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Client Letter – Autumn 2011

"The consequences arising from the continual accumulation of public debts in other countries ought to admonish us to prevent their growth in our own."

John Adams, First Address to the U.S. Congress, Nov 23rd, 1797, 2nd President of the United States

Return to Volatility

Do you ever wonder why markets around the world are so volatile these days? I do.
I've been considering buying neck braces as Christmas gifts this year as the markets whiplash their way to the close of 2011. This manic Jekyll and Hyde market is exceptional. One day everything is great and the next day, well, it seems as if everyone wants to get out of the way at the same time.

There are many factors that are contributing to the swings. Here are some but not listed in any particular order:

1) Lack of confidence in political leaders to deal with the issues at hand.
2) Fear of the unknown; no one is quite sure what will happen with the Sovereign Debt issues not just in Europe but around the world. Fear tends to be a bigger motivator than greed.
3) Significant slow down in economic activity in Europe and China
4) Computerized "High Volume Trading" heightens not just volume of shares traded, but swiftness of changes in value
5) Major market swings tend to unnerve investors who still have the recent relevant 2008 financial crisis in their memory banks.

Though the markets have not been as volatile as the 2008/09 period, it none the less has been disconcerting for investors and their advisors too. Some of the most respected managers take advantage of such swings and actually benefit by adding investments to portfolios at what seem to be bargain prices.

Though I cannot guarantee what will unfold, the dividend yield on many companies far exceeds what one might fetch in 10 year government bond investments. At writing, the dividend yield on the S & P 500 (largest 500 companies in the USA), is around 2.5% whereas the US Ten Year Bond is yielding around 2%. From where I sit, last I checked, it looked like these companies carried a lot less debt than the U.S. Federal Government (now at $15 Trillion) and have a lot of money in the bank too. True, there values are not guaranteed but they do look compelling.

It's All Greek To Me

A few years ago there was a tsunami of bad loans that had permeated the financial institutions who had loaned out money to people who really shouldn't have been borrowing. The sub prime lending crisis turned into a full blown credit crisis bringing the financial system as we know it to the brink. Asset values fell faster than an elephant on a greased flag pole.

Governments and Central Bankers around the world stepped up to the plate and in many cases "took over" the bad loans in the system and put them on their own books. It's hard to believe that the sub prime loans, loans made to the least worthy borrowers, could lead to the general demise of the credit markets as it crept up the food chain and caused a seizure in the financial system. This is more or less a symptom of a grander systemic problem, collectively living beyond one's means.

There are parallels I see in the current "Sovereign Debt Crisis", that is, the jam that many nations currently face. The nations who are most likely to default on their debts (the PIIGS nations, Portugal, Italy, Ireland, Greece and Spain) have moved the crisis up the food chain to the likes of France and now too, Germany. And when Euroland is in the news there is a rush to the U.S. Dollar investments as they are the tallest midget in the room. Relatively speaking, on a near term, imminent self destruction basis, the Americans look pretty good as compared to others!

Back here in Canada, we've been ebbing and flowing better than most. Our participation in the "G8", with our banking system fairly pristine compared to our contemporaries, may lead to a name change….perhaps to "Snow White and the Seven Dwarfs".

Congrats to Erin

I'd like to recognise Erin, my long time Associate Advisor, who has completed some fairly demanding courses to achieve her "Fellow of the Canadian Securities Institute" designation, often referred to by its acronym the F.C.S.I.. She takes great pride in her work and is second to none when it comes to client service. Hats off to her!

Save the Paper

I'd like to remind clients that in this computer age and societal efforts to leave less of a footprint on the environment, we too can have our own little impact. Many clients have chosen to go paperless and access their accounts over the internet. It's quick, convenient and easy to do-they even send you a note to let you know when you can view your statement. There is also an initiative to have trade confirmations sent over the net too. If you'd like to go paperless, simply drop Erin a note at erin.hooper@rbc.com and she'll be happy to get things rolling for you. And it's a great idea to send her a test email anyway, just to ensure we have your proper email address on file.

Don't Delay, Top Up Your TFSA

As the years roll by, so do the cumulative effects of the Tax Free Savings Account. Canadian residents 18 and over can contribute $5,000 per year to their TFSA and don't worry, if you missed a year, contribution room carries over from one year to the next. January marks the start of the 4th year of the program and I encourage most to take advantage of this tax sheltered environment. Erin and I will be processing TFSA contributions early in the year where possible. And for those of you still investing in RRSPs, the deadline this year is February 29th, that rarest day in the calendar.

Closing Notes

Time seems to fly by quicker with age. The reason is relativity. When my youthful grandson Kyle turned 6 years of age, the last year of his life represented 16.6% of his life. I just turned 52 and my last year was under 2% of my existence. So every year we age it *seems* to go by faster. My point is simply this; enjoy your days and the time you have with your family and friends….not just during the upcoming holiday season but all through the year.

On behalf of myself, Erin Hooper, and the rest of the staff at RBC Dominion Securities, I want to wish you all of the best during this festive season and in the New Year. We truly appreciate your support over the years and we strive to do our best to confirm the trust you have placed in us.

Sincerely,

John Davies, CFP
Investment Advisor