

YourWealth



Views and opinions
for the clients and friends of

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Welcome to those clients
who joined us this quarter
and thank you to those who
recommended our services.



Land of the Giants

How's your memory? If you answered "perfect" please go to the back of the room while the rest of us wonder where so much of ours has gone. Actually much of mine is in safekeeping with Mr. Google who always seems to have an answer upon request. Admittedly the variety of answers to a simple question can be disconcerting at times but hey... "I read it on the internet so it must be true." So when I searched for "Land of the giants" (be patient, there's a point to all this) there was much to read.

First on the list was the television program of the same name. In September of 1968 the series Land of the Giants debuted and lasted two seasons. I don't remember the show but my excuse is that I was in university at the time and I don't remember much of anything from those years. People do tell me however that I had a good time. The show, if you're interested, was about a sub-orbital spaceship that transported passengers from Los Angeles to London via parabolic trajectory. Unfortunately a storm in space

sent the ship to a planet where everything was simply huge. The crew called the inhabitants "the giants."

For many of you Gulliver's Travels will be far more familiar, especially the land of Brobdingnag. Blown off course (seems to be a common theme) Gulliver finds a civilization with structure and morals but once again everything is BIG. A person's stride is ten yards. Perhaps the Toronto Maple Leafs, Raptors and Argonauts should send scouts to Brobdingnag.

Certainly there are many other references to "giants" but we will turn next to the investment and corporate worlds. The giants in these lands are getting larger and more powerful everyday. As more and more companies merge the consumer's reliance on competitive pricing weakens. Corporate pricing power is returning – Long live the oligarchs. No where is this more evident than in the world of natural resources. The mining industry is now dominated by four global companies that are now in a position to determine (Continued on Page 2)

Land of the Giants (Continued)

(Continued from Page 1) supply levels. Gone are former Canadian giants such as Inco, Alcan and Falconbridge.

There will be more mergers and take-overs and the resulting pricing power will inevitably lead to higher inflation. It is interesting to note that mergers themselves have had an impact on the supply/demand equation in stock markets. Using the U.S. as an example there were 7,500 stocks listed on major exchanges in 1977 but this number has declined dramatically to 4,100 listings currently. With more money than ever available for investment each remaining stock has a greater chance to attract attention. This will not change until there are new initial public offerings but for the moment private companies are happy to deal with private equity investors. Corporate growth can certainly be good for all of society but when mismanagement, greed and fraud are the driving forces the results can be devastating. Enron and Nortel are just two sad examples of corporate giants gone wild.

The giant from the orient is China but a word of caution is advisable. To paraphrase a line from the movie Field of Dreams, China is building it and China hopes they come. And we don't mean tourists. We are all aware of the magnitude of the construction of urban communities, infrastructure and factories. Chinese officials and the global resource industry are making two basic assumptions: the global consumer will continue to borrow in order to buy; the Chinese people will become spenders, not savers. We are not so sure.

When Time magazine chose the computer as the Person of the Year in 1982 we realized that a giant was among us. Few people had the insight to understand just how powerful it was going to be. Are you



aware of its dominance in the stock markets? No longer fed by paper but rather by algorithms computers now account for up to 70% of all exchange trading with the vast majority of the orders being entered with no thought given to the characteristics of the companies whose shares are bought or sold. It was an uninterrupted execution of computer sell orders that caused a decline of 1,000 points for the Dow Jones on May 6, 2010. Fundamental analysis of corporate earnings and balance sheets has diminished in importance. In the 1970's the average holding period of a stock by an investor was 8.5 years. Back then individual investors made up the market. Now the average holding period is 9 months. The present day stock market is made up of investment professionals for whom stocks have become tokens in a game of relative performance.

Many of the forests in California are filled with majestic redwoods which are the giants of the land. The investment

2011 Quick Financial Facts

- Maximum CPP @ Age 65: \$960/month
- Maximum CPP @ Age 60: \$672/month
- Maximum CPP Contribution (As an Employee): \$2,217.60
- Maximum CPP Contribution (As Self-Employed): \$4,435.20
- Yearly Maximum Pensionable Earnings: \$48,300
- Maximum EI Premium: \$786.76
- EI Insured Earnings Cap: \$44,200
- Maximum OAS: \$524.23/month
- OAS Clawback Rate: \$0.15 per \$1.00 of income above \$67,668
- RRSP to RRIF Conversion: Required if age 71 by December 31, 2011
- Maximum RRSP Contribution: \$22,000 for 2010, \$22,450 for 2011
- Maximum TFSA Contribution: \$5,000 – catch-up contributions allowed
- Maximum RESP Grant: \$500 (requires \$2,500 RESP contribution) – some catch-up contributions allowed

world saw the birth of exchange traded funds a few years ago and now they are the giants in the trading rooms. Once again it means that hundreds of billions of dollars are invested in certain stocks without examination of the individual company fundamentals. Our investment forest is also populated by the performance pressured fund managers who stay fully invested in stocks that replicate the index. Why? Managers fear losing their job if they underperform the index. Losing employment has a higher priority than losing the investor's money. Finally there is a bearded giant who

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CLIENT CORNER: LISA MARKOFF

LISA'S KITCHEN

I am no stranger to bad days. In a short span of five years, I lost my brother, father, marriage, and mother; and then my two daughters and I moved into my childhood home. Bad days were a constant companion.

That first summer saw my mother's gardens flourish because I spent my time outdoors, avoiding the inside of the house. Sleepless nights were frequent and corners of each room remained full with boxes of my belongings; but life was about to change.

One sleepless night, I checked out one of my favourite websites, HGTV. There was an advertisement for a new Sarah Richardson show and they were looking for rooms to makeover. I had watched Sarah Richardson on TV for many years and couldn't believe my luck at finding the casting call. I spent the next three hours completing the online application and downloading photos of a particularly horrible room in our basement. I had never done anything like this before and never believed HGTV would actually reply.

Amazingly, the director and one of Sarah's designers visited our home. I later learned, there were 1,400 applicants and 60 home visits. As soon as these ladies saw the kitchen, all ideas for the basement were dropped. They did, however, take pictures of every room in the house and spend an enjoyable afternoon chatting. A screen test followed with the production crew making the whole process very easy. The final step involved signing paperwork with the network; we would have absolutely no input in the new design of the kitchen. We were officially one of 13 homeowners to have a room transformed. Five months later, Sarah, Tommy and a camera crew arrived and the makeover began.

First, let me say, the kitchen was not terrible. It was dated and dark. The oven



did not work, the stove had two temperatures (cold or searing hot) and the fridge was 35 years old and alternately froze or thawed our food. But it was my favourite space in the house because that room was my mother.

The crew that spent the next five weeks in our home was so respectful and professional and the camera crew that filmed the process was very friendly and interesting. Sarah and her design team were wonderful. Every day there were many changes and we always looked forward to coming home to see what had been done. We were fortunate in that we never had to move out of the house but we did have to eat all of our meals elsewhere.

The kitchen was completely transformed and is absolutely fabulous. The workmanship is outstanding and the materials top

quality. Everything that was in the kitchen during the final shoot remained; new major appliances, small appliances, dishes, glasses, flatware, furniture, and knick-knacks all stayed. The best part was the change in colour. My parents built the house in 1958 and then had the kitchen redone in 1975. The original colours from 1958 (my mother's favourites) returned to the kitchen. The astounding part is that I never shared any of the original design with Sarah and her team.

The changes to the heart of this home have given us the motivation to continue the changes throughout the house. The addition of a wonderful man and a bonus daughter has swung the pendulum to good days. I know there will be more bad days but we will face them in a great kitchen, in a great home.



(Continued from Page 2)

walks among us. His name is Ben. Bernanke that is. His grip is powerful enough to determine interest rates in much of the world. Unfortunately he has extended so much money with his hand via quantitative easing that the law of unintended consequences will ensure the arrival of problems that we cannot yet see. He stated publicly that his goal was to raise the level of the stock market. He certainly succeeded but many consider his actions to be artificial and manipulative. What will happen when he finally withdraws money from the financial system? In the meantime the borrowing of cheap money for speculative purposes, including commodities and stocks continues to inflate prices. Commodity inflation is now with us and we agree with others who say that rising food and energy prices, elevated by speculators, are among the reasons for ever increasing social unrest in parts of the world. Will regulators step in? Doubtful.



Economic downturns are often preceded by over expansion financed by high debt loads. Printing money to resuscitate the patient is adding debt to debt. Wrong. We must all help ourselves to recover without depending on the

kindness of strangers. The strangers are simply us, the taxpayers, and we must not be asked to come to the rescue every time debt and asset bubbles burst. Life seemed so much simpler many years ago. Now we must be more cynical and certainly more careful. Our focus remains the same: conservative asset allocation, generation of income and understanding the ever-changing dynamics of the investment world.

Let's end by remembering one other giant. He's the one who met his demise when Jack cut down the beanstalk. For Jack and his mother the golden hen brought fortune through golden eggs. Sorry we have no such treasures for you, just common sense and hopefully steady growth. Things to avoid: falling beanstalks and eggs laid by Wall Street.



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