RBC Dominion Securities Inc.

Money Never Sleeps

THE NEWSLETTER FOR THE INFORMED INVESTOR FALL 2015

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You Can't Handle the Truth!

Why the average investor is so bad at investing

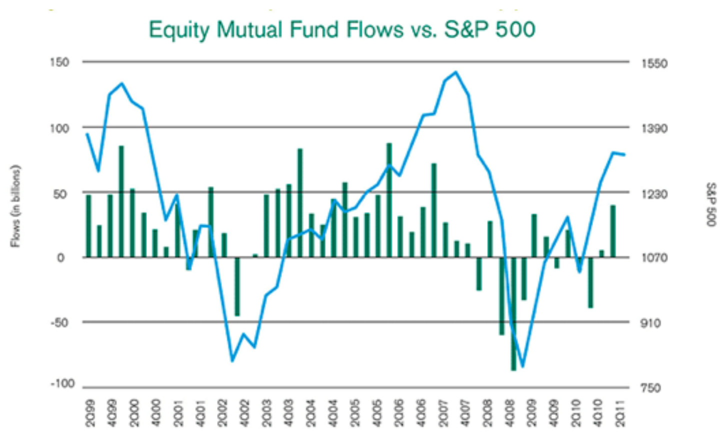
"The key to making money in stocks is not to get scared out of them. My best stocks have been in the third year, fourth year, fifth year I owned them. It's not the third week, fourth week. People want to make money quick; it just doesn't happen."
- Legendary Fidelity Manager, Peter Lynch

Peter Lynch rose to fame by successfully managing the Fidelity Megallan Fund from 1977 to 1990 and racking up an incredible 29% compounded annual rate of return in that period. The S&P 500 returned 13.2% annualized and Lynch's fund was the largest in the world at the time. An investor who began with $100,000 ended with about $1.2 million in that period, if they left it alone.

Sadly the average investor in his fund during that 13-year period earned a mere 3.7% annually. What, you say? That's impossible? Not if the "average" investor came in to the fund at tops and sold when things got tough. And that's exactly what they did.

It's what the average investor always does. The reported sales of flows into mutual funds verify that fact every cycle. Investors always load up at the top and always bail at the bottom:

Stay the Course to Capitalize on Market Opportunities



Source: Standard & Poor's; Morningstar

Continued on page 2

You Can't Handle the Truth

continued from page 1

Here's another example. The S&P 500 (1992-2012) registered a decent 8.2% return. If investors tried market timing, here's how they fared:

S&P 500 (1999-2012)	8.20%
Investor missed best 10 days	4.50%
Missed best 30 days	0.00%
Missed best 60 days	(5.30%)
Missed best 90 days	(9.40%)

So 30 days over 20 years was the diffference between 8%+ compounded or absolutely zero.

Further evidence that, as a group, average investors aren't best representing their own interests, was a recent DALBAR study which spanned 30 years, all the way back to 1984. It covers a variety of bull and bear markets and again shows that investors are not learning from their mistakes:

Fund Investors' Returns Fall Short of the Market

TIME PERIOD	INVESTORS' EQUITY FUND RETURNS	STANDARD & POOR'S 500 INDEX	GAP BETWEEN S&P AND INVESTORS
30 Years	3.69%	11.11%	7.42%
20 years	5.02%	9.22%	4.20%
10 Years	5.88%	7.40%	1.52%
5 Years	15.21%	17.94%	2.73%
12 Months	25.54%	32.41%	6.87%

Note: Through December 31, 2013

Source: DALBAR

Over the 30 year period, the S&P 500 averaged 11.11% while the average investor made 3.69%. Similar to the Lynch Magellan experience, investors seem to chase performance, even when Lynch was not a secret, well known and publicized, but investors believed they were smarter.

How can it be?

Well, in my 30+ years in financial services, I've come to the conclusion that we as humans are simply not wired for investing because human emotions interfere in making a logical decision, namely fear and greed. I've often said that our product (investments) is the only product or service on the planet where the cheaper it gets, the more people want to get rid of it.

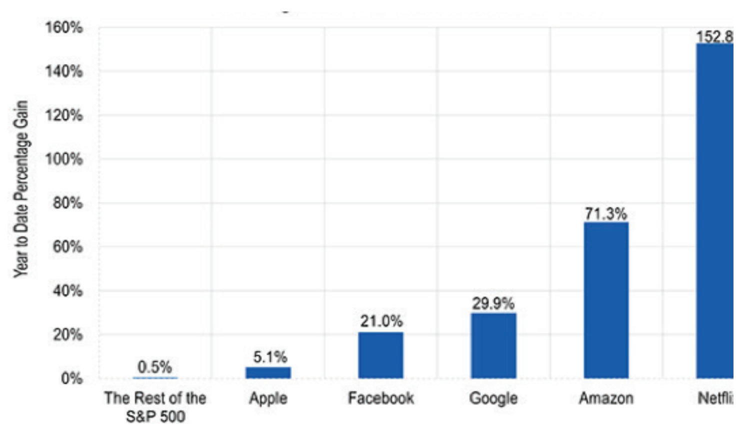
If markets drop 10%, clients get anxious. 15%, should we sell some? At 20% down sell more, at 30% down or worse... sell it all! Yet about 120 years of market history tells us otherwise. We should be backing the truck to buy on dips of 20% or more.

Unfortunately, human emotional decisions can be detrimental in the investing world.

Performance chasing, casino-type investing and lemming investing all can have a negative impact. Even the great Warren Buffett, in one of his annual letters to investors, wrote that he'd prefer a lumpy (i.e. volatile) 15% to a smooth 12%. That would only work if investors had his discipline (and patience).

Let's take a look at some recent market history. At the end of June 2015, the #1 performing stock in 2015 was Netflix, up an amazing 128% in six months. If you expanded that list to include what has become known as the "Big Five", Apple, Facebook, Google, Amazon and Netflix, the numbers look something like this:

"The Big Five" vs. the Rest of S&P 500



Source: Thomson Reuters

So let's imagine you are the world's greatest investor or have the greatest adviser, would you have held these names? Look at Netflix, which went public in 2002 and rented mail-in VHS movies. Doesn't sound like the future. But Netflix has gone from a low of about 0.35 cents in October 2002, to about $118.00 by 2015. Bully you say?

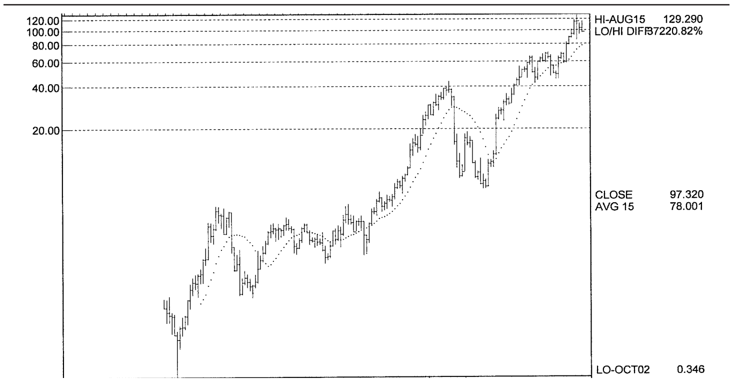
The problem is the bulk of investors I know would have sold it long ago because in that 13-year period, Netflix has had at least five drops of over 50%. In fact it has lost 25% of its value on four separate days. That's 25% in one day, folks. In one stretch in 2011 (four months) it lost 80% of its value.

I guarantee you the phones would have been ringing to sell every time.

How about some of the other recent flyers?

Since its IPO in August 2004, Google has gained a mere 1282%. Tesla is up 1352% since its 2010 IPO, yep, only four years ago. But those numbers look downright lousy when compared to Chipotle Mexican Grill (spin off from McDonalds in 2006) up 2865%, and Netflix +5816% since 2002.

Netflix Price % Change



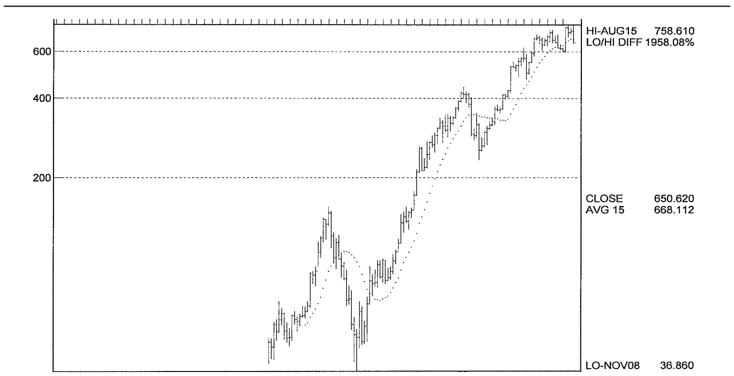
Source: Trend & Cycle

Then there's Apple. Since 1980's IPO up 22288%, including zero gains from 1984 to 1999, 15 years.

Even if one was lucky or smart enough to buy those names at or near their IPOs, the average investor would have ran to the exits – repeatedly – over the years.

- Chipotle lost 15% on a single day on four occasions. From 2007-2009, it lost 76% of its value (50% worse than the market overall).

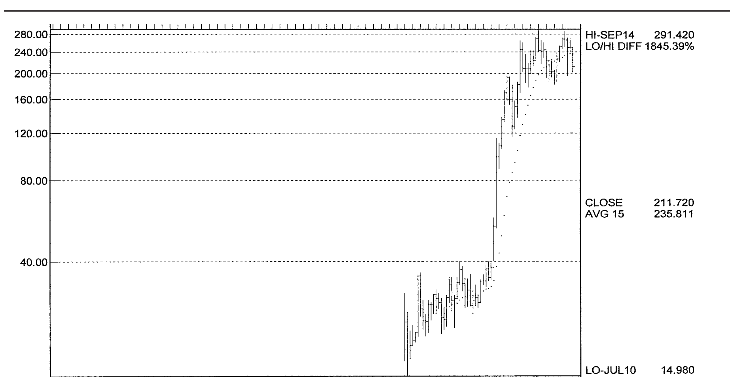
Chipotle Mexican Grill Price



Source: Trend & Cycle

- Tesla went up 400% in six months, then lost 40% in six weeks. In one month it has dropped 25%.

Tesla Motors Inc. Price



Source: Trend & Cycle

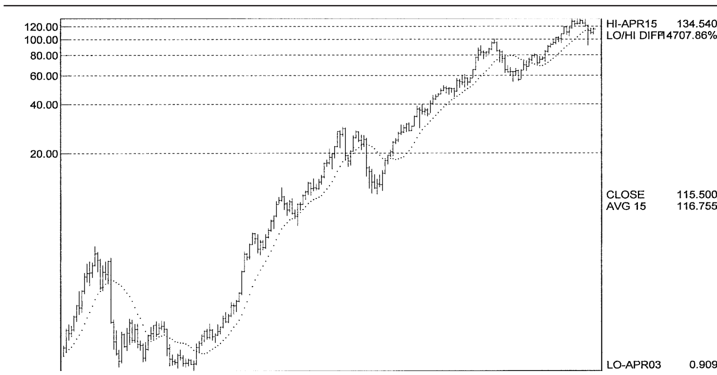
- Google dropped 70% in 2008-2009, 36% in one quarter

Google Stock Price History

Source: Trend & Cycle

- Apple has lost 25% or more six times in the past 10 years alone. During its worst week, it dropped 51% in seven days.

Apple Share Price - January 1995 - April 2010



Source: Trend & Cycle

Let's face it, most people couldn't handle that type of volatility when their net worth goes through those type of swings.

The human brain is wired with survival instincts. That's why fear is a more powerful emotion than greed. That's why markets tend to take the stairs higher and take the elevator lower. Even if they hold winners, they are quicker to take profits and not let them run out.

So in 2012, when Apple dropped half its value (about 44%), the brain told holders to sell, that survival instinct kicked in. So while that instinct allows us to advance as humans, and adapt, create, innovate etc., it also would have led you to sell Apple 20000% ago.

As investment advisors, our job is to keep the emotional part out of it. When times are good, we move people back to the middle emotionally and temper the greed. And when times get tough, we talk people off the ledge and move them back to the middle, when the average investor on his own would be selling rather than buying. If anything, an advisor can be a good sounding board.

Around the GLOBE

Canada (Selective Buy)

- Our economy has struggled mightily all of 2015, having contracted for two quarters now
- Canadian dollar dropped another 6% last quarter versus the U.S. dollar
- Low energy prices have reduced capital investment as well as Federal tax coffers
- Forecasts expect 1.00% GDP for 2015, 1.75% for 2016

U.S.A. (Strong Buy)

- Q2 GDP came in at a solid 3.7% gain
- U.S. auto and housing markets positioning for strength
- U.S. dollar strength beginning to bite on multinational bottom lines
- Presidential election years like 2016 tend to be positive

Europe (Buy)

- Continues to signal mediocre growth but improving
- Growth supported by lower oil prices, low Euro and ECB stimulus
- Greece has been quiet lately, but not yet resolved

Asia (Hold)

- China concerns have contributed to volatility as Chinese growth decelerates
- Japan remains vulnerable due to high debt levels and bad demographics
- India was only major global market to rise last quarter

Emerging Markets (Avoid)

- EM economies growth continues to underwhelm, mainly due to China slowing and strong U.S. dollar
- Continue to avoid Latin America
- If U.S. dollar reverses, EMs could be a huge performer

Quotes

"The world will not be destroyed by those who do evil, but by those who watch them without doing anything"
- Albert Einstein

"The trouble with those on the left is twofold: They have a horrible blindspot with respect to more principles, and two, they have an abysmal understanding of economics!"
- Jacob Hornberger, Future of Freedom Foundation

"Of the four wars in my lifetime, not one came about because the U.S. was too strong."
- President Ronald Reagan

Notes

Twitter Followers:
President Obama 5 million
Pope Francis 24 million
Pop Star Katy Perry 75 million

Canadians owe $1.65 worth of debt, on average, for every $1 earned (Stats Canada 9-11-15)

The sunniest place on the planet? Yuma, Arizona, population 100,000 with over 4000 hours of sunshine each year.

A Special Welcome to All New Clients Who Have Joined Us

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

Please Don't Keep Us a Secret!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion, we would be grateful if you passed on our numbers:
519-675-2011 or 1-800-265-5911.
Thanks for keeping us in mind.

Congrats, Jerry S., our winner this quarter!