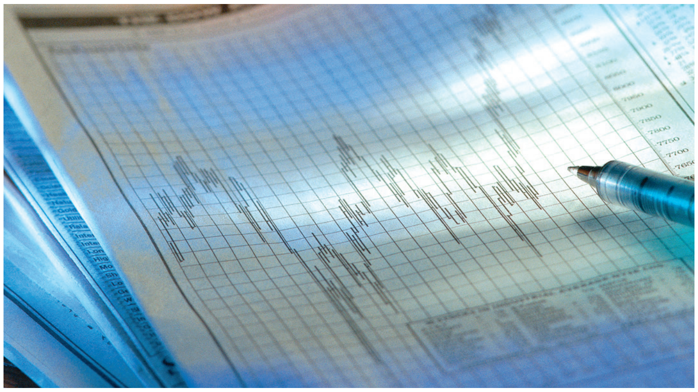
GFI Investment Counsel Ltd.
Preserving and growing family capital™

GoodQuarter

WINTER 2017



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"Our stay-put behavior reflects our view that the stock market serves as a relocation center at which money is moved from the active to the patient."

— Warren Buffett

Dear Valued Client,

The fourth quarter of 2016 was a period of strong results for client-held equities and weaker results for clients' bond holdings. As usual, we did not make any portfolio adjustments in response to the U.S. Presidential Election or any other macroeconomic event. While standing pat will not always be the right short-term approach, in aggregate, we feel it is the wisest course of action for investors. Had we decided to sell equities, as some professionals did, we would have triggered capital gains in client accounts. Moreover, even had equities decreased in value temporarily, we would have had to time our re-entry point accurately to reinvest the cash we would have held as a result of the sales. We are confident that selling before the election would have cost our clients after-tax capital in almost any scenario, other than if we had perfectly timed our exit and entrance and achieved sufficient short-term gains to offset the now-taxable capital gains generated.

As alluded to, Canadian bonds, as measured by the FTSE TMX Canada Universe Bond Index, posted a gain of roughly 1.66% over 2016. Given the increase in interest rates during the year, it is important to highlight that bonds still posted a gain during a period of rising interest rates. Of course, if rates were to move higher, faster, bond returns could very well turn negative in any one calendar year. The silver lining is that rising interest rates provide us with the opportunity to invest new capital at higher rates of return.

Our long-term approach to investing is becoming rarer around the industry. As an example, we highlight the story on page 2 of this issue of GoodQuarter of the November stock price movement of Smith & Wesson Holding Corporation ("Smith & Wesson"), an American manufacturer of firearms. While we don't own this company in any of our mandates, we think this story highlights the irrationality of short-term investing.

Thank you for your continued support. We are always available if you would like to discuss your investments or any other matter.

Daniel Goodman, CFA
President and
Chief Executive Officer

Effie Wolle, CFA, MBA
Chief Investment Officer

Smith & Wesson

Short-term thinking in action

Smith & Wesson is an American firearms manufacturer. Each election cycle, the firearm manufacturer's stock price volatility heightens because of the perceived differences between the two parties' fondness for the second amendment ("the right to bear arms"). Although we don't own Smith & Wesson, we were fascinated by the company's stock price, specifically on the day after the election.

We believe it is safe to assume that, in the long run, firearms manufacturers have the potential for decreased sales under a Democratic president and increased sales if the presidential office is held by a Republican. Thus, it is fair to further assume that a Republican candidate would be "good" for firearm manufacturers' next four years of sales, and maybe a little weak in the coming months as the "need" to purchase a firearm before the presidential inauguration decreases. As a corollary, a Democratic presidential victory would mean an immediate uptick in sales, as customers fear an increase in gun control legislation and a decrease over the next four years.

As long-term investors who tend to focus on a business's prospects in terms of decades (not days), it was alarming that after a Republican presidential victory, and Republican control of both houses, the stock price of Smith & Wesson declined by 15%. Investors or, more likely, short-term-oriented traders showed more concern about the company's financial results for the final two months of the quarter, as opposed to the positive news for the four years to come. This short-term investment approach applies the wrong incentives for corporate management and erodes investor capital.

We believe that our investment approach, which looks beyond the current quarter or year, has been and will continue to be one of our most important competitive advantages.

New Reporting Requirements

Staying up-to-date on industry changes

With the introduction of new regulations governing client relationships, you will now receive two additional statements each year from either your custodian or GFI. The *Investment Performance Report* and *Fees and Compensation Report* are part of the Canadian Securities Administrators Client Relationship Model II, which will provide investors with enhanced disclosure and transparency regarding fees and performance.

The *Investment Performance Report* will show an alternative approach to how each of your accounts have performed annually, net of fees. Performance is calculated using a money-weighted rate of return instead of the traditional time-weighted rate of return. Money-weighted rate of return factors in the timing and size of deposits to and withdrawals from your portfolio. These factors are independent from GFI's investment decisions and are designed to provide you with a personal measure of your performance. You will also continue to receive quarterly statements directly from GFI with performance calculated using the more traditional time-weighted rate of return.

The *Fees and Compensation Report* will show you a detailed report of the fees you have paid to GFI. This report will replace the annual fee statement you have been receiving from GFI since our inception in 2007.

Please view this National Bank video for a more detailed explanation of how these statements can be useful to you, https://www.youtube.com/watch?v=DqwRhHb1EDE&feature=youtu.be. And, as always, if you have any questions about these changes or anything else, please give our office a call.

GFI Investment Counsel

GFI Investment Counsel ("GFI") provides tailored investment portfolios to families, foundations, trusts and corporations. We work closely with our clients to customize investment accounts that coincide with our clients' unique requirements. GFI focuses on preserving and growing client capital through intense due diligence, focus, and discipline.

In January 2008, GFI launched Good Opportunities Fund ("the Fund"), an alternative investment fund available to accredited investors. The Fund focuses on a select group of investment opportunities that provide an attractive risk/reward dynamic regardless of asset class or market capitalization. The Fund is managed with a focus on understanding the businesses, their capital structure, and risks and opportunities.

For more information about GFI Investment Counsel or the Good Opportunities Fund,
please call **416.488.8825** or **email info@gfiic.com**.

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