

YourWealth



Views and opinions
for the clients and friends of

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

The Intelligent Investor

Benjamin Graham is considered to be the founder of the value approach to investing. In essence investors should purchase an equity only when it is trading below its intrinsic value. This very conservative investment style will never be followed by the majority of hedge funds and aggressive money managers because of the tremendous short term performance pressures and the bonus-driven approach they inevitably adopt. Graham's book, The Intelligent Investor, was published in 1949.

Warren Buffett is undoubtedly Benjamin Graham's most disciplined, not to mention successful, follower. So committed was Buffett to his mentor that he named his son Howard Graham Buffett. Somehow I don't think anyone is going to use "Madoff" when choosing names for offspring.

We are all thankful that 2008 finally came to an end but apprehension and concern continue to increase. Will Barack Obama part the sea of debt and recession allowing the whole world to walk to the land of milk and honey and zero loan defaults? Perhaps no one in history, save FDR, has faced such a mountain of problems and an ocean of expectations. Along with the rest of the world we wish Obama well.

If we were to write a book on investing it would focus on what we believe to be the most dominant dynamic in the investment world: the role of money managers. The title would be The Flow of Money. We have seen the consequences of the irresponsible



and immoral behaviour of money managers who have not the slightest concern for their investors. We have seen the lack of oversight on the part of regulatory bodies that have neither the manpower nor expertise to keep up with all the machinations of the players in the investment world.

We have always been believers in the value of education and we have tried to ensure that clients understand the risks and rewards of investing. Our goal for 2009 is to give investors the opportunity to learn more about the aspects of wealth management that are important to them. You will read greater detail in this issue about our commitment to educate through seminars and on our website, www.luukkonen.ca. We should be able address virtually any financial situation that is of concern to you. Never hesitate to introduce friends or family to our practice. We appreciate very much the relationships we have with you and we are always pleased to assist those individuals that others send to us.

So onward with 2009. The Chinese calendar says that we are in the year of the ox; if you squint hard enough an ox can even kind of look like a bull. Squinting aside, our hope is that 2009 becomes the year of the intelligent investor.

Investment Conditions

The last four decades have seen six recessions. It is interesting to note that just prior to each recession the consensus amongst economists was that the economy would grow at 2.4% in the current year. Instead of growth we had contraction. History certainly is in the process of smashing last year's rose-coloured glasses. Economists do not emphasize nor even examine one key relationship. The public's attitude to borrowing as well as its access to funds together will have the greatest impact on economic growth and eventual over-heating. Perhaps it is because attitude is not quantifiable that economists fail to consider this variable. It is up to the rest of us to use good old common sense.

Some of us remember when Canadians and Americans used to have... are you ready... a 10% savings rate! Don't dump on the Americans too hard. Canadians had a negative rate two years ago. Much of the entire world has spent the last four years spending what we earned and then borrowing to consume further as we lived in the land of plastic prosperity. It was a fantasy land and the credit monster is angry. Unfortunately there is no place to flee. We must face up to the reality of two trillion dollars in "bad" loan losses in North America alone.

Funny word that word "credit." From the old Latin "credere" it means to believe or entrust. How ironic indeed. We are certain that belief and trust are two elements that the investing public will now ration much more carefully.

We read of problems for credit card holders and credit card issuers. Individuals and corporations can't get credit. Now we know that credit default swaps around the world, along with sub prime loans represent ground zero of the credit crisis. The word "credit" is also used to describe debt markets or bond markets



and it is in these credit markets that our economic crisis and subsequent recovery will unfold.

In our opinion the painful collapse of worldwide stock markets has fully discounted the "great recession" that is evolving but so big are the problems in credit markets that the health of many companies and major leveraged investors is at risk. While we wait for a recovery and thaw in the frozen credit markets will some companies run out of time? As we have mentioned previously the current credit crisis is a crisis of confidence wherein lenders and investors are very reluctant to lend money to corporations and individuals. Even as companies reduce all possible expenses and turn to record levels of employee layoffs in order to reduce debt the dominant problem is finding lenders to finance short-term debt. In my 35 years I have never seen so much concern about corporate balance sheets and the proximity of maturing debt.

You are very aware of the many frustra-

Our Winter/Spring Seminar Series: An Invitation

This winter and spring we will be hosting a series of educational presentations for clients and friends. The seminars will be held in our downtown Oshawa office located at 17 King St. E.

Each hour-long seminar will be held on a Thursday evening and begin at 7:00 p.m. Attendance is free but as space is limited we ask that you RSVP to Debbie (by phone at 950-434-6527 or by email at deborah.c.mcdonald@rbc.com) for the sessions that you would like to attend.

The seminars are as follows:

February 12: Retirement Planning

February 26: Developing Your Investment Goals and Asset Allocation

March 12: Estate Planning

March 26: Health Planning: Insuring Against Disability and Critical Illness

April 16: Investing with a "Guarantee" – The advantages and disadvantages of Annuities, Principal Protected Notes and Guaranteed Withdrawal Plans

April 30: Using Covered Call Strategies to Generate Income from Equities

tions that we have had with the financial services industry, the media, leveraged hedge funds and aggressive money managers. Their collective irresponsible behaviour has brought all markets to crisis mode but the credit crisis is without doubt our greatest frustration because the money required to fund lending to corporations is out there. The problem is that these "lending" dollars are invested in government bonds and T-bills with yields so small you would need a magnifying glass to find them. Return of capital has supplanted return on capital.

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Client Corner

Automotive Restoration

In this edition of our newsletter we are profiling two clients that have been involved in an interesting hobby: the restoration of antique and classic automobiles. The first client we want to profile is Elmer Beddome. Although he recently stopped restoring cars, since he started in the early 1990's Elmer has restored over a dozen vehicles. Elmer's introduction to auto restoration was somewhat accidental. A long-time amateur aircraft enthusiast, Elmer had been building airplanes for years and while at the Lindsay airport he heard of another pilot who was trying to sell an old Jaguar. There was however one catch – the Jaguar was in a few dozen boxes. While having no experience with cars, Elmer was intrigued and decided to see if he was up to the challenge.

Despite a very steep learning curve Elmer found he had a passion for the work. For Elmer, restoring cars is like working on a giant puzzle. Within a couple of years of buying the boxes Elmer not only had a working 1957 Jaguar XK140 but also an award winning car. In 1995, the restored vehicle won the Best in Class award at a classic Jaguar show in Toronto.

From start to finish Elmer estimates that a full restoration takes around 2,000 hours of labour. For his restorations, the only piece that Elmer did not do himself was the final

coat of paint. He feels that the final coat of paint makes a huge difference to the outcome of any restoration and it is important to get professionally done: "If you are going to have surgery, you want a surgeon who operates every day, not once a year. The same goes for the final coat of paint – you need a professional with all the right equipment and supplies." A mediocre paint job can ruin an otherwise incredible restoration. With his car restoration days behind him, Elmer has moved on to other projects but he still looks back on his work with pride.

The other client that we are profiling is a newcomer to automotive restoration. After dreaming about restoring a car for years, Paul Scattergood finally took the plunge in the summer of 2007 and bought a 1931 Ford Model A. Like Elmer, Paul agrees that the selection of the car to restore is extremely important. As a beginner to the world of automotive restoration Paul wanted to make sure that he chose a vehicle that was not only of interest to him but also one that was a good 'starter' car. In the world of antique cars, Paul feels that the Model A is a great choice for beginners. From a mechanical perspective the car is relatively simple and straight-forward, making it easier for new restorers to understand. With over 4.8 million Model A's built and numerous car clubs

dedicated to them, both information on and parts for the vehicle are easy to find.

After having put more than four hundred hours into the car, Paul is very pleased with his progress. While he says that the restoration will never be completely "done" most of the major work is behind him and Paul is now able to enjoy his Model A in the way it was meant to be enjoyed: by driving it. Paul says that the time he has put into the car has made him feel a deep respect for Henry Ford and his engineers: "They built their cars to last – the Model A is almost 80 years old and most of it is still original." He also offers an insight into Henry Ford's frugality: "To cut down on his costs, Henry ordered all of his suppliers to deliver their parts in wooden boxes that were all the same size – then after taking the parts out, Henry would have the boxes broken down and used to make the floorboards for his cars."

The task of restoring an antique car has been very rewarding for Paul but like Elmer, he cautions people that it is a labour of love, not profit. While the final restored car is unlikely to be worth more than it cost to rebuild the experience for Paul will be deeply satisfying. So satisfying in fact that he is already daydreaming about his next car: a McLaughlin Buick or, if his love of speed wins out, a hot rod.

Community Calendar

Cannington Dog Sled Races

With all of the recent snow we felt it appropriate that we highlight an exciting outdoor winter event: the Cannington Dog Sled Races. Held on the weekend of February 21 and 22 the event will feature more than 70 dog sled teams from across North America – including a team from Jamaica – competing for a \$10,000 purse. Races begin at 10:00 am on Saturday and 9:00 am on Sunday and last until 4:00 pm

on both days. The Oshawa Metis Council is set to open the races with a traditional smudging ceremony.

In addition to the races there are numerous other events for visitors to enjoy. During the daytime the whole family can eat their fill at the pancake breakfast before heading out to tour an ice sculpture display in downtown Cannington or participate in a scavenger hunt. With live entertain-

ment, a petting zoo and a host of children's activities there are lots of things to do between races. Saturday afternoon will also feature an ice sculpting competition and the famed Toilet Seat Toss event.

People can get more information about the races by visiting

<http://www.canningtondogsledraces.com> or by emailing the organizers at info@canningtondogsledraces.com.

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Major lenders want a guarantee.

Will this phenomenon persist so long that corporations go bankrupt while lenders sit on the sidelines? We do not think this catastrophe will be allowed to happen. Pension funds, insurance companies and other large institutional investors will recognize their need to invest in corporate debt lest their equity in the same companies disappear. The current fear factor is so great that the spread between corporate bond yields and government bonds is higher than it was during the Great Depression!

We believe that most but not all of the forced selling of equities and commodities is behind us. The economic news however is going to get worse. The silver lining is that everyone has finally realized the dangers of debt. The unwinding of the leveraged asset bubble that grew for five years will not be short in duration. All economic indicators continue to deteriorate and short term interest rates appear set to



remain at record lows for the foreseeable future. Investor confidence is unlikely to return until there are signs that home prices are stabilizing and lenders are nearing the end of their loan losses across all sectors of the economy.

In a very short time the pendulum has swung from greed to fear. The toxic

recipe was consumer and investor complacency + institutional investor greed and performance pressure + irresponsible lending + lack of regulatory oversight. Worldwide economies and markets have hit the wall. Not everyone will survive. We are still standing, somewhat shaken but ready to take advantage of the opportunities that lie ahead.

Why Do We Need Your Photo ID?

Over the last several months we have been asking many clients for updated photo identification. We have been asking for this information not out of a desire to discover the worst drivers' licence photos but rather as a result of new legal requirements. In late June 2008 the federal government instituted new anti-terrorist financing and anti-money laundering rules. These rules require that whenever we add or update an account we have a copy of a valid piece of government issued photo identification – generally a driver's licence or a passport.



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