"Germane Thoughts"

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October is notorious for experiencing market shocks, and this past month was no different. The weakness from the end of September extended into the first half of October with selling pressure mounting as geopolitical, global growth and Ebola fears gripped the market. From the high reached on September 19th to the intraday low of 1,821 touched on October 15th, the S&P 500 Index declined over 10%....and yet it still outperformed most other markets during the period. Remarkably, despite all the volatility October brought with it, the S&P 500 finished the month on a positive note. With third quarter earnings being reported in earnest around mid-October, the market found its footing and has bounced back considerably on the back of strong earnings and better economic data out of the U.S.

During the month, the S&P 500 Index appreciated 2.3%, and is up 9.2% so far in 2014, vaulting past the S&P/TSX Composite for the first time in 2014, which declined 2.3% for the month, and is now up 7.3% for the year. Similar to the previous month, The TSX Composite was dragged down by the resources as the Materials and Energy sectors were down 11.6% and 8.0% respectively. For Canadian investors, U.S. equities performed even better as the Canadian dollar declined 0.6% vs. the U.S. dollar in October and is now down 5.7% so far in 2014.

Meanwhile, the performance of other Global Indexes varied in October with the FTSE 100 (U.K.) down 1.2%, the CAC 40 (France) down 4.1% and the DAX 30 (Germany) down 1.6%. Asian markets rose with the Nikkei 225 (Japan) up 1.5% and the Shanghai A Share market (China) rising 2.4%. Small caps in Canada never left the proverbial woodshed after September, with the S&P/TSX Venture Index declining 15.4% during the month, while in the U.S. small caps gained some respite with the Russell 2000 up 6.5%.

Many U.S. economic statistics reported in October continued to improve with Payrolls coming in better than expected and the Unemployment Rate for September dropping to 5.9%, the lowest level since July, 2008.

Long-term interest rates were in free fall in October as concerns around global growth and deflation in Europe escalated. Closely mirroring the equity market, from the intraday high of 2.65% reached on September 19th to an intraday low of 1.86% reached on October 15, 10-year Treasury yields declined 79 basis points in less than one month.

Meanwhile, Euro country 10-year bond yields continued to decline with German and French Government Bonds ending October at 0.8% and 1.19% respectively, on expectations the ECB will provide more stimulus with quantitative easing.

Consumer Staples was the best performing sector in Canada in October, up 4.6%, with Jean Coutu Group Inc. Class A shares leading the way up 10.1% during the month. As noted earlier, the Materials and Energy sectors were the laggards due to a stronger U.S. dollar and slowing demand from China and emerging markets. As stated in previous monthly commentaries, since July we've reduced our weights in both the Materials and Energy sectors in our Funds. We have also been more active with our covered-call writing in these sectors due to our bearish view as well as the higher volatility exhibited by these sectors.

Due to the weakness and high volatility in the first half of month, the defensive Utilities and Health Care sectors were the best performing south of the border, up 7.9% and 5.3% respectively.

Finally, volatility continued to rise after picking up into the end of September with the CBOE Volatility Index ("VIX") peaking at 31 on October 15th, the same day the S&P 500 Index made its intraday low. Because our call writing program was very active in the second half of September, we used the weakness in early October to monetize some profits and close out our calls to align with our view that markets would resume their uptrend into the end of 2014. So far that call has played out right as markets rallied strongly in the second half of October. We'll continue to monitor and assess the situation in case we need to change our tack and adjust our sails.

Forward Looking Information and Disclaimer

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