RBC Dominion Securities

Money NEVER SLEEPS

The Newsletter for the Informed Investor – www.rbcds.com/vito.finucci

JANUARY 2010

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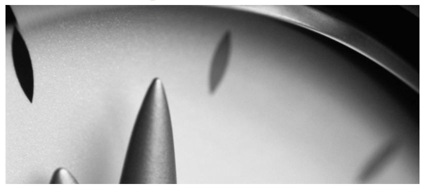
The big Picture



Eye of the Tiger

The Sun Sets in the West and Rises on the East

(A new decade emerges with still too many questions and much angst.)

"We will rebuild, we will recover, and the United States of America will emerge stronger than before." – President Barack Obama

The world has changed dramatically since the summer of 2008. The demise of Lehman Brothers and Bear Stearns set into motion a cycle which witnessed the absorption of Merrill Lynch into Bank of America, the enormous investment from Global governments (last count at $11.6 trillion) meant to stimulate economies back to life, the automobile industry debacle, and subsequent government intervention in the free markets never before seen on a global basis, brings us to a new place in economic history.

America is no longer free market capitalism at work and it doesn't look like the old days are coming around anytime soon. The world remains in a serious period of reflation, mired in debt, with a beat- up consumer and rising unemployment worldwide. In North America, it seems inevitable that down the road taxes will have to rise and entitlements will be cut. That will be the only way to get these huge budget deficits back in line. It will be politically unpopular, but there will be no other choice.

With so many out of work there is no wage pressure, so inflation should stay relatively low even though commodity prices may be rising. Oil continues to rise/stay firm because consumption in China and India keeps climbing and production can't keep up. With 2.5 billion people, an expanding middle class and improved infrastructure, these two nations are fuelling global growth right now. As a result, there will be further upside pressure on not just oil, but all industrial commodities, and most likely agricultural commodities as well. Once the Western economies improve, expect wage inflation as well, and if the current U.S. administration is still in power, to the point of wage and price controls, but despite itself the USA could remain an economic power.

Interest rates going up right now would create too much of a problem for housing and the banks, so they should remain fairly muted until the unemployment rate shows a trend of declines which are sustainable. This may be mid/late 2010 at the earliest.

In the bigger global picture the USA can no longer afford to be the police force for the world, provide extensive foreign aid to everyone, and so on. The days are gone where the USA believed it could dictate foreign policy because of its military and economic strength. That is no longer true.

We are in a new era now. A "Brave New World" if you will. Asia led by China, India, Russia and even Brazil have grown into economic powers and are going to want to exercise their influence to a larger degree. As much as we in the West may feel uncomfortable with this prospect, the sooner we accept it, the sooner we will recognize the countries with the fastest growth is where the opportunities are. Yes, you can still make money in the West

(USA, Europe and Canada) but the emerging markets will do better…but with one big caveat: higher volatility. While the USA exported its volatility to the rest of the world during the recent financial meltdown, the emerging markets had the same if not more declines, but have bounced more. The decoupling may have already begun, but during recent scares out of Dubai, rumors of problems in Greece, Spain, etc. ... it was interesting to see the U.S. dollar retain its safe haven status. The rising standard of living in emerging markets has already pushed the price of gold, it looks like it could go a lot higher (but I am the wrong one to comment on gold, as I have never been a fan!)

In the West, there is a growing sense our children won't have the same opportunities we had, and are going to inherit a disastrous balance sheet loaded with debt. What this is doing is discouraging spending and adds to the reason why this economic recovery has been so muted. My biggest worry is Western leaders are thinking too short term and will not make the politically unpopular decision, and in fact are thinking too defensively psychologically. They really are not sure what to do or if what they are doing will even work? That's part of the reason they have not done enough and spend a lot of time on rhetoric rather than action. To them, taking no action is an action.

The Chinese and Indian economies have had a quicker true bounce because they have to invest in infrastructure. Their stimulus dollars were truly for stimulus and not buried social programs which add little to precious needed job creation. The demographics are working in their favour.

In the West, demographics are working against us. Baby Boomers have driven Western economies since they were born. It is no coincidence our greatest economic boom period was 1980 to 2000, as Boomers reached their peak production years. Now as they age, Social Security and medical care become their priorities. Note the recent headlines south of the border on the health care debates. What the average person does not realize is that when our governments calculate their debts and deficits they do so on a cash basis. This means deficit accounting does not take into account the cost of future promises until the money goes out the door. According to shadowstats.com, if the U.S. government counted in the cost of future promises, the 2008 deficit was over $5 trillion but the total obligations were over $60 trillion. And that was before the financial meltdown.

Overall, I see the global economy on a recovery path:

- The rebound has been faster than expected as measured by global equity markets.
- New sources of economic growth are surfacing (emerging markets).
- Excessive housing inventory overhang seems to be clearing.
- Low inflation means interest rates can remain historically low for some time.
- Because of severe cost cutting, corporate profits can grow significantly on modest economic growth.
- The prospects for a double dip recession have become increasingly remote.
- Evidence that global banks are getting turned around (early payback of TARP funds)

But there remain many concerns as well:

- GDP growth not keeping up with historical bounces out of recessions.
- U.S. job growth remains weak (but has shown signs of stabilizing).
- Dubai nearly collapses.
- U.S. dollar weakness (and matching rise of gold) – inflation risks?
- U.S. democrats losing momentum as polls head south.
- Fears of Sovereign defaults (Greece, Spain, Ireland, rumored).
- One of my biggest personal concerns is the feeling it's now an environment of growing big government versus private industry.

Warren Buffet has often referred to the financial markets as a voting machine in the short term, but a weighing machine over the long term. While it appears financial markets have priced in a strong recovery, it remains to be seen if it will be long and can be sustained. All the pieces for recovery are in place but the main question now is what happens to the global economy when the "training wheels" come off? (i.e. low interest rates combined with government stimulus). This will be tested sometime in 2010 and we will know the answer soon enough.

Now if the year 2009 was all about the exit from the "Great Recession", courtesy of massive global policy stimulus, what will 2010 bring? Well, common sense would say sometime in 2010 we will see interest rates rise, signaling an end to the super-expansionary monetary policy. It will be slow, cautious and very transparent. With a jobless recovery theme in place, it will have to be. Unemployment may be structurally higher over the next several years as the transition takes place in skill sets from many of the lost-never-to-return manufacturing sector jobs.

What we learned during the last cycle:

A) The so-called financial geniuses on Wall Street…aren't!

B) The Canadian dollar can get to par (or higher)

C) The U.S. has suffered a serious blow as a global leader (but human beings, being just that, still see them in the light of the past 50 years, we in Canada, because of proximity perilously so)

D) China has over $2 trillion in reserves.

E) The "BRIC's" now matter – Brazil, Russia, India, China

F) Canada should be a huge beneficiary of A) to E)

So, yes, I remain cautiously optimistic, but with the high level of cash that remains on the sidelines combined with still high levels of fear and angst I think markets will perform better than the low expectations, most if not all of it in the first half of 2010. Those rooting for failure will be disappointed. But as I started this issue off, we are going through a huge transition, and transition rarely comes without pain.

So yes my friends, the long Era of Complacency from the 1980's to 2000 was replaced the last two years by an Era of Fear, which I believe also has ended and will be replaced by this new era, yet to be named, but certain to be a period of drastic change for the Western world has become accustomed to.

Oh yeah, and the "Eye of the Tiger" reference?

It has nothing to do with the recent troubles of a famous golfer, but with some borrowing from the movie Rocky II, it mainly refers to the year 2010, which in the Chinese calendar is the Year of the Tiger, and the way the world is evolving, it may truly be the case.

The Little Picture

(But perhaps, the Real Big Picture)

As I write this latest issue on a milestone Birthday for me, things like family getting together over the holidays mean so much. Maybe I'm just getting older (wiser?) but after a couple of tough years, those "little" things like health, family and friends mean so much more. So I started working out again in 2009 and have shed 14 pounds. I look to do the same in 2010. I encourage you all to set some of your own personal goals, whether family related, health related, getting involved in the community… whatever it may be. I wish you all nothing but the best for 2010 and beyond. VF

Portfolio corner summary (as of Jan 14, 2010)

It's the start of a new year. We've been emphasizing names with growth potential but that pay us nicely while we wait for the growth. Last year's list fared very well; here are some to look at for 2010 (and beyond) and what they yield.

CANADA:
BCE - BCE Inc. ($28.18 - 5.76%), T - Telus Corp. ($34.11 - 5.56%), RCI.B - Rogers Communications ($32.15 - 3.64%), PGF.UN - Pengrowth Energy Trust ($10.92 - 7.69%), CPG - Crescent Point Energy Corp. ($39.05 - 7.05%), AET.UN - Arc Energy Trust ($21.49 - 5.66%), SLF - Sun Life Financial Inc. ($32.90 - 4.35%), RUS - Russel Metals Inc. ($18.90 - 5.29%)

USA: DD - Du Pont ($34.36 - 4.81%), MCD - McDonald's Corp. ($62.56 - 3.53%), JNJ - Johnson & Johnson ($65.20 - 3.01%), PFE - Pfizer Inc. ($19.24 - 3.74%), SJT - San Juan Basin ($21.10 - 3.04%), VZ - Verizon Communications ($ 31.82 - 6.02%), ATT – AT & T Inc. ($26.55 – 5.94%)

GLOBAL: TSM – Taiwan Semiconductor Mfg Co. ($11.01 - 3.33%), SEA – Claymore Global Shippers ($15.09 – 1.01%), DEO - Diageo ($69.86 - 3.19%), E - ENI ($53.47 - 4.44%)

Notes

- The U.S. Debt clock (usdebtclock.org) at year end 2009 stands at over a stunning $12+ trillion or $39,349 per person in the USA (but worse, $111,290/taxpayer)

- From 2002 to 2008, the number of internet users in the USA grew from 167 million to 220 million – Impressive as that is, Chinese users grew from 46 million in 2002 to 253 million. It is estimated by 2012, 490 million Chinese will outnumber North Americans by 3 to 1; India will be #2. (Nerd News Oct 1, 2009)

- Owning a pub in beer-loving Britain was once a license to print money. Not anymore. According to the British Beer and Pub Association (BBPA), 39 pubs in Britain are shutting down each week due to a decision by the British government last year to increase the duty on alcohol twice and the plan is to increase it 2% above inflation for the next 4 years, which means by the time of the London Olympic Games, the tax on alcohol will have increased by as much as 40%! There are now 7 million fewer pints sold each day than the peak in 1979. (MacLean's April 27, 2009)

- Number of Americans reporting income of $10 million or more in 2004: 9,677 average income of $10 million-plus club: $28.5 million (The Gartman Letter)

- How have the past "Year of the Tigers" performed?

YEAR OF THE TIGER	S&P500
1926	11.62%
1938	31.12%
1950	31.71%
1962	(8.73%)
1974	(26.44%)
1986	18.47%
1998	16.81%
2010	??

Average return in the Year of the Tiger 10.65%.

Around the globe

Canada (BUY SELECTIVELY)

- Q3 GDP came in below expectations but Canada globally seems to be in better shape than most due to healthier banks, balance sheets, lower unemployment
- Bank of Canada has committed to keep benchmark rates at all time low of .25% until early/mid 2010 but doesn't want to push C$ higher either
- Fundamentals for C$ look higher especially if commodities continue upwards

* **Focus on Energy/Mines/Materials**

U.S. (BUY SELECTIVELY)

- Q3 GDP + 2.8%, less than 5% but normal coming out of recession
- Government spending key driver with only 28% of stimulus spent to date.
- Consumer activity at a crawl, home #s improving but slowly
- Traditionally Fed does not raise rates until positive unemployment trend in place

* **Focus on Tech/Healthcare/Multinationals**

Europe (HOLD)

- GDP turned positive in Q3 fueled by exports
- UK had sixth straight quarters of negative GDP growth which is the longest string since 1955
- Bounce from March lows mainly due to the receding banking crisis rather than hope for big growth
- Risk could be exposure to troubled sovereign debt like Greece, Spain, Ireland, Italy, etc.

* **Focus on Multinationals/Financials/ Shippers**

Asia (STRONG BUY)

- Chinese GDP a strong 8.9% with strong industrial production & retail sales growth.
- Chinese stimulus has flowed across to other Asian economies
- Japan struggling, still in deflationary fight – rates at 0.10% still not helping
- With more than 50% of the world's population, long-term fundamentals remain positive in this entire area.

* **Focus on Exporters**

Latin America (Only Brazil - Buy)

- Too many left wing/socialist/totalitarian governments do not make for good economies
- Brazil has set model for others to follow, but will they?

* **Focus on ETFs/Financials**

Quotes

"Failure is the condiment that gives success its flavor."
Truman Capote (Author)

"My generation of radicals and breakers-down never found anything to take the place of the old virtues of work and courage, and the old graces of courtesy and politeness."
F. Scott Fitzgerald (Author)

"When you see no disadvantages, look harder"
Robert Half (Writer)

"The best investment is to invest in yourself."
Famous investor and voracious reader, Warren Buffet

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 with a nice dinner at one of the finer restaurants in London.

Congrats, Paul P.

Our winner this quarter!

PLEASE DON'T KEEP A SECRET FROM US!

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, we would be grateful if you passed on our number: (519) 675-2011 or 1 (800) 265-5911. Thanks for keeping us in mind.