RBC Dominion Securities Inc.

MONEY NEVER SLEEPS

THE NEWSLETTER FOR THE INFORMED INVESTOR – WWW.RBCDS.COM/VITO.FINUCCI | OCTOBER 2012

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THE BIG PICTURE

TALK IS CHEAP

With perhaps the biggest U.S. election in our lifetime looming, I thought that given the influence the most powerful position on Earth has on the biggest economy in the world, a few talking points were in order.

Whether we like it or not, the world's global economy and finances revolve around the U.S., and it is especially true for Canada, given our economic well-being is joined at the hip with the U.S. So let me get this disclaimer right out of the way: I really do not care who the President is. I do not belong to a party, nor do I get to vote. The best years we've enjoyed in our business were under President Clinton (a Democrat), from 1994 to 1999, and some of the toughest were under George Bush (1990-1992) and George W. Bush (2001-2002) (both Republicans). What I do care about is economic prosperity, because when the economy is good, it creates jobs, lots of jobs. The best measure of prosperity is a rising stock market, and that I do care about. Trust me; it's a lot more fun. But a lot of that prosperity (and rising confidence that comes with it) is top-down driven by the policies of the Oval Office.

Politicians have a habit of always shifting the blame. The rhetoric always heats up during a Presidential election. But to hear them say "no one" could have cleaned up this so-called mess President Obama inherited (and he did inherit a big mess) in four years is not surprising. The President has spent the better part of four years blaming his predecessor, instead of rolling up his sleeves and getting to work.

What else can you say when, after three years of so-called recovery, the unemployment is virtually unchanged, and real economic GDP growth is at 2.2%, the weakest recovery in U.S. history?

Absolutely the Great Recession of 2008-2009 was a brutal one, which included a one-two punch of a nasty financial crisis and a housing collapse. But every recession is brutal. I was a banker in the early 1980s when people were locking in five-year mortgages at 25% because the media told them interest rates were going to 30%. The period of the late 1980s after the 1987 crash was no picnic. The early 1990s recession combined with the Gulf War.

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And how about 1997-1998 when our dollar, the "Northern Peso" hit $0.60 USD? Yes, these were all brutal cycles, but we as humans remember last best. The economy has been in terrible shape many times in the past but still rebounded sharply.

The banking crisis of the early 1980s was arguably more severe than in 2008 – more banks went broke, the entire savings and loan industry had negative capital, oil and farm loans were massive, and most of Latin America was in default. I was still a banker at the time and remember it well. Unemployment peaked at 10.8% on top of double-digit inflation and interest rates. Pension funds were in trouble. In other words, it's just not true that everything about the current financial situation and economic troubles are the "worst-ever."

What is true is that the policy-makers in the 1980s acted differently. They responded to a nasty recession by trimming non-military spending, cutting marginal tax rates, deregulating energy and creating no new entitlements. The result was a booming decade with great economic growth and lots of job creation. This current administration has gone in exactly the opposite direction. Federal spending has gone through the roof, regulations have multiplied, entitlements have exploded, and government has grown like never before. Tax rates have not been hiked, but everyone knows that, if entitlements aren't trimmed, higher tax rates are on the way.

The difference between the two policy responses is clear. And so are the results. In the 1980s, the economy skyrocketed. Real GDP grew at 6.6% and the jobless rate fell 3.5% in only 21 months. The problems of the 1970s were caused by too much government. You'd think lessons would be learned. But today, voters stand at the same fork in the road again: choosing bigger, more intrusive government versus smaller government.

The final revision of GDP released last week showed the U.S. economy grew at a paltry 1.3%. Worse, durable goods (the really big stuff) fell 13.2% in August, the biggest drop in four years. But the media parrot the Obama mantra that it's Bush's fault, or Wall Street or the 1% – basically anybody but the President, who simply isn't up to the job. Last week he opted to skip diplomacy while the United Nations were convening in the General Assembly, given the rising intensity in the Middle East and declined to meet any world leaders, but managed to find time to guest star on The View and Late Night with David Letterman. This is the same man who criticizes how low U.S. influence has fallen, but has the audacity to remind The View's audience that he was "eye candy." How quickly things can change in politics.

For four years, we've been subjected to a campaign of "even the score," with the suggestion that any business that makes profits, or any individual who has succeeded, has wronged you. We've been told that fixing the problems that the U.S. faces revolves around taking vengeance against any family making more than $250,000 a year. The President's plan to raise taxes on the upper bracket is politically savvy, but in reality would raise less than $100 billion per year. To put that in context, the mere annual interest costs on U.S. national debt is $200 billion. They need to talk trillions in cuts, not billions.

Thanks to a fantastic performance by Mitt Romney at the first debate, the nation, for the first time in four years, is waking up to the idea that divisiveness, finger-pointing and government overreach is no longer the only path. Hardly anyone has really thought he had a shot to win the election, but I think he's been painted badly by the media. Beating a sitting incumbent is a rarity, to be sure, but the President's agenda for healthcare was more for himself, and to force it through Congress into law without a single Republican vote in the Senate. For a plan so massive, to do it in that manner was dangerously authoritative. (The idea that government knows what's best for you and you can sit back and relax, even if you don't have a job, because they'll take care of things for you.) The government picks who wins and who loses. Now that we've had one term of these policies, people are realizing it simply isn't working. In Romney's debate performance, American's saw for the first time a really strong alternative.

Romney stands opposed to multiculturalists, opposed to those sponsoring a welfare state, against expanding federal government but in favour of smaller government which is less invective. A Romney which was painted as unfeeling, lackluster, driven by the pursuit of profit, a dog mistreater and someone who was nicer to his cars than to real people, well, his debate performance showed viewers that he is articulate, deeply knowledgeable and quick on his feet. His resume and experience is solid, and has been principled all along the path, and shows a history of working often "across the aisle" to get things done.

The American economy is in desperate need of a turnaround, and Romney made his career in the private sector doing exactly that – turning around failing businesses and enterprises. Names like Staples, Domino's Pizza, Sports Authority and Brookstone are all success stories. Of course, not all of the investments at Bain Capital were successful, and some failed, but that's how venture capital works. On the whole, its return for investors was stellar, among the best track record for buyout firms in its era. Even ex-President Clinton called Romney's business record "sterling."

After he left Bain in 1999 to rescue the Salt Lake City Winter Olympics from the verge of collapse, he took control and managed to turn disaster and debt into a national success. If Romney can thrive in the private sector where five out of 10 businesses fail within five years, and the public sector where regulations and inefficiencies stifle success, surely he can help the U.S. economy back onto its feet?

Romney became the Governor of Massachusetts in 2003. After the dot-com bubble burst, Massachusetts had lost 200,000 jobs and had a $3 billion budget deficit. He closed the deficit without raising taxes, but by raising fees and cutting tax loopholes. Unemployment dropped and, in the last year of his term (2007), Massachusetts topped the nation in education scores. Thanks to his state-led health care reform, Massachusetts had the lowest percentage of uninsured at 4.9%, according to Gallup. And he did all this as a Republican in a Democratic stronghold, and with 87% of his legislature being Democrat.

In 2011, Romney and his wife Ann gave almost 30% of their income to charity, more than $4 million, and paid almost another $3 million in taxes. And this is a man they try to paint as evil? He contributed more than most to the "system." Romney's experience and success in both business and government and his leadership as Governor make him a man qualified and equipped to lead the American comeback, and certainly more qualified to lead than Barack Obama was before his candidacy in 2008.

As I started off, I have no preference from a party affiliation. What I do understand is economics, and right now, capitalism's animal spirits are being stymied in the U.S. by bad policy.

There is no doubt this President was dealt a bad hand. Absolutely, he knew that when he applied for the job. Ronald Reagan inherited a disaster in 1980. He got to work and the 1980s were a high growth period. People forget George W. Bush inherited a collapsing economy when he took over in January 2001. The dot-com crash had happened, stock markets were in serious decline and the economy was declining, and 9/11 took place only eight months later. I don't recall him bashing President Clinton on a daily basis.

Yes, this is a very important election for the direction of the U.S. History shows it is very difficult to beat a sitting President. The Republicans have only beaten a sitting Democrat twice, in 1980 with Reagan over Carter, and way back in 1888 when Benjamin Harrison beat Grover Cleveland. It is not a common event to unseat an incumbent, and has happened only nine times in the entire history of the U.S., and only four times in modern memory (since 1900).

Americans have had an uncanny knack of, for the most part, electing the right person at the right time. The beautiful thing about democracy is that every four years Americans get to voice their opinions in the polling stations. The only poll that matters is the one to be held on November 6, and it no doubt will be a close one that may come down to the U.S. Electoral College. In my research, I learned that Ronald Reagan was 8% behind Carter in the polls at the end of September, and 8% behind Mondale, and ended up winning both by landslides.

No one is predicting a Romney landslide. I believe if he can pull it off, despite the odds against him, Mitt Romney has a chance to be one of the best Presidents the U.S. has ever had.

Quotes

"You can learn little from victory. You can learn everything from defeat."

Hall of Fame Baseball Pitcher Christy Mathewson

"Doubt takes you out of action. Action takes you out of doubt."

William Hamilton (British Evolution Theorist)

"Judge your success by what you had to give up in order to get it."

Dalai Lama

"I am in favour of cutting taxes under any circumstance and for any excuse, for any reason, whenever it's possible."

Economist Milton Freidman

Notes

Every day, more money is printed for the board game Monopoly than for the U.S. Treasury.

Average commute times (round trip minutes to work):

Toronto 80	London (U.K.) 74	Calgary 67
Halifax 65	Montreal 76	New York 69
Vancouver 67	Chicago 61	Barcelona 48

(Source: *Toronto Star* 3-29-11)

Population:

- Baby Boomers (1946-1964) – 78 million
- Generation X (1965-1978) – 46 million
- Generation Y (1979-1994) – 70 million

(Source: Bloomberg *Businessweek* Sept 12 – 11)

40% of GenXers have divorced parents.

10 million GenX school children aged 6-13 lived without adult supervision for several hours per day.

28% of GenXers work an average of 10 hours more per week than three years ago.

In 1996, GenX average expenses were four times higher than boomers entering university/college in 1976.

18% of GenX carry credit card debt greater than 20% of their annual salary (vs. 13% of Baby Boomers).

Around the GLOBE

Canada (Buy)

- The Canadian economy has seemed to diverge from U.S. in recent markets, in a negative sense; the main reason was decline in commodity prices.
- Expected 2% growth in both 2012 and 2013.
- Still remains one of few AAA-rated sovereigns.

U.S. (Strong Buy)

- Low U.S. dollar attractive for foreign investment.
- Recession risks appear slight – expected 2% growth for 2012 and 2013.
- Housing seems to have bottomed but unemployment remains stubbornly high.
- "Fiscal cliff" pending in New Year.
- All comes down to the Presidential Election on November 6, 2012.

Europe (Avoid)

- Austerity and deleveraging will hurt Euro growth for some time still.
- Looks like recession and appears to be broadening.
- Credit availability remains poor.
- But with the damage done, we can start to look at some value names across Europe.

Asia (Hold)

- The Chinese economy has clearly slowed in 2012 and is having an impact on entire region.
- Japan slowly coming out of effects of tsunami last year.
- Weak exports, particularly in Europe hurting Asian manufacturers.

Latin America (Avoid)

- The majority of emerging markets have suffered from decelerating growth – India and Brazil have noticeably slowed.
- The global industrial cycle has had a significant impact on emerging markets.
- Most are driven by increasing domestic consumption and a fast-growing middle class.

The Small Picture

Children's Golf Classic

On July 11, 2012 we held the 23rd Annual event at Sunningdale Golf & Country Club. RBC has been the major sponsor for this event for many years now. I am proud to report this year's event raised $213,115 (NET!) for the local Children's Hospital. That brings our aggregate total over the years to over $2.65 million. A special thank you from the bottom of my heart to those of you who made donations to the event. Work has already begun on making next year's event push the bar even higher.

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 number 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

Congrats, Greg W.
Our winner this quarter!