



EDITORIAL

Part of this edition examines the continuing practice of quantitative easing by the U.S. government. The concept of 'free money' does not seem biblically supportable (2 Thess. 3:10, Proverbs 10:4 etc.). If we labor to design, build, produce, grow or improve something we can have a reasonable expectation of reward for those efforts. Sometimes, God will even choose to bless us by providing rewards that are disproportionate to our efforts. But to believe we can create legitimate wealth simply by printing it into existence seems like a very precarious position (Proverbs 13:11). Such is the nature of God's abundant, common grace; that we cannot presume every unwise act will incur His wrath and come to ruin. But at the core of competent investing is the process of risk management - and fiscal policy that seems at odds with biblical direction is a risk to which we must pay very close attention!

INTRODUCTION

The Beginning of the End of Easy Money

2013 certainly ended with a bang with the last FOMC meeting of the year bringing about the beginning of the much anticipated tapering with the Federal Reserve deciding to trim back its monthly bond purchases from 85 billion down to 75 billion. Our belief that the unprecedented quantitative easing regime from central banks would give rise to increased market volatility has been seen. In fact, since coming off the bottom of 2008, the increasing assets of the Federal Reserve have been highly correlated with the S&P 500 as we long suspected.

January 2014

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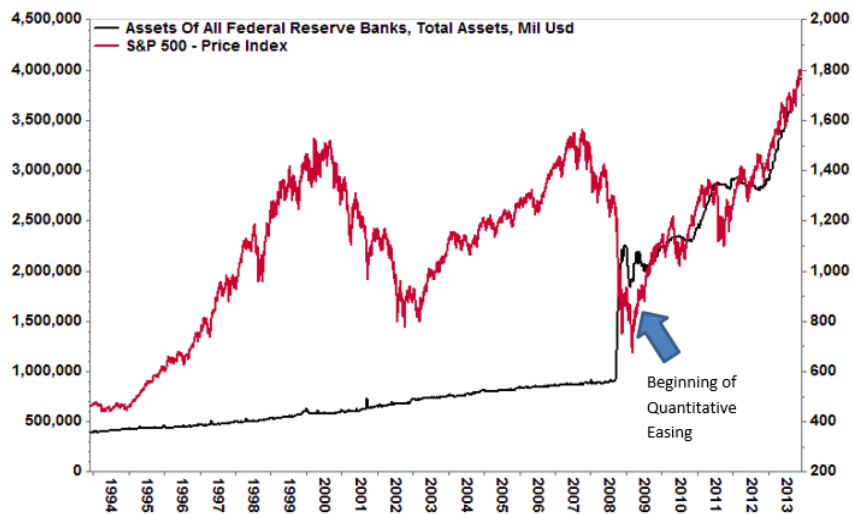
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*"Without counsel
plans fail, but with
many advisors they
succeed."*

- Proverbs 15:22



Source: [Factstat](#)

The beginning of tapering marked Chairman Ben Bernanke's last act as his term ends on January 31, 2014. On January 6th, 2014, we welcomed Janet Yellen as his successor, who will be the first female to lead the US central bank. In the White House, President Obama signed a bi-partisan deal that would prevent another government shut-down and put sequestration (ie. automatic spending cuts) on hold through to 2015. In other world news, we witnessed protests in Kiev, Ukraine as the government sought closer economic ties with Russia rather than their neighboring European Union.

PORTFOLIO UPDATE

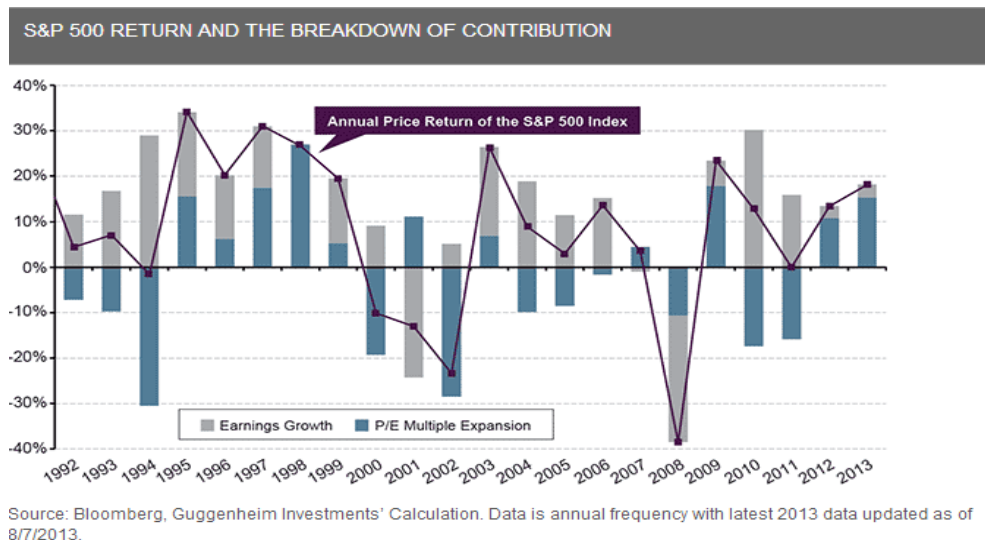
An Introduction to our Second Pooled Fund

Our investment committee has become increasingly convinced that conventional publicly-traded securities will continue to struggle to give consistent results that will both preserve value against inflation, and produce an additional investment return. In fact, the correlation between fixed income, equities, and even emerging markets is increasing, resulting in less diversification than desired and ultimately, more vulnerability. Anticipating this, Covenant launched the Covenant Mortgage Pool in April of 2012 which has exceeded its 8% target return annualized since inception with a negative correlation to both the bond and stock markets. This October past, we launched the Covenant Fixed Income Pool in response to the investment landscape of persistently low yields coupled with high duration. This new fund takes much of its approach from the Mortgage Pool – combining creative thinking with the aggregate purchasing power of a portion of all our clients' portfolios, to access opportunities that are simply not available through conventional channels. The fund employs multiple strategies offering a combination of both traditional and non-traditional bond holdings. Exposure to non-traditional fixed income products provides client's exposure to products normally only available at an institutional level and includes currency arbitrage mechanisms, global credit strategies, secured bridge financing opportunities and large scale infrastructure projects.



Portfolio Performance Overshadowed by Strong Rally in the US:

This year we have seen the US markets soaring with reckless abandon. Against the backdrop of easy money coupled with delirious investors, we have seen a huge rally in 2013. No doubt, the performance of the S&P500 which reached new historical highs has been stupendous and has overshadowed our performance, comparatively speaking. What we are mindful of, however, is that returns can come from true earnings growth or from multiples expansion (ie. investors' willingness to pay a higher price for a stock's earnings) and it is the latter that we have witnessed forming most of the gains. Growth isn't being created, investors are just willing to pay more. To this end, the stock markets seem artificially high given the actual growth we've seen in the US economy with the downside risks outweighing any upside potential.



Given sky high valuations, we have reached our targets on a number of our equity holdings and made significant gains. With cash on hand, we remain poised and ready to take advantage of any market pullbacks by selectively adding exposure to fundamentally strong equities. While interest-rate sensitive preferred shares and select fixed income holdings were the primary performance detractors this year, we outperformed on our individual security selections.

MARKET OUTLOOK

Proceed with Caution

As the Communist Party of China enacts new reforms, it is expected to have positive effects on China's growth, maintaining its status as the driver of global growth. However, policy implementation will be key in how things play out and in the interim, the tumultuous rise in the shadow banking sector has left us decidedly tepid.

In Japan, expansion of the Bank of Japan's balance sheet lead by Shinzo Abe is one of the aggressive moves in place in an attempt to end years of deflation but only time will tell whether it is a success or another failed experiment.



The expectation that low inflation will continue in the developed countries has kept commodity prices low. Conversely, the combination of high inflation and current account deficits in many emerging market countries continues to make it a fragile area for investing. Opportunities can still be found notwithstanding but they must be considered in the context of the broader market.

Overall, global markets are becoming more conscientious and taking steps in the right direction, but it is not without its struggles and we could see some growing pains along the way.

SUMMARY

2013 was a year of unprecedented gains in the US and while we don't expect we are necessarily in bubble territory, we see continued risks by investing solely in the traditional markets. Covenant has broken ground in providing solutions that will help to weather potential storms by providing a more stable and consistent return via its existing Mortgage Pool and new Fixed Income Pool. With the land of fixed income instruments being difficult to navigate, we have simplified a complex arena through vigorous due diligence and analysis to create a pool that is both traditional and non-traditional in nature.

Looking ahead, we expect to launch our third pooled fund, a Non-Traditional Equity Fund in early Spring. The goal is to complement core equity holdings while giving clients exposure to areas where they would not traditionally have access due to high investment minimums and lock-up periods.

In a time where equity prices make good quality stocks simply unattractive, it is important to remember that this scenario won't last forever; opportunity will return.

THE TEAM

Galatians 6:10 "Therefore, as we have opportunity, let us do good to all people, especially to those who belong to the family of believers."

This February Janet will be travelling with a team to Cuba to spend some time alongside the family of believers in Havana. Although it is a country where the church is highly persecuted, there is a growing body of believers that cannot be stopped. As more and more come to the faith, it is the hope that the team will be able to provide encouragement and more practically speaking, gifts. These gifts are intended to fulfill both practical and spiritual needs. As pastors travel many great distances to minister at the churches and visit people from the congregation, items such as bike repair kits, funds for purchasing bikes, and everyday items that we take for granted such as cell phones and USB devices go a long way. We will be praying for Janet during her time away and look forward to hearing stories of God's blessings upon her return.