



RBC
Dominion
Securities

THE Stanton

REPORT

Views & Opinions For The Clients & Friends
 Of Investment Advisor
 Richard Stanton
 RBC Dominion Securities Inc.

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A Word From Richard

We have decided to go back to writing and publishing our own newsletter, over the last few years we have tried newsletters from various sources but ultimately were unhappy with either the content or the limitations on format. This forum will allow us to communicate with you on what is happening in the investment world, what is new at Dominion Securities and what is happening with the Stanton Group.

To begin with, and for those that do not know, I am supported by two incredible administrative assistants Natalie Ferebee and Shauna Peterson. Both are masters of their craft and things at the office run smoothly and efficiently. My job is to stay out of their way, meet and talk with clients, and allocate capital. Natalie works out of Kelowna from 6:00 a.m. until 2:30 p.m., and Shauna works in Smithers with me from 9:00 a.m. until 3:00 p.m.

My quarterly travel/meeting schedule was sent out at the beginning of January and is filling up quickly – if you haven't booked a review and would like one, please call the office at 1 888 834-3311.

Jenelle, my youngest daughter turned 2 on January 8th. The family got together for dinner and ice cream cake from DQ with pictures of her favourite characters from the movie Monsters Inc. Fun was had by all and Jenelle was spoiled by both sets of grandparents.

I will be away on holidays Feb 18th to March 1st. I have no idea where we are going though; Laura booked all the arrangements so the destination is a surprise for me. I'll give you the highlights in the next issue.

Looking back on the last quarter of 2004 here are few of the highlights:

- ❖ The US dollar continues to get pounded. With continued soft economic data, a huge current account deficit and rising oil prices.
- ❖ The Canadian dollar rose to it's highest level in 12 years on Nov 26th to \$0.8496 US.
- ❖ Canada's jobless rate fell to 7.1%, the lowest in 3 years.
- ❖ Despite an easing in immediate inflationary pressures, the Federal Reserve raised interest rates for the fifth time this year by a quarter point from 1.75% to 2.25%.
- ❖ The Canadian Government will provide as much as \$488 million in aid to the country's beef industry after the Mad Cow epidemic of 2003 led to a US ban on Canadian cattle.

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If you know anyone who would like to receive a copy of this newsletter or be added to our mailing list, please contact **Shauna Peterson** at (250) 847-6680. Please contact Shauna Peterson if you would like secure internet access to your accounts. Use our toll free number 1-888-834-3311 from anywhere in North America.

INVESTING FOR INCOME

THE CHALLENGE OF TODAY'S LOW INTEREST RATES



Income-hungry investors are increasingly looking for higher-yielding alternatives to government bonds. But in their quest for higher income, are some investors taking more risk than they realize?

Ten years ago, you could get a satisfactory income from government bonds. Interest rates ranged between 7-9%. But today, rates range between 3-5%.* Once you pay taxes, and factor in inflation, there can be very little left over.

NEW ALTERNATIVES

With rates persistently low for several years, it is no wonder investors are seeking new alternatives to boost their income. These alternatives include corporate bonds, dividend-paying stocks, preferred shares and income trusts. However, while often offering higher income potential, for the most part, they also pose higher risk.

THE DILEMMA

For income-oriented investors, this has presented a dilemma—should they accept greater risk in pursuit of higher income, or settle for the modest income offered by guaranteed investments like government bonds? Indeed, many investors have taken more risk than they would otherwise be comfortable taking because they require the income or don't fully understand the risks.

RISKS AND REWARDS

It is important to understand the risks of any investment. A bond guaranteed by the Government of Canada is about as close to risk free as it gets. Other investments may offer greater income potential, but also move up the risk continuum.

For example, you could substitute corporate bonds for government bonds in your portfolio. But corporate bonds—while often offering higher rates—typically have a commensurately higher risk of default than government bonds. In fact, corporate bonds can vary widely in quality—from speculative “junk bonds” to investment grade bonds suitable for more conservative investors.

As another example, you could swap your government bonds for income trusts—not an uncommon occurrence in recent years with income trusts providing impressive average yields of 8%. But again, while income trusts can enhance your income, they also have inherently higher risk.

An income trust is actually a form of equity, like a common stock. And like a common stock, it can go up and down in value. Depending on the performance of the underlying business, the cash distribution paid out by an income trust can also vary.

THE RIGHT BALANCE

The potentially higher income offered by these alternatives to traditional government bonds can be very tempting to income-starved investors. And unquestionably they can play an important role in an income-oriented portfolio. The key is to find the right balance.

Instead of switching your government bonds for income trusts or corporate bonds entirely, take a more balanced approach.

Set aside a portion of your portfolio for government bonds, guaranteed investment certificates, corporate bonds, preferred shares, dividend-paying stocks, income trusts and so on. By diversifying among these various types of investments, you can spread out the risk, while gaining some of the potential upside.

**Average yields for 1-3 year and 10+ Government of Canada marketable bonds.*

- ❖ Oil Prices continued to rise with a new high of \$55.50 U.S. per barrel on October 25th.
- ❖ Roger's Wireless will buy Microcell Telecom for \$14 billion to become Canada's largest mobile-phone carrier.
- ❖ A NAFTA panel has ordered the U.S. Government to further lower tariffs on imported Canadian lumber which is already down from 19.3% to 7.8%
- ❖ The price of gold traded at a 16-year high of \$455.80 per ounce, due to high oil prices and the slide in the U.S. dollar.

The CRA has announced the last day to make contributions to your RRSP for the 2004 tax year is Tuesday March 1st, 2005. The annual maximum contribution for 2004 is \$15,500. The annual maximum contribution for 2005 is \$16,500.

I am looking forward to meeting with you over the next quarter.

Thank's for reading.

Richard



OUT OF TOWN SCHEDULE

TERRACE

February 7, March 7 & April 4

HOUSTON

February 11, afternoon
March 11, afternoon
April 8, afternoon

BURNS LAKE

February 11, morning
March 11, morning
April 8, morning



Scalloped Sweet Potatoes With Caramelized Onions

Serves 6

1 ¼ Cup whipping cream	¼ Cup milk
2 bay leaves	2 large onions
1.5 kg combo yams and sweet potatoes	¼ Cup butter
2/3 Cups shredded parmesan cheese	Salt and pepper

- ◆ Combine cream, milk, bay leaves, ½ tsp salt, ¼ tsp pepper in medium saucepan. Bring to boil, watching closely as once it starts to boil, it will boil over very quickly. Once boiling, reduce heat, simmer 10 minutes, and remove bay leaves.
- ◆ Cut onions in half, then, placing cut side down, cut into thin slices. Melt butter in large skillet over med-high heat. Add onion and cook, stirring often, for 10-15 minutes until onion is golden. Let cool.
- ◆ Spread ¼ cup of cream in a generously buttered 9x13" pan.
- ◆ Peel and thinly slice potatoes and yams.
- ◆ Arrange layer of potatoes/yams, then ½ of onions. Do another layer of potatoes/yams, then rest of onions, then finish with rest of potatoes/yams. Season with salt and pepper in between layers. Drizzle cream over top. Cover with foil.
- ◆ Bake one hour at 350 degrees, sprinkle parmesan on top, bake another 15-20 minutes or until potatoes are tender.

We encourage our clients and readers to submit their favourite recipe. E-mail any suggestions to shauna.peterson@rbc.com.

Brain Teasers

ANSWERS FOLLOW AT THE END OF THE TEASERS

1. A murderer is condemned to death. He has to choose between three rooms.

The first is full of raging fires, the second is full of assassins with loaded guns, and the third is full of lions that haven't eaten in 3 years. Which room is safest for him?

2. A woman shoots her husband. Then she holds him under water for over 5 minutes. Finally, she hangs him. But 5 minutes later they both go out together and enjoy a wonderful dinner together. How can this be?
3. There are two plastic jugs filled with water. How could you put all of this water into a barrel, without using the jugs or any dividers, and still tell which water came from which jug?
4. What is black when you buy it, red when you use it, and grey when you throw it away?
5. Can you name three consecutive days without using the words Monday, Tuesday, Wednesday, Thursday, Friday, Saturday, or Sunday?
6. This is an unusual paragraph. I'm curious how quickly you can find out what is so unusual about it. It looks so plain you would think nothing was wrong with it. In fact, nothing is wrong with it. It is unusual though. Study it, and think about it, but you still may not find anything odd. But if you work at it a bit, you might find out.

ANSWERS:

1. The third. Lions that haven't eaten in three years are dead.
2. The woman was a photographer. She shot a picture of her husband, developed it, and hung it up to dry.

3. Freeze them first. Take them out of the jugs and put the ice in the barrel. You will be able to tell which water came from which jug.
4. The answer is Charcoal.
5. Sure you can: Yesterday, Today, and Tomorrow!
6. The letter "e", which is the most used vowel in the alphabet, is not present in this paragraph.



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Richard Stanton is an Investment Advisor with RBC Dominion Securities, Canada's largest investment dealer serving the individual investor.

Any questions may be directed to his office in Smithers, by calling (250) 847-6666 or Toll-Free 1 888 834-3311.

NEXT ISSUE WILL BE SPRING 2005

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