



RBC  
Dominion  
Securities

# THE Gee~NOTE

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December/January



## MARKET COMMENT

As 2010 draws to a close we may have a second consecutive year of double digit gains as the Canadian TSX index is up 12.7% and the U.S. S&P 500 ahead 11%

year to date. The U.S. is experiencing a jobless recovery, with interest rates expected to stay put into early next year. Euro Sovereign Debt issues and China expected to raise interest rates shortly may continue to influence market directions and cause added volatility. For 2011 we forecast a S&P 500 level of 1325 (currently 1240) and 14000 for the TSX (currently 13295). Our recommended sectors for the S&P 500 is to overweight Energy, Technology, and Healthcare and Consumer staples. In Canada, leading economic data have stabilized and the business cycle is currently more important to the TSX than at anytime in the past 50 years. The TSX should benefit from improved international economic conditions given that 45% of its revenue is sourced from abroad. In Canada we recommend over weighting Consumer Discretionary, Telecom Services and Energy stocks.

### Daylight Energy (DAY) \$9.85

is an intermediate E&P which completed its conversion from an income trust in May 2010. Current production of approximately 43,000 boe/d is weighted ~55% to natural gas and comes predominantly from Pembina, Elmworth and various properties in West Central Alberta. Daylight's strategy, similar to many of its peers, is to use its technical team to create value through the acquisition and



exploitation of properties in the Western Canadian Basin, with a focus on 'resource style' assets.

### Investment Rationale

We rate Daylight shares Sector Perform, Average Risk. Cardium Key Organic Growth Play - Approximately 60% of Daylight's 2010 capital spending will go toward development of its Cardium rights at Pembina. Daylight's land position is focused in the 'halo' areas surrounding the main Pembina Cardium pool, where industry drilling results has exhibited significant variability. The results of Daylight's drilling campaign at Pembina are likely to be the main driver of the stock in the near term, in our view. Attractive Relative Valuation. We think Daylight is attractively valued on a relative basis, though our investment view is tempered by the early-stage nature of its growth projects. Booked reserves include only a small component of the Cardium, Cadomin and Nikanassin drilling locations identified by management, which provides the potential for robust reserves and NAV growth as these plays are de-risked. Our one year target is \$10.50 and you receive a 6% dividend while you wait.

### Unilever (UL) - \$28US Investing in Emerging Markets with a 3.8%yield!

There has been numerous analysts recommending investing in Emerging Markets such as China, India, Brazil, etc due to their rapid growth economies and young populations with rising disposable incomes. A more conservative way to invest in these markets is to buy Unilever which derives currently 50% revenues from



emerging markets. Unilever is one of the world's largest consumer staples producers of food and personal care products. Its brands include Dove, Sunlight, Alberto Culver, Ponds, Vaseline, Sunlight, BeceL and Lipton. The recent acquisition of Alberto Culver now makes Unilever the world's leader in hair conditioning, second in shampoo and third largest in styling. Our one year target is \$33 and you receive a 3.8% dividend while you wait.

## 2010 Year-End Tax Planning

### **Tax Loss Selling:**

The strategy of selling securities at a loss to offset other capital gains realized during the year is probably the most popular year-end tax planning technique. With all of the volatility in the markets over the past few years, there may be opportunities for tax loss selling this year. When disposing of an investment, you must remember that the sale for Canadian tax purposes will be deemed to have taken place on the "settlement date". Assuming the normal three-day settlement, in order to utilize this strategy for the 2010 tax year, transactions must be initiated by **December 24, 2010** for Canadian transactions and by **December 28, 2010** for U.S. transactions in order to actually settle during 2010. Note that since December 28, 2010 is a holiday in Canada, you may also want to consider placing any U.S. transactions by **December 23, 2010** with your advisor to ensure 2010 settlement. Canadian and U.S. option transactions have a one-day settlement, therefore option transactions must be initiated by **December 30, 2010** to ensure 2010 settlements. In order to ensure that your capital loss can be claimed, you must adhere to the "superficial loss" rules. A superficial loss will occur when a security is sold for a loss and both of the following occur:

- i) the identical property is acquired or re-acquired during the period beginning 30 days before the disposition and ending 30 days after the disposition of the original security; **and**
- ii) at the end of the above period, the identical property is still held

Among other situations, the superficial loss rule also applies if you sell an investment at a loss and it is acquired by your spouse OR a corporation controlled by you and/or your spouse, OR a trust of which either you or your spouse is a majority interest beneficiary during this time period. If you trigger the superficial loss rule your capital loss will be denied. Your denied loss amount will then be added to your cost base of your substituted investment effectively resulting in your original cost base being transferred to your newly repurchased shares. However, if you delay the repurchase until after the 30-day period, you may claim the capital loss. Note that the 30-day waiting period is counted from settlement day of sale to settlement day of repurchase and includes all holidays and weekends. Furthermore, the superficial loss rules also apply to mutual funds sold at a

loss.

Selling the loss security in a non-registered account and repurchasing the identical security in you or your spouse's RRSP/RRIF/TFSA/RESP within 30 days and owning it on the 30th day after the sale will also deny the use of the capital loss. Furthermore, a direct transfer or swap of the loss security to you or your spouse's RSP/RRIF/TFSA/RESP will result in the capital loss being permanently lost. Gifting the loss security in-kind to a non-spouse individual (like a minor or adult child) will allow you to claim the capital loss as this gift is a disposition at market value and does not trigger the superficial loss rules. Any capital losses generated that cannot be used in the current year can be carried back three years to be applied against capital gains of prior years (i.e., 2007, 2008 or 2009) or carried forward indefinitely. Note that this is the last year which you can carry your losses back to 2007 and offset them against your 2007 capital gains. In order to increase the effectiveness of tax loss selling, portfolios should be reviewed with your advisor to determine which investments are in a loss position and no longer meet your investment objective. Hence, if the investment still has strong fundamentals and meets your investment objectives, consider all costs, including transaction costs before selling investments solely for the purpose of triggering the tax loss. Note that if you plan on triggering a capital loss in a corporation, you should speak to your accountant prior to triggering the loss as it may be advantageous to pay out the capital dividend account (CDA) balance prior to triggering the loss.

### **Charitable Donations:**

In addition to RRSP contributions and investment tax shelters (discussed later), making a charitable donation is one of the few remaining ways that you can significantly reduce the personal tax you pay. The final day to make contributions to a registered charity in order to claim the donation tax receipt on your 2010 income tax return is December 31, 2010. Due to the calculation of the donation tax credit, donations above \$200 can result in a tax savings equal to the top marginal tax rate in your province of residence (except Alberta where the donation tax credit is equal to 50%). For example, a donation of \$10,000 can result in tax savings of approximately \$4,300 for residents of British Columbia. As an alternative to cash, you can also donate publicly listed securities in-kind to qualified charities without being subject to tax on the capital gain. You will receive a donation tax receipt equal to the fair market value of the security at the time of the donation, which can help reduce your income tax on your other income.

This publication is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article

**Did you know....????**

1. At Christmas, it is traditional to exchange kisses beneath the mistletoe tree. In ancient Scandinavia, mistletoe was associated with peace and friendship. That may account for the custom of "kissing beneath the mistletoe".



2. The poinsettia is a traditional Christmas flower. In Mexico (its original birthplace), the poinsettia is known as the "Flower of the Holy Night".



3. Christmas caroling began as an old English custom called Wassailing - toasting neighbors to a long and healthy life.

4. Christmas trees are edible. Many parts of pines, spruces, and firs can be eaten. The needles are a good source of vitamin C. Pine nuts, or pine cones, are also a good source of nutrition.



5. The Canadian province of Nova Scotia leads the world in exporting lobster, wild blueberries, and Christmas trees.

**Bill's Fortune:**

On behalf of my team Beth Kay, Nicole Singh, and myself, have a fabulous Christmas and best of health and happiness for 2011. Please take some time to assist those less fortunate. Indeed, we live in the best country and we should be thankful for this. Be proud



and support our individuals in our armed forces overseas who sacrifice to make our world a better place to live. Thank you for you continued support.

**My Christmas Wish List for 2010:**

- 1. *President Obama:* A Fresh Start
- 2. *Lindsay Lohan:* Any Start
- 3. *Charlie Sheen:* More discretion
- 4. *Lady Gaga:* A Vegetarian Dress
- 5. *North Korean President's son & successor Kim Jong-Un:* A different hair stylist from Dad
- 6. *Prince William & Kate:* A wedding budget
- 7. *Team Canada:* World Junior Championship
- 8. *To all that I missed:* A higher profile

**Gee Note via E-mail**

*Please continue to send us your e-mail addresses.*

We are aware that not all our clients have access to e-mail; we will still continue to send the Gee Note by mail.

If your e-mail has changed, or if you would like the Gee Note sent to your inbox, please e-mail me at [william.gee@rbc.com](mailto:william.gee@rbc.com). Thank you for your response and feedback, and keep the e-mails comin'!!

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## December Recommended Stocks

<i>Canadian Stock</i>	<i>Price</i>	<i>Target</i>	<i>Yield</i>	<i>Current Rating</i>
Bank of Montreal (BMO)	62.00	73.00	4.5	Buy
Bank of Nova Scotia (BNS)	57.00	56.00	3.4	Hold
Bombardier (BBD'B)	4.78	6.00	2.0	Buy
Daylight Energy (DAL)	10.00	10.50	6.0	Buy
TD Bank (TD)	73.00	86.00	3.2	Buy
Royal Bank (RY)	52.00	63.00	3.8	Buy
Research in Motion (RIM)	60.00	90.00		Buy
Capital Power (CPX)	24.00	23.00	5.1	Hold
Suncor (SU)	36.50	46.00	1.2	Buy



<i>U.S. Stocks</i>	<i>Price</i>	<i>Target</i>	<i>Yield</i>	<i>Current Rating</i>
Bank of America (BAC)	12.30	16.00	0.3	Buy
Microsoft (MSFT)	28.00	33.00	2.2	Buy
Corning (GLW)	19.00	26.00		Buy
Citigroup (C)	4.60	6.00		Buy
Domino's Pizza (DPZ)	15.68	22.00		Buy
EMC (EMC)	22.50	25.00		Buy
Keycorp (KEY)	8.30	10.00		Buy
General Electric (GE)	16.00	20.00	3.0	Buy
Unilever (UL)	30.00	35.00	3.6	Buy

**Prices as of 12/15/2010, Recommendations subject to change without notice**  
**Targets, Yields and Ratings provided by RBC Capital Markets**

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## FIXED INCOME - WHAT'S YOUR INTEREST?

BONDS	COUPON	YIELD	PRICE	MATURITY	DETAILS		
<b>STRIP BONDS</b>		<b>1 YEAR</b>	<b>2 YEAR</b>	<b>3 YEAR</b>	<b>4 YEAR</b>	<b>5 YEAR</b>	
Best Rates		1.80%	2.25%	2.50%	2.80%	3.00%	
<b>SHORT TERM GOV'T STRIPS</b>				<b>30 DAYS</b>	<b>60 DAYS</b>	<b>90 DAYS</b>	<b>180 DAYS</b>
Best Rates					1.00%	1.20%	
<b>BANKER'S ACCEPTANCE</b>				<b>30 DAYS</b>	<b>60 DAYS</b>	<b>90 DAYS</b>	<b>180 DAYS</b>
Minimum \$50,000				n/a	n/a	0.75%	1.00%
<b>GIC'S</b>		<b>1 YEAR</b>	<b>2 YEAR</b>	<b>3 YEAR</b>	<b>4 YEAR</b>	<b>5 YEAR</b>	
Best Rates		2.05%	2.40%	2.80%	3.15%	3.35%	
<b>US MONEY MARKET</b>				<b>60 DAYS</b>	<b>90 DAYS</b>		
<b>MINIMUM \$50,000</b>							
U.S. T-Bill, U.S. Money Market				0.10%	0.12%		
<b>OTHER</b>				<b>PRICE</b>	<b>YIELD</b>		
NorthWest Healthcare (NWH.UN)				\$11.40	7.00%		
<b>ETF (EXCHANGE TRADED FUNDS)</b>		<b>PRICE</b>	<b>YIELD</b>	<b>TERMS</b>			
BMO Emerging Market Bond Fund Hedged to CDN \$ (ZEF)		\$16.07	6.68%				

### \*\*\*RATES SUBJECT TO CHANGE WITHOUT NOTICE\*\*\*

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# RBC CM Strategy Focus List

The Strategy Focus List selects stocks that are expected to outperform based on fundamental, technical, and quantitative analysis.

## New Year 2011

This report is priced at market close EST on November 30, 2010, unless otherwise noted.

ARC Energy Trust	AET.un	\$24.33
Bank of Montreal	BMO	\$60.20
Barrick Gold Corporation	ABX	\$51.65 US
BCE Inc.	BCE	\$34.71
Brookfield Asset Management Inc.	BAM	\$29.23 US
Canadian Natural Resources Ltd.	CNQ	\$39.49
Canadian Pacific Railway Ltd.	CP	\$65.55
Eldorado Gold Corporation	EGO	\$17.44 US
Enbridge Inc.	ENB	\$57.14
EnCana Corporation	ECA	\$27.70 US
Intact Financial Corporation	IFC	\$48.95
Magna International Inc.	MGA	\$47.64 US
National Bank of Canada	NA	\$67.84
Potash Corp of Saskatchewan Inc.	POT	\$143.75 US
Research in Motion Ltd.	RIMM	\$61.83 US
Royal Bank of Canada	RY	\$54.95
Sun Life Financial Inc.	SLF	\$27.70
Suncor Energy Inc.	SU	\$34.48
TD Bank Financial Group	TD	\$74.69
Teck Resources Limited	TCK.B	\$51.01
Trican Well Service Ltd.	TCW	\$19.74
Valeant Pharmaceuticals Int'l Inc.	VRX	\$25.87 US

### Stocks added to the New Year 2011 Focus List:

Eldorado Gold Corporation  
Intact Financial Corporation  
Magna International Inc.  
Trican Well Service Ltd.  
Valeant Pharmaceuticals Int'l Inc.

### Stocks removed from the New Year 2011 Focus List:

Goldcorp Inc.  
Metro Inc.  
Thompson Reuters Corp.

Source: RBC Capital Markets Equity Selection Sub-Committee

**\*\*\*Visit Bill at his website: [www.dir.rbcinvestments.com/bill.gee](http://www.dir.rbcinvestments.com/bill.gee)**