RBC Dominion Securities Inc.

MONEY NEVER SLEEPS

THE NEWSLETTER FOR THE INFORMED INVESTOR FALL 2013

VITO FINUCCI
Vice President & Director
519-675-2011
vito.finucci@rbc.com

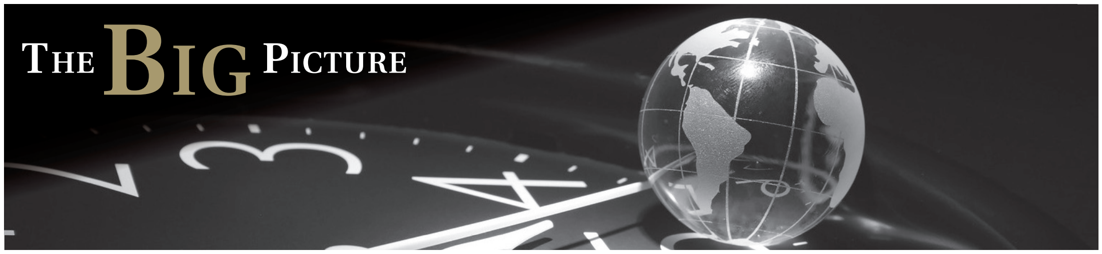
JODIE FULLER
Associate Advisor
519-675-2511
jodie.fuller@rbc.com

SASHA GERSTER
Associate Advisor
519-675-2505
sasha.gerster@rbc.com

JESSICA RESTIVO
Administrative Assistant
519-675-2021
jessica.restivo@rbc.com

Fax: 519-675-2020
www.rbcds.com/vito.finucci

RBC Dominion Securities
148 Fullarton St., Suite 1900
London, Ontario N6A 5P3



"NOT YOUR FATHER'S BULL MARKET"

America in gloom while Washington booms

"There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game; which is to say, engages in open and free competition without deception or fraud."
- Milton Friedman, Economist

Those who have kept their hands in their pockets, investing-wise, since 2009, have sadly watched the train leave the station without them. While the TSX has had its challenges as of late, the U.S. markets and most global markets, even Europe, have been solid performers.

The move has been driven by incredible monetary stimulation by global central banks, rising earnings, improvements in valuation parameters, and expanding earnings multiples, and with very little help from the fiscal side as politicians around the world, but especially the U.S. Congress, continue to muddle and be dysfunctional.

THE SIGNS ARE THERE: THE GLOBAL ECONOMY IS RECOVERING

While interest rates have nudged up on the longer end, they still remain at half of historical levels. Corporations have had five years of balance sheet repairs, and they are in the best shape they have been in for decades.

Tax increases under the guise of "austerity" seem to have hit a wall, so their effects as a fiscal drag on the economy will diminish. Remove that overhead uncertainty, and the GDP levels globally should rise significantly.

August saw global markets drop 4-6% — perhaps pros trying to get a jump on September, or perhaps because of four major concerns and uncertainties: Syria, a new Fed Chair, Fed tapering and the U.S. debt ceiling debates.

The Syria situation has quieted down on its own, mainly by inaction on President Obama's part. With Larry Summers removing himself from the Federal Reserve Chair sweepstakes, it looks like the remaining frontrunners (Yellen, Kohn,

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The Big Picture

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whoever) will remain ultra-dovish and stoke investor expectations of "QE" forever, versus the hawkish Summers. The Fed did not taper at all in September, when the market had prepared itself for a $10 billion cut to asset purchases. And being the third debt ceiling debate in 18 months, investors have seen this picture before: Lots of rhetoric, lots of posturing the end there will be a deal even if the government shuts down for a little while.

The last government shutdown, by the way, came in 1996 under Bill Clinton, and the market run from 1997 to 1999 was one of the best I've ever witnessed.

Of all concerns facing investors as we entered August, most have corrected themselves except the last wildcard, which is the dysfunction in Washington. If the government shuts down and stays closed, it could trigger the long awaited correction. The last time the market shed 25% in two months. I doubt that will happen again, but don't underestimate the current stalemate in the U.S. capital. Remember how the President did a tour proclaiming how bad it would get under sequester? The markets have had a solid move higher since it came into being.

And speaking of the capital, while the rest of America seems under gloom, Washington booms. Over the past five years, Washington, DC, has been one of the most prosperous cities in the entire USA in one of the worst cycles in 70 years. I was there about 15 months ago, and most honest locals would tell you "DC" did not even feel the past recession. Construction cranes litter the skies in Washington. But why is it such a boomtown? What do they produce? Computers? Automobiles? Financial instruments?

Isn't it ironic, that most counties that surround Washington, DC, are bursting at the seams with prosperity? Of the richest counties in America as of the 2012 Census, 12 of the top 25 in the entire United States are located in the DC area.

Another interesting statistic: Washington, DC also sports the worst income inequality in the United States. In the District, the top 20th percentile of households made an average of $259,000 a year, compared to the bottom 20th percentile that made just $9,100 a year. In America as a whole, the top 5th percentile earned $292,00, significantly less then the $473,000 made by the top 5th percentile in the District of Columbia. (Source: Wall Street Strategies Sept 25, 2013)

The last time government had it this good, it was due to the same tactics – high taxes and regulation – and eventually the people rebelled, kicked off by the Boston tea party. Under the British King George, the colonists had to deal with:

- The Stamp Act
- The Navigation Act
- Molasses Act
- Tea Act
- Boston Port Act
- Coercive Acts
- Massachusetts Government Act
- Quartering Act

All under fancy labels, but in reality nothing more than taxes, regulations and uncertainty creators!

Today, the list is just as long:

- Lily Ledbetter Act (2009)
- Children's Health Insurance Program (2009)
- American Recovery and Reinstatement Act (2009)
- Omnibus Public Land Act (2009)
- Helping Families Save Their Home Act (2009)
- Family Smoking Prevention and Tobacco Act (2009)
- Cash for Clunkers Act (2009)
- Dodd Frank Act (2010)
- Unemployment Compensation Act (2010)
- Tax Relief/Unemployment Insurance Reauthorization Act (2010)

And of course, the now infamous:

- The Patient Protection and Affordable Care Act (2010) – commonly known as "Obamacare"

Of course the list is longer, but what is interesting is that the bulk of legislation that were passed occurred in 2009 (15) and 2010 (17), during Obama's first two years. He then spent the better part of 2011 (7) and 2012 (only 1 bill passed) campaigning for re-election, and in 2013, since re-election has passed but one (American Tax Payer Relief Act).

So call it taxation, call it social equality, call it whatever, but the entitlement spending which has gone on the last five years has taken the U.S. debt to just under $17 trillion. So in the 232 years from 1776 to Obama's election, the USA accumulated approximately $10 trillion in debt but in just over four years added another $7 trillion, and no one seems to think that is a little "odd."

So there might be a possible US government shutdown, but they will not default regardless of what fear tactics Obama will use in his speeches, the US Treasury would use incoming revenue to pay interest on the Federal Debt before it made other payments.

Even though we are long due for a decent pullback, I think there are lots of catalysts that will trigger the next leg up:

1. The U.S. Federal Reserve's "taper" program will kick in later and take longer (be smaller) than expected.
2. The rotation will continue from bonds (which have been falling since April) to equities.
3. The debt ceiling will get resolved or end with a second sequester. The first sequester proved to be market positive, and sent the government budget deficit plunging at the fastest rate in history, with the first serious cuts to military spending since the Cold War.
4. Europe is improving.
5. Japan has turned the corner (it seems). China seems to be as well.

No, this is not your father's bull market. Interest rates have moved up but they are still historically low. Corporate balance sheets are the best they've been in decades. We have to accept, since 9/11 the fact that terrorism and evil are forever out there.

I've been saying for sometime we could be into a new sectored bull market not seen since 1999. Time will tell.

Quotes

"What is success? I think it is a mixture of having a flair for the thing that you are doing; knowing that it is not enough, that you have got to have hard work and a certain sense of purpose." - Margaret Thatcher

"Gold has two significant shortcomings, being neither of much use nor procreative." - Warren Buffett

"Politicians are people who, when they see light at the end of the tunnel, go out and buy some more tunnel."
- John Quinton, American Actor/Writer

"The difficulty lies not so much in developing new ideas as in escaping from old ones." - John Maynard Keynes

Notes

Percentage of Population Less than 30 Years Old

Morocco	29%
Algeria	21%
Libya	28%
Egypt	29%
Lebanon	27%
Syria	31%
Jordan	30%
Saudi Arabia	28%
Yemen	30%
Iran	34%

Before we become too concerned about these figures we should remind everyone that as of the turn of the century, 27% of the U.S. population was under the age of 18, so the U.S. was – and still likely remains – a very youthful country.

(Source: The Gartman Letter 3/28/2011)

Top Ten Currencies and Their Volumes/Day (in trillions)

US Dollar	$4.6
EURO	1.7
Yen	1.2
Pound Sterling	0.6
Aussie Dollar	0.5
SwissFranc	0.3
Canadian Dollar	0.3
Mexican Peso	0.2
Chinese Yuan	0.1
New Zealand Dollar	0.1

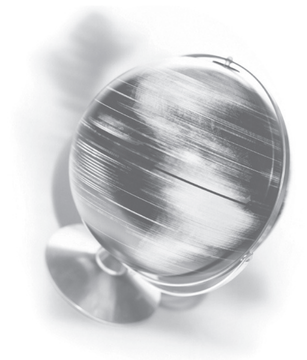
(Source: The Gartman Letter 9/18/2013)

Conversation Stopper

According to brain imaging research from Carnegie Mellon University, merely listening to someone on the phone led to a 37% decrease in activity in the parietal lobe, where spatial tasks are processed. This suggests that hands-free mobile phones may help drivers keep their eyes on the road, but they may not significantly reduce the "distracted driving" impact of phone conversations. Officially, distracted driving accounted for 16% of traffic deaths in the United States in 2009 and 20% of injuries. This figure understates the true impact, however, since fewer drivers admit to using mobile phones after an accident and police seldom demand phone records.

(Source: "Think Before You Speak," The Economist, 4/14/2011)

Around the GLOBE



Canada (Selective Buy)

- The TSX has been drifting all year
- Commodity names have been beat up – needing China to pick up
- Our success very contingent on U.S.

Asia (Hold)

- Japan improvement still ongoing
- Chinese data has been mixed; If China can turn corner, would see huge leverage in area

Emerging Markets (Hold)

- Too contingent on the U.S. markets
- Great demographic story but political risk always present

U.S. (Strong Buy)

- Despite dysfunction in DC, all the other concerns, etc.
- The U.S. indices are only 3-4% off all time highs
- U.S. economy picking up steam and more are realizing it

Europe (Selective Buy)

- Not on front pages anymore, not getting worse it seems
- Probably time to start buying
- Still a great divide between "North" (Germany, France, Scandinavia) and "South" (Italy, Spain, Greece)

A Special Welcome to All New Clients Who Have Joined Us

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

Please Don't Keep Us a Secret!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion we would be grateful if you passed on our number 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

Congrats, L.S.,
Our winner this quarter!