5	3.5	-10.7	-15.5	20.3	11.1	17.4	16.8	3.7	-29.7	27.0	15.1	-4.8	9.1	21.6	14.6	0.4	17.4
Quartile	1	2	1	1	3	2	1	4	4	3	4	1	2	1	1	1	1	1	1	2
All returns in Cdn. \$ net of fees																				

Sources: Bellcharts, Morningstar Direct, the Canadian Investment Funds Standards Committee (CIFSC), Bloomberg, RBC Capital Markets.

Past results may not be indicative of future performance.

Since investment performance is sensitive to starting and end dates, it is important to scrutinize year-by-year performance as well. Here is our calendar year performance to the end of 2016. We typically include this important chart in our Performance Report Card.

Note that in 2008, one of the worst years for stock markets, the Heathbridge Regular Equity Composite returns were -19.9%. This was better than 95% of similarly structured mutual funds.

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**IS YOUR PERFORMANCE RECORD
INDEPENDENTLY VERIFIED?**

**ARE YOU COMPLIANT WITH THE GLOBAL
INDEPENDENT PERFORMANCE STANDARDS?**

For most advisors the answers are No and No.

For Heathbridge the answers are Yes and Yes.

We comply with the Global Independent Performance Standards (GIPS). GIPS was created by the CFA Institute to promote credible and comparable track records between investment management firms. There are vigorous criteria requirements, including how every managed account need to be included in a composite. Also, the track record must be for real accounts, not artificially created examples.

The track record of our composite of similarly managed accounts is independently verified by EVIV Group, Canada's largest GIPS verifier. EVIV audits, confirms our process and reviews our policies, procedures and disclosures.

**The CFA Institute has a special website dedicated to GIPS where
you can find a list of firms that claim GIPS compliance.**

https://www.gipsstandards.org/compliance/Pages/firms_claiming_compliance.aspx

**WE ARE ONE OF A SMALL MINORITY OF CANADIAN FIRMS
THAT ARE INDEPENDENTLY VERIFIED.**

2

HOW IS YOUR OWN MONEY INVESTED? CAN I SEE YOUR RRSP?



Eating our own cooking

In a sad reflection of Bay Street, we are among the minority in the industry who “eat our own cooking”, which is to say that we invest alongside our clients. This is in accord with our philosophy of aligning our interests with our clients.

We invest in the same stocks as our clients.

Since RRSPs have strict limits on how much can be invested, the SIZE of a financial advisors' RRSP is indicative of his or her investment prowess, adjusted for age. **If you come to our office and show us your RRSP, we will show you ours.**

The Registered Retirement Savings Plan (RRSP) for all three partners, as well as virtually all their other investment assets, invest in the same stocks that you would find in, say, the Heathbridge Checkmark Equity Pooled Fund. Our RRSPs have therefore experienced the strong growth that our longstanding clients have.

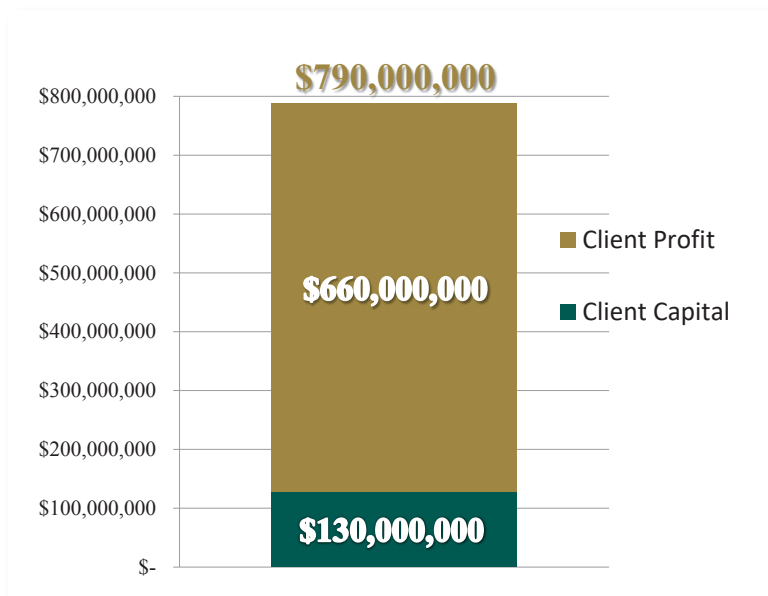
WHICH BEGS THE #1 TOUGH QUESTION ...

HOW MUCH MONEY HAVE YOU MADE FOR YOUR CLIENTS?

Where are the Customers' Yachts? or A Good Hard Look at Wall Street, Fred Sched Jr., 1940

This book, written by an ex-Wall Street trader, has been republished three times since 1940. It is, sadly, still relevant. Brokers and bankers often make enough money from their clients to buy yachts but their clients have not done as well.

We take great satisfaction in the difference we have made in the lives of our clients – providing many with sufficient funds to enjoy their retirement and removing financial stress. The statistics below give us the greatest joy:



Of the **\$790 million** of client assets we managed as of March 31st, **\$660 million** was derived from their profits.

One of our clients asked us publicly, "Does that mean you are good at managing money? Or bad at sales?"

Our answer is BOTH!

We remain confident that Checkmark Investing™ will continue to allow your capital to increase through volatile markets and variable economic climates. We appreciate your trust in having us manage your capital for the long term.

www.heathbridge.com

TIME-TESTED DISCIPLINE™

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PLEASE READ THE LEGAL STUFF:

This report contains forward-looking statements which are generally identified by words such as "may", "believes", "expects", "estimates" and similar expressions. Forward-looking statements are subject to a number of known and unknown uncertainties that could cause actual results to differ materially from those expressed in the statements.

Our discussions of corporations and assertions as to their attributes may be presented in definitive-sounding statements which are generally indicated by words such as "is", "has" and similar expressions; however, investors should recognize that our understanding of the corporations discussed may be incomplete and our opinions and ratings may be wrong. We use reasonable efforts to obtain information which we believe is reliable but we cannot research authoritatively all facts relating to markets or companies and, to some degree, markets are unpredictable. Therefore, we must make investment decisions based on information that is often incomplete. We use a diversified portfolio investment approach to try to offset instances where the information and opinions we hold on individual investments prove to be erroneous. We do not guarantee results and cannot be held responsible for investments made or losses suffered by investors relying on information contained in this letter.