RBC Wealth Management
Dominion Securities

John Davies, CFP
Vice-President and Investment Advisor
1922 Wyandotte Street East
Windsor, ON N8Y 1E4
519-252-3517
www.johndavies.ca

Client Letter – Autumn 2013

"Piglet noticed that even though he had a Very Small Heart, it could hold a rather large amount of Gratitude." **—** A.A. Milne, *Winnie-the-Pooh*

I am happy to report that after a disconcerting summer with what has since been diagnosed as *Guillain-Barre Syndrome*, I'm back to my old self. I thank everyone for their support and kind thoughts and look forward to serving you for years to come.

Yellen for the Status Quo

Ben Bernanke will be stepping down as Chairman of the Federal Reserve Board. He's the top dog of the Central Bank of the USA; Canada's counterpart is Stephen Poloz, the Governor of the Bank of Canada. Central Banks control *monetary policy,* which set such things as short term interest rates and control the money supply.

Back in 2008/09 during the global financial crisis, Chairman Bernanke came to the rescue of the financial system by backstopping all sorts of bonds, mortgages, debt securities, bank accounts and money market funds. In essence, funds were created by the Central Bank to purchase securities and hold them until a later date. Most economists, academics and politicians of all stripes agreed that something dramatic had to be done to save the system.

Referred to as Quantitative Easing, it continues to this day as $85 Billion per month is printed by the Federal Reserve Board to continue to purchase bonds and mortgages in an effort to keep interest rates where they are. They theorize that low interest rates will stimulate economic activity and jump start growth. Consumer purchasing power and home values are often enhanced via low interest rates.

One primary determinant as to continue with QE or not is the level of unemployment. (God only knows what the real unemployment level is. If someone has given up looking for work, they are no longer considered "unemployed". Unbelievable, yet true).

The odds on favourite to take over for Chairman Bernanke is Janet Yellen who is perhaps more easy than Ben. Look for continued low interest rates for some time and Quantitative Easing as far as the eye can see. My best guess is that any attempt to "taper" or reduce the money printing will result in a negative response, just as it did last spring.

Déjà Vu

No, you're not imagining things. The Americans are going to revisit the debt ceiling come this Spring…….AGAIN! Let's see what happens this time around.

Back in the summer of 2011, the US Federal debt ballooned to the point that the self imposed limit on accumulated debt was about to be breached. A last minute deal was struck to avoid what was feared to be a calamitous outcome should the Federal Government lose its ability to fund its operating debt/short fall.

Roll the clock forward and we're essentially where we started but this time the debt level is up by an additional $2.1 Trillion and now stands at over $17 Trillion. For the "real time" number, click this link http://www.usdebtclock.org/ . The political shenanigans carried on through the summer. Here in Ontario, we have a burgeoning accumulated debt that will have to be dealt with by future generations.

With all of this grand standing and deals cut at the last possible second, it is no wonder that politicians have their lowest approval ratings…..ever! Look no further than our own back yard with what's going on in Toronto with Mayor Ford or in Ottawa with our Senate. You couldn't make this stuff up.

Mums the Word on Testamentary Trusts

I have nothing new to report on the potential abolishment of graduated tax rates on Testamentary Trusts which are established when one passes away and are set up through a Will. Word has it that the tax advantage will disappear effective Jan 1st, 2016, but nothing is official yet. If it does come to pass we will revisit our estate planning, one of the pillars of an overall financial plan, and determine which action would be most appropriate. Being that plans are tailored for each individual, I cannot make blanket recommendations but will meet personally with clients. I expect to hear something official in the not too distant future.

Interest Up, Bonds Down

The last year has marked an increase in interest rates which puts downward pressure on the value of bonds and interest sensitive investments. Besides bonds, interest sensitive investments include preferred shares, REITs (Real Estate Investment Trusts), utilities and financial stocks. Of the aforementioned securities, REITs are paying an attractive yield and likely offer some inflation protection over the longer term. Not only do replacement costs for buildings go up over time but so does the rent that landlords charge their tenants. Most of these investments have been affected negatively but may well provide an opportunity for the patient long term investor.

A Down Year for Gold

After a long string of positive returns, the gold market gave back some ground in 2013. At the time of writing it had given back some 25% or so but in spite of its poor performance I still believe in its merits over the long term. Gold shares, in particular, which had seen significant gains up until a few years ago were particularly hard hit and are currently "on sale".

Heads Up on Fraud

The last year has seen increased attempts by fraudsters who gather information from not just our clients but people generally. There have been some fairly sophisticated "*phishing emails*" sent out by parties pretending to be legitimate entities. Some hold themselves out to be Canada Revenue Agency or a financial institution such as RBC Dominion Securities. Others pretend that they're from your internet service provider and "need access to your computer to fix a problem". Under no circumstances should you respond to queries about your personal information such as passwords, social insurance numbers or personal banking. They're thieves trying to scam people out of their hard earned money.

House Keeping

Recently clients were informed of my "promotion to vice-president". This is strictly a title of acknowledgement and nothing has changed as it relates to my practice here in Windsor and God willing, I'll be doing it for many years to come.

If everything goes the right way for Kerby Rychel and he earns a spot on the Canadian World Junior Hockey Team, I will be out of the office from December 27th through to Tuesday January 7th. My Associate Advisor, Erin Hooper, will be covering in my absence should you have any needs that require immediate attention.

In early February Erin and I will be attending a conference with our firm but we'll ensure that we have adequate coverage for our clients.

As another year winds down and comes to a close I wish you the happiest and healthiest of Holiday Seasons. On behalf of myself, Erin Hooper and RBC Wealth Management, thanks again for your continued support. We truly appreciate it.

Sincerely,

John Davies, CFP
Vice-President and Investment Advisor
RBC Dominion Securities

Securities or investment strategies mentioned in this newsletter may not be suitable for all investors or portfolios. The information contained in this newsletter is not intended as a recommendation directed to a particular investor or class of investors and is not intended as a recommendation in view of the particular circumstances of a specific investor, class of investors or a specific portfolio. You should not take any action with respect to any securities or investment strategy mentioned in this newsletter without first consulting your own investment advisor in order to ascertain whether the securities or investment strategy mentioned are suitable in your particular circumstances. This information is not a substitute for obtaining professional advice from your Investment Advisor. The commentary, opinions and conclusions, if any, included in this newsletter represent the personal and subjective view of the investment advisor [named above] who is not employed as an analyst and do not purport to represent the views of RBC Dominion Securities Inc. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2013 Royal Bank of Canada. All rights reserved