RBC Dominion Securities

Money
NEVER SLEEPS

The Newsletter for the Informed Investor

April 2005

The big Picture

The Bermuda Triangle, The Lock Ness Monster, The Yeti and Bull Markets

Are They All Myths?

It took five days in 2005 before the S&P 500 closed in the plus column, and having just finished the first quarter of the year not much has changed with most major indices down 3-4%, and the tech laden NASDAQ down approximately 8%.

It would seem buyers have disappeared into the Bermuda Triangle over the Christmas holidays. Still there has been some sort of mystery surrounding the markets all year. Sure oil prices are up $10 per barrel since the New Year, but are not much higher than where they were November 1st, just before that decent two-month rally. The good news? The market is not going up, but it's not collapsing either despite the higher oil prices. The spell that has spooked the markets all year remains, and potential buyers with those hordes of cash on the sidelines remain there, sitting on their wallets.

The doomsayers focus on the growing US deficits; the trade and budget deficits. Despite the weaker US dollar that pundits attribute to the deficits, history would suggest otherwise. Last year the US deficit was 5.2% of GDP. Britain's was 5%, yet their currency has been so strong. Over the last three years, the US deficit was a cumulative 13% of GDP, identical to Britain's. Do trade deficits lead to a weak economy? No, it's exactly the opposite according to historical numbers.

If you want to explain currency moves, you'd do better to look at interest rates rather than deficits. As 2004 started, Euroland's rates were nicely above America's, in both short-term and long-term money. Arbitragers borrowed in the US and invested in Europe, pocketing the spread. And they did it all at the same time. Now the game is taking place in reverse, and the US dollar is rising in 2005, but hardly anyone has noticed.

Yes, the twin deficits must be addressed, but they have been a necessary evil to deal with events over the last four years. These deficits will be adjusted by a stronger US economy. Don't get me wrong, there is no doubt a lack of savings in the USA has played a negative role in the deficits and the need for foreign investment. But the baton of consumption now needs to pass from the consumer to businesses.

When we wonder why the stock market can't get out of the gate, we have to pin a lot of blame on corporate leaders. The CEOs of corporate America have become

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Big Picture

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afraid of their own shadows, and have been rewarded for cost cutting and saving money for too long. It is time investors reward those companies that are spending on R & D, capital expenditures, and efforts to capture market share. Moreover, forget the attempts to hype average performance; we need bolder vision and grander schemes.

So we are reminded daily by the media pundits what to worry about: Tighter money (how high will interest rates go?), Profits (plateauing), Iraq, and the Impairment of Adaptation by the USA (the US economy has adapted for 130 years!)

So, to save you all a lot of stress, I will tell you (in my opinion) what NOT to worry about:

1. **The American Consumer:** Has been strong since 1999; debt levels in line using numbers back to 1970; liquid assets 2X as high as levels in the 1970s; 9/11 and two wars have made them cautious; mortgage debt up, yes, but more fixed-term and renters are converting to owners; consumer incomes and consumer spending have grown at the same levels.
2. **US Fiscal Deficit:** Has already improved (from $485 Billion in 2004, projected $413 Billion this year). Tax receipts are rising, mainly since employment is rising.
3. **American Savings:** The current account deficit, yes, has been used instead of savings, but despite the fact the world generally disagrees with US policy, seems to dislike the USA as a nation more than ever, despite all that, foreigners keep investing in the USA.
4. **Outsourcing:** There are 160 million workers in the USA; only 17% is in manufacturing where most of outsourcing is taking place. Outsourcing is running 200,000 to 300,000 jobs per year. The productivity et al in the US economy destroys 5 million jobs per year and adds on average 1.5 million new jobs, so outsourcing is not a big problem.

The biggest problem so far (and in my opinion should be the biggest worry) is why aren't US corporations spending? Well, my guess is they were bitten big time last time they did it in 1999 to 2001, much of it in preparation for Y2K. Reportedly over 50% of that investment/spending has been written off already, so CEO's are more concerned with keeping their high paying positions and answering to their boards, than investing in the future, so it really becomes a Catch-22 situation.

(As always, the views expressed are those of the author and not necessarily those of RBC Dominion Securities.)

The Little Picture

What do I see?

Yes oil is over $58. Yes that it is inflationary. Then why are 10-year US Treasury notes hovering at 4.50%, despite five Fed rate increases, virtually unchanged? Leads me to think the "street" doesn't believe the oil hype? This despite the fact the majority of institutional investors continues to sit on their hands. I would say Fed Chief Greenspan is reluctant to go too dramatic for fear of further shocking the financial system and/or bursting the real estate bubble he has defended as non-existent. Remember he is also working on leaving a positive legacy.

I'm tired of hearing about the strong economies of China and India, but those countries are growing by spreading deflation, and certainly their economies can't withstand substantially higher oil process. This is even truer when their exports start to sit on docks as Americans choose between a cute wicker chair and driving to Grandma's for the summer.

What goes around comes around and we all need to remember, "nothing lasts forever." The Chinese economy is not immune from cycles and they have openly admitted to trying to slow things down. The commodity run could reverse very quickly which would help corporations via lower costs. I'm hearing and reading a lot about why Europe is the place to be. As an investor, I ask you: would you prefer to invest in European markets where the two largest economies Germany and France have a postwar (yes 55 years!) and five-year high in unemployment rates (12% and 10.1% respectively) and whose economies are sliding, or would you rather invest in the largest economy in the world which is growing above estimates (4% last quarter), buying in to a cheaper currency, and who is creating jobs? I'll place my best on that much-maligned corporation called the USA.

This market is not unlike last year's market that saw lots of gyrations and false breakouts only to end the year higher. I happen to believe 2005 will be a better year than 2004 and that the next breakout will be the ultimate move. The catalyst we need, in my opinion, will come from the stronger corporate earnings, as well as a rising US dollar, and stabilization in the oil patch.

In the community

Children's Golf Classic – July 13th

The 16th annual Children's Golf Classic will take place at Sunningdale. Once again, I am the major sponsor. Last year our committee managed to raise an outstanding $133,000. Obviously, we'd like to raise more. All (100%) of proceeds stay here in London. If you, your company, or anyone you know are interested in donating products, services or cash, we can use them for the live and silent auctions. Help me help the sick kids get better, invest in our future!

Around the globe

U.S.A. (STRONG BUY)
- ❖ US dollar has been basing and actually starting rise
- ❖ 10 year rates unchanged despite 5 Fed rate increases
- ❖ Economy ahead of pace with 4% GNP growth up last quarter

Europe (REDUCE)
- ❖ Two largest economies (Germany/France) struggling
- ❖ High euro has hurt exports
- ❖ Prefer USA

Asia (TRADING BUY)
- ❖ Japan seems to be gaining some fans after 15 years down
- ❖ China still humming but maybe too much
- ❖ High oil prices really hurt because all imported to Asia

Latin America (TRADING BUY)
- ❖ Mexico first major in world to surpass 2000 highs
- ❖ Still lever off US economy
- ❖ Could be explosive if US ever gets going

Canada (BUY)
- ❖ Higher dollar, oil and gas run, commodity run have also helped the TSX
- ❖ Question on how high rates go and how high Cdn dollar effects exporters
- ❖ Tough to find value right now

"Quotes"

"The great danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it."
Michelangelo Buonarroti 1474-1564

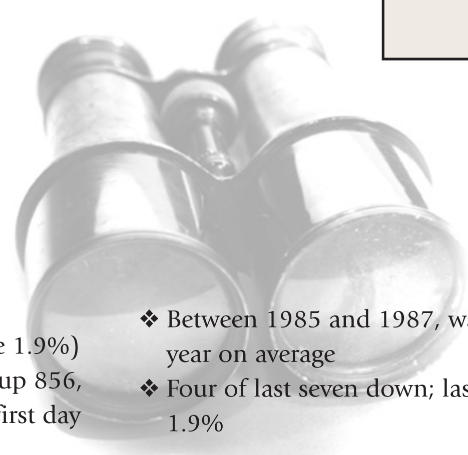
"It is an unfortunate human failing that a full pocketbook often groans more loudly than an empty stomach."
Franklin D Roosevelt

"If it was going to be easy to raise kids, it never would have started with something called labour."
Anonymous

"While it is the camel at the front of the caravan that holds everything up, it is the ones at the back that get the beating."
Ethiopian Proverb

"You're not drunk if you can lie on the floor without holding on."
Dean Martin

Looking ahead



April
- ❖ Since 1950, still best month on Dow Jones (average 1.9%)
- ❖ April 1999, up 1000 points, 2000 down 188, 2001 up 856, 2002 down 458, 2003 up 488, in 2004 sown 132; first day up 8 of last 10
- ❖ Big quarter for corporate earnings
- ❖ Rarely a dangerous month, "best six months" of year end with April
- ❖ In post election years, NASDAQ up 6, down 2, average gain of 2%

May
- ❖ Between 1965 and 1984, 15 out of 20 down
- ❖ Between 1985 and 1987, was best month gaining 3.3% per year on average
- ❖ Four of last seven down; last 15 years, sports average gain of 1.9%

June
- ❖ Since 1950, 30 up, 25 down – average mere 0.2% on S&P
- ❖ On last day down 10 of last 14 on "portfolio dressing up"
- ❖ First day up 6 of last 7
- ❖ Post election year Junes down average of 1.2% on Dow Jones

(Source: 2005 Stock Traders Almanac)

Notes

The prices of New York Stock Exchange (NYSE) seats have been outstanding contrarian indicators. The highest price ever a seat sold was for $2.65 million US (yes right near the high!) in August 1999. On January 11th, a multiyear low was reached when a seat sold for $975,000 US. Earlier this month, two were sold for $1.475 million US, for a 54% increase since January, but almost 50% lower than almost six years ago. (Source – Dow Jones)

Top Oil Exporters (2001) (millions of barrels per day) (*=OPEC member)

1. Saudi Arabia*	7.38	6. United Arab Emirates*	2.09
2. Russia	4.76	7. Nigeria*	2.00
3. Norway	3.22	8. Iraq*	2.00
4. Iran*	2.74	9. Kuwait*	1.80
5. Venezuela*	2.60	10. Mexico	1.65

(Source: October 14, 2004 Fortune Magazine)

Since 1965, while 10% is close to the long run average of stock returns, it is far from "normal" since in only four of the last 40 years has the market's return been between 8% to 14%. The other 36 years have either been better than 14% (20 years) or worse than 8% (16 times). (Source: Warren Buffet's Chairman's Letter, 2004 Berkshire Hathaway Annual Report).

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 through a nice dinner at one of the finer restaurants in London.

Congrats to Greg R.
Our winner this quarter!

Portfolio Corner

(Prices as of close April 5, 2005. Full research reports available on request)

This Quarter's Buys:

Atlas Cold Storage:(TSX-FZR.UN $5.80) Like it's name suggests, FZR's principal business is temperature controlled storage and logistics. Have 55 facilities. Was one of first business trusts public in 1998 at $10, peaked at $13.42 in June 2003 then collapsed to $4.45 after some accounting issues and distributions stopped. New management turning situation and perception around and payout should resume somewhere in 2006 which should drive up price. Aggressive name, think 24 months.

Symantec Corp: (NDQ-STMC $20.97) SYMC develops and supports a broad line of software, mainly in security/firewall/virus protection through brand name of Norton. Revenues expected at $2.5 Billion for 2004. Stock recently hammered (too much I say) due to its $11 billion takeover of Veritas software. SYMC peaked at $43.05 in December 2004 (not bad in post tech wreck world). I think it could back up to $26-28 in 18 months.

Stratos Global: (TSX-SGB $9.00) Provider of satellite communications for commercial and military users. At $9.00, stock has free cash flow on 13% on 2005 estimates. Unlikely to pay an ongoing dividend but potential for special dividend and/or more share buybacks. Possible management levered buyout? Stock peaked at $32.25 in October 2000. Somewhat aggressive. Think 18+ months.