

Preferred Client Report



Summer/2013

Investment Advisor to
Enterprising Canadians

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Market Update

After more than four years of trying to boost its economy through extremely low interest rates and other measures, the U.S. Federal Reserve declared a tentative victory in the second quarter of 2013. Cheered by strong jobs and housing data, Fed Governor Ben Bernanke suggested that it may begin to scale back its massive bond-buying program, known as quantitative easing, later this year and allow interest rates to rise in 2014.

However, global capital markets reacted to the Fed's move with a sharp drop in prices as the second quarter drew to a close. Concerns about a credit crunch and slowing growth in China contributed to the pullback. Government bond yields rose sharply, with the yield for the 10-year U.S. Treasury bond climbing to its highest level in more than a year. Prices for high-yield and investment-grade corporate bonds and real estate investment trusts also moved lower as investors became more concerned about valuations. Prices for many commodities, including oil, copper and other base metals, were weighed down by the outlook for Chinese growth. And gold, which many investors held as a hedge against inflation or market volatility, lost more than 20% of its value during the quarter.

For many stock markets, the drop in June was not enough to offset earlier gains. U.S. equities as measured by the S&P 500 Index finished the second quarter with a rise of 6.5% and most European bourses also managed modest increases in Canadian dollar terms. Japan's stock market continued to benefit from central bank efforts to inflate the country's economy and boost exports, finishing the three months 8.4% higher. Emerging market equities, however, were dragged down by the prospect of higher U.S. interest rates, China concerns and weaker commodity prices. The resource-heavy Canadian market, as measured by the S&P/TSX Composite Index, shed 4.1% and Australia's market lost 10.8%.

For the first six months of the year, the S&P 500 in the U.S. was up an impressive 20.3%, while the MSCI World Index, representing global stocks, was up 14.9%. (As these returns are in Canadian dollars, they also reflect a decline of more than 5% in our currency relative to the U.S. dollar over that time.) Meanwhile, the Canadian market continued to lag, returning -0.9% over the six months.

Fixed Income Update

(July 22, 2013)

Bank Rate CAN 0.125%	Fed Funds US 0.25%
Prime Rate CAN 3.00%	Prime Rate US 3.25%
Canada 2-yr 1.08%	US 2-yr 0.30%
Canada 5-yr 1.64%	US 5-yr 1.29%
Canada 10-yr 2.34%	US 10-yr 2.47%
Canada 30-yr 2.87%	US 30-yr 3.54%
CAD/USD 0.965	Gold US\$1295.41

RECOMMENDED ASSET MIX
57.5% Equities, 35% Bonds, 7.5% Cash

Bond markets did not fare as well as stocks in the first half of the year. Thanks to rising yields, the DEX Universe Bond Index declined 2.4% during the quarter and 1.7% for the year-to-date.

The reaction to Bernanke's comments seemed counter-intuitive, as market moves often are. He was acknowledging that the U.S. economy has made great strides since the financial crisis of 2008, making monetary stimulus less necessary. The positive trends in the economy, including low inflation, healthy corporate earnings, improving employment and the surprising strength in housing, are factors that should support U.S. capital markets. And although other regions, including Europe and China, continue to work through structural and financial issues, business conditions remain accommodative and global credit markets are functioning well.

As we have seen this year, both market declines – and gains – are unpredictable in the short term. I continue to believe the best strategy for investors is to take a long-term view, investing with care in a portfolio that is well diversified by asset class, geography and industry sector and which suits your tolerance for risk.

If you have any questions about your portfolio results or your overall financial plan, please do not hesitate to contact my office. In the meantime, I hope you and your family have a safe and happy summer.

Ideas Worth Remembering

The following nine points come from an intriguing book, The Power of Your Subconscious by Dr. J. Murphy (Prentice Hall).

1. "Your subconscious mind controls all the vital processes of your body and knows the answer to all problems.
2. *Prior to sleep, turn over a specific request to your subconscious mind and prove its miracle-working power to yourself.*
3. Whatever you impress on your subconscious mind is expressed on the screen of space as conditions, experiences, and events. Therefore, you should carefully watch all ideas and thoughts entertained in your conscious mind.
4. *The law of action and reaction is universal. Your thought is action, and the reaction is the automatic response of your subconscious mind to your thought. Watch your thoughts!*
5. All frustration is due to unfulfilled desires. If you dwell on obstacles, delays, and difficulties, your subconscious mind responds accordingly, and you are blocking your own good.
6. *The Life Principle will flow through you rhythmically and harmoniously if you consciously affirm: 'I believe that the subconscious power which gave me this desire is now fulfilling it through me.' This dissolves all conflicts.*
7. You can interfere with the normal rhythm of your heart, lungs, and other organs by worry, anxiety, and fear. Feed your subconscious with thoughts of harmony, health, and peace, and all the functions of your body will become normal again.
8. *Keep your conscious mind busy with the expectation of the best, and your subconscious will faithfully reproduce your habitual thinking.*
9. Imagine the happy ending or solution to your problem, feel the thrill of accomplishment and what you imagine and feel will be accepted by your subconscious mind and bring it to pass."

To all of you who recently referred a friend or family member my way to help them answer a question they had about their financial situation, I thank you.
If ever you are speaking to someone who is concerned about any aspect of their investment portfolio, feel free to pass along my name and number.