



John Davies, CFP  
RBC Dominion Securities Inc.  
1922 Wyandotte Street East  
Windsor, Ontario N8Y 1E4  
Telephone: 519-252-3517  
Fax: 519-252-3672  
[www.johndavies.ca](http://www.johndavies.ca)

### Client Letter Spring 2011

*"It is tough to make predictions, especially about the future." Baseball Legend Yogi Berra.*

*"Life is like a box of chocolates. You never know what you're gonna get!" Mrs. Gump, Forrest's mother*

This famous line from the movie Forrester Gump not only applies to life but the financial markets as well. I don't think there is a soul alive who can accurately predict the markets for extended periods of time. No one gets it right all the time. Not even Warren Buffett, the Oracle of Omaha and one of the best investors of all time, bats 1,000. It's simply impossible.

Think of it this way. In order for someone to buy shares of a company there has to be a willing seller. Parties to this exchange obviously have differing views as to the future value of the shares. That's what *makes the markets*. I am bringing this up because I want to remind you how unpredictable things can be. No matter how convinced I may be on the direction of an investment, there are no guarantees that I'll be right.

Look what's happened since my last letter. Japan has been shaken by earthquakes, Bin Laden's suffered a seal attack and the NDP are the Official Opposition.

Often when we are targets of investment advertizing there is a disclaimer that says, "Past performance is no guarantee of future returns." Unfortunately, it is all too easy to look at the recent relevant past and not heeding the previous warning, we assume things will carry on as they had. Recently, I was reviewing a financial plan from the 1990s and the stock market return assumptions were 12% and interest rates on guaranteed investments were pegged to carry on around 8%. Well guess what happened in the first decade of the new millennium? The global markets, relative to the previous 60 years, missed the target by a country mile. Bond funds ended up being a star comparatively speaking.

So when we do our prognosticating it makes sense to be cautious on the rate of return assumptions. The real objective in most cases is to maintain and increase purchasing power over long periods.

When we invest money into an investment there are two types of risks we face. One is a *specific risk* while the other is a *market risk*.

A specific risk is where a company has problems unto itself (perhaps poor management or too much debt) while market risk is simply where the "whole market" is heading downward, often related to the bigger picture. Even great companies can decline as the over all market tumbles and conversely rising tides seem to lift all boats.

## **More Crazy Weather**

Evelyn Browning Garriss, referred to as The Weather Lady, says the *La Nina*, which is when the Pacific Ocean is cooler than normal, combined with *Arctic Oscillations*, which allow cool air to drop south into the tropics, have really shaken up the weather patterns. This year, cold weather extended all the way down to Florida and Mexico damaging citrus and tomato crops. These conditions are partly attributed to dust in the upper atmosphere from volcanic eruptions in the Pacific.

These types of conditions lead to untypical precipitation and temperature patterns. The good news is that the Arctic Oscillations peaked in January and the La Nina is abating; the Pacific Ocean temperatures are normalizing. The bad news is that a lot of damage has been done that will likely restrain growth in food production this year, particularly in the mid west. It's been so wet that that the crops are getting in the ground late and as a result, the yields may be reduced. In the southern beef belt areas of Oklahoma and Texas, they've sustained the longest drought ever recorded. Guess there isn't much ground cover for Elsie the cow and her friends to graze on. All of this, combined with equally terrible weather events around the world will likely lead to higher food prices. I figure it's giving higher energy prices company. The higher these costs are, especially for families who have stretched their budgets, the less they will have to spend on other consumer goods and services. *Staycations*, a word coined to reflect the distance one travels for a family vacation, may be in vogue again as they were back in the summer of 2008 when gas prices were around \$4 per gallon in the United States.

## **Cautious Consumers and the Green Energy Movement**

Here at home the economists are telling us to be cautious about taking on more debt. The head of the Bank of Canada, Mark Carney, has sounded the alarm. On April the 25<sup>th</sup> 2011 the Globe and Mail reported, "Mr. Carney ratcheted up his warnings last year, arguing too many indebted Canadians would be in big trouble if they were to lose their jobs or suddenly incur a large, unexpected expense. At the time, the average household debt level including mortgages had reached a record 146 per cent of personal disposable income. Initial signs of a pullback are being attributed to two factors: consumers are scaling back their appetite for debt, particularly now as rising energy costs cut into their budgets, and changes the federal government made to longer-term mortgages and secured lines of credit."

Though there has been a significant recovery from the ravenous recession of 2008/09, there is still a lot of heavy lifting to be done. Specifically, indebted governments around the world will have to deal with massive unfunded liabilities while at the same time being mindful that dramatic short term reductions in government spending could send us right back to the eye of the storm. Sooner or later, we will all have to adjust to the new reality of a demanding society that lives longer. What a combo-can I supersize that for you?

Closer to home the beat goes on. Windsor/Essex, a place that a few short years ago looked like it was a candidate to be voted the community most likely to fall on its own sword, has come roaring back to life with the help of some well placed government infusions and a provincial green energy plan. And now the DRIC is before us. This should equate to jobs- much needed jobs that will take us from the bottom of the unemployment rolls. Our area is a logical place for the centre of the alternative energy initiative in Canada. There are as many sunny days here as compared to anywhere in Canada and the prevailing winds in the Great Lakes region are somewhat predictable. There are plenty of skilled tradespeople (*it used to be tradesmen*) and there are still lots of empty buildings and low cost housing. I'm glad that entrepreneurs are noticing the attributes of our area.

## **Housekeeping**

Cathi and I will not be taking a significant vacation until late October. We will, however, be taking a few days off that will be tacked on to the front or back side of a few weekends and statutory holidays. As always, either Erin or I will be here to mind the shop.

Remember that the summer is not only barbeque season; it's a great time to review financial plans. So whether it's an investment review, a hunt for great investments at fair prices or a need to review Wills and estate plans, give us a call or drop us an email and we'll set something up.

On behalf of myself, Erin, and our support staff, here's wishing you a summer filled with family, friendship and laughter.....and always, good health!

**Sincerely,**

**John Davies, CFP  
Investment Advisor**

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