RBC Dominion Securities

Money
NEVER SLEEPS

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

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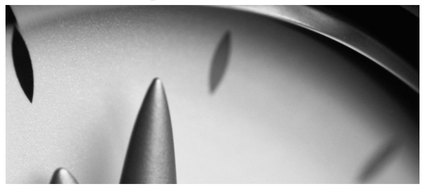
The big Picture



Try to Follow the Bouncing Ball

As I write, the leaders of the world's biggest 20 economies, the G20 are convening to solve all the world's problems. The question is; what is the major "bouncing ball" that they should focus on?

The minute-to-minute issues would include:
- Soft jobs reports
- BP Oil Spill
- Euro situation
- Mid East situation
- North Korea situation
- China's growth (or lack there of?)
- Sluggish global economic recovery

Then there are longer-term issues:
- Deficit spending
- Massive debts
- Higher taxes
- Ceding U.S. sovereignty
- Draconian business rules
- War on prosperity
- Italy's recent performance in the World Cup (Ok…just testing if people read this stuff!)

You can add the general feeling of malaise about all the politicians trying to fix the problems, but not sure if that is short term or long term. It seems the powerful G20 are impotent at this time. They seem intent in unison on tightening fiscal policy, raising taxes, and increasing regulation across the board…all at the worst time in an economic environment which needs exactly the opposite.

This is a financial crisis, not an economic crisis, but it became one. It has always been that economic expansions are killed; they do not die of old age. Financial and commodity market volatility is the leading cause of killing expansions.

What is needed more than anything at this point is clarity, not a fix, but clarity. Clarity to Euro banks exposure. Clarity to financial reform. Austerity packages. Clarity to U.S. government intentions toward business. That is what the markets fear, it's not real, but it's what the driver is right now.

When you have a problem of sovereign debt, the problem really means some government borrowed too much money and can't pay it back.

There are three options they have:

1. The government that borrowed the money goes through severe austerity and does with a lot less so that they could take tax receipts and pay back debt, which tremendously hurts their economy, hurts their population, but saves everyone else.
2. They can default or restructure, which is an orderly default, but the banks lose a lot of money. And right now, most banks are already fragile.
3. The larger entities can print tons of money to continue to solve the problem of too much debt with even more debt. Then they try to devalue that money. This is highly inflationary however.

Bottom line, when you borrow too much and can't pay it back, there is not a "good" option. Somebody has to take the pain, there is no fourth option, and that is why markets are taking this problem in Europe so seriously.

There is nothing wrong with throwing some money at a problem to make it go away. There's nothing wrong with even throwing some borrowed money at a problem to make it disappear…the only problem is it's fine as long as you have the means to pay the borrowed money back. In Europe's case, they threw a lot of borrowed money ($1 Trillion) and the problem still has not gone away. The market responded to the Euro bailout with a big sell-off.

What I suspect is what we've discussed in our writings before: that the market's belief is that these bailouts provide next to no long term value. They don't create jobs, they don't improve productivity…they just buy time and don't address the crux of the problems, but while imperiling the financial system at a huge burden to taxpayers.

What the ruling politicians seem to keep failing to realize is that bailout and "stimulus" money is ultimately our money…yours, mine, our kids and grandkids money. The numbers suggest the money is not getting spent wisely. It is needed to create real jobs, real growth, real wealth creation…not bigger government or bigger, more leveraged banks.

Right now, the politicians are assuming a relationship between the economy and tax revenues which is divorced from reality or any historical precedent. Six decades of recent history have established one far-reaching fact that needs to be built into their fiscal calculations: an increase in federal tax brackets, particularly if targeted at the higher brackets, produces no additional revenue. For naïve politicians, this is their "inconvenient truth".

Tax revenues are dependent not upon the rate of taxes to be paid, but upon the rate of economic growth. Tax receipts historically have ranged from 16% of GDP to 20%, and always have.

The last eight weeks, global markets seem to indicate they are not sure all the stimulus will keep working. In particular with respect to Europe, while all the austerity reassurances are being tossed about, what happens when they get bumped from page one of newspapers to page 10? That's right; they never get enacted or followed up on.

So what's next?

Well, for what seems to be the first time in economic history, governments around the globe are determined to first engage in a gradual and later accelerating debasement of their currencies in order to deal with all the debt on the books (see #3 in options available above).

It was Ernest Hemingway who once said "the first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring temporary prosperity, both bring permanent ruin."

What this really means is that the Great Reflation to fix the Great Recession can continue for a bit longer as policy makers hope they can outgrow their ever-growing debt burdens. The short term concerns raise the big question on whether the European problems are the harbinger of another 2008-style collapse, or just a hiccup on the way back to old highs. With the ECB's $1 Trillion on the line, I would think hiccup.

Over the longer term, the answer depends on whether this epic gamble will pay off. Whether the developed economies can outgrow their debt and if not, how long do the reflationary tactics go on? I repeat, the only way out of the current debt burden is to outgrow it and inflate our way out of it.

The biggest risk right now is a failed bond auction, which sends a warning shot across the bow. We have a mid-term election year, and I would guess right now the Republicans win the House but maybe not the Senate. That would create some gridlock in the Obama administration and that might not be a bad thing.

For now, looks like we might have a market this summer stuck in a very tight trading range, with depending on the election results, a small year end rally resulting in perhaps higher single digit returns by year end, followed by a decent 2011, since years ending in "1's" have been very positive. Pretty scientific, eh?

The Little Picture

(But perhaps, the **Real** Big Picture)

On July 7th the 21st annual Children's Golf Classic was held at Sunningdale Golf and Country Club. RBC Dominion Securities has been the lead sponsor of this event. Despite a very tough economic environment, I am very pleased to announce we raised $184,472 for the local Children's Hospital, 100% stays right here in London. That brings our total over the years to an amazing $2.2 million+.

Thanks to all our clients and friends who donated/contributed. In two weeks we start working on next year's event.

The Foundation was honoured to have special guests, Dr. Jennifer Arnold, Neonatalogist and Medical Director of the Pediatric Simulation Center at Texas Children's Hospital, her husband Bill Klein and Assistant Director of the Texas Children's Simulation Center Kelly Wallin, join the event.

You may recognize Dr. Arnold and her husband Bill Klein, stars of the TLC reality show "The Little Couple", that follows Arnold, who's 3-foot-2, and her husband Klein, who's 4 feet tall as they carry out their busy lives in a world geared for those who are much taller.

Portfolio Corner (all prices as of close June 30, 2010)

For any of you who have had conversations with us, you know we have focused on dividend payers who also have some potential upside.

In Canada, the recent pullback in Royal Bank of Canada (RY - $50.70) makes it attractive and BCE Inc. (Bell Canada) (BCE - $31.06), Rogers Communications Inc. (RCI.B - $34.78) and even Telus Corp. (T - $40.17) work. But I especially like the energy trusts, even with pending conversions. For growth consider Suncor Energy Inc. (SU - $31.33), Canadian Natural Resources Ltd. (CNQ - $35.33). For aggressive consider Research in Motion Ltd. (RIM - $52.33), Toromont Industries Ltd. (TIH - $22.95) and materials - Quadra FNX Mining Ltd (QUX - $9.79), Teck Resources Ltd. (TCK.B - $31.48) etc.

In the U.S., for patient investors (18-24 months), the big centre banks, technology and energy. Names like Total SA (TOT - $44.64) and BP PLC (BP - $28.88) are very interesting here.

Product Corner

TFSA – It's Never Too Late to Catch Up

One of the best features about the TFSA is that your unused contribution room carries forward indefinitely. So if you didn't make your contribution last year, you can make last year's and this year's contribution now for a total of $10,000. What's more, if you ever make a withdrawal, it's not only tax free, but the amount you withdrawal is added back to your available contribution room the following year.

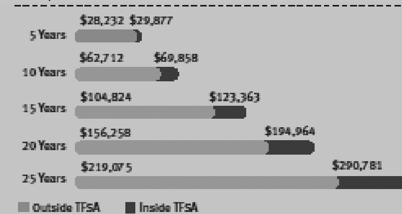
Although $5,000 may not sound like much at first, when compounded over time, the growth can add up significantly, as the chart to the right shows.

THE POWER OF TA X-FREE GROWTH

Investment earnings in an RRSP or RRIF grow on a tax-deferred basis, which means you don't pay tax on the earnings until you eventually withdraw them – typically resulting in faster growth. But with the TFSA, your investment earnings grow on a tax-free basis. Even when you withdraw these earnings, you do not pay tax on them, allowing your savings to grow faster than they would outside of a TFSA.

Tax-free compound growth

This chart shows how $5,000 contributed annually and earning 6% interest per year would grow inside of a TFSA compared to in a taxable investment account.



Assumes tax rate of 32% outside TFSA, with interest income taxed annually. All contributions made at beginning of year. Annual compound rate of return of 6%. For illustration only and not indicative of future returns. Excludes fees and commissions. Actual tax rates and rates of return will vary.

Consider your TFSA a lifelong tax-free investment account – there is no age limit on how long you can contribute and no lifetime limit on how much – contributions are not limited to cash and cash equivalents but can be used to invest in securities, mutual funds and fixed income investments like bonds, T-bills and GICs.

Notes

How fast is Cisco's new router?

- Can deliver every movie EVER made in 4 minutes
- Let everyone in China make a video call at once
- Transfer 4 billion MP3s in one minute
- Transmit the DNA sequence of 56,000 people in one second

Prices start @ $90,000 and they spent $1.6 billion developing it *(OptionMonster - March 11, 2010)*

Blue State Blues

Who are the best and worst run states?

Best States, Debt per Capita

1. Utah (Solid Republican) $447
2. New Hampshire (Leans Democrat) $525
3. Nebraska (Republican) $17
4. Texas (Solid Republican) $520
5. Virginia (Democrat Leaning) $782

Worst States

46. New Jersey (Solid Democrat) $3,621
47. California (Solid Democrat) $1,805
48. Connecticut (Solid Democrat) $4,490
49. Illinois (Solid Democrat) $1,877
50. New York (Solid Democrat) $2,921

Any questions President Obama? *(Forbes - March 29, 2010)*

Crude Awakening

2009 was the first year in which oil exports from Saudi Arabia to China surpassed those to the U.S.A. In the first 11 months of 2009, the U.S. imported 998,000 barrels/day of Saudi Oil, its lowest level since 1988. The slowing economy and increased imports from Africa and Canada were the reason. China has doubled its imports from Saudi Arabia over the past three years. *(Financial Times – February 21, 2010)*

Around the globe

Canada (STRONG BUY)

- Was first to raise rates signaling strength among G8 in a rare move ahead of U.S. Federal Reserve
- Canada seems to be existing on the periphery of the crisis
- Has begun to gain favour with international investors
- C$ has held up well overall

U.S. (BUY)

- Most likely scenario is a half speed recovery but economy seems stabilized
- Interest rate increases most likely on hold until 2011
- Consumer confidence still wobbly, job creation remains slow
- Biggest question remains Obama administration's "big government" approach

Latin America (AVOID)

- Except for Brazil, no interest

Europe (HOLD/AVOID)

- Challenge in Europe are the peripheral countries like Greece, Ireland and Spain, where solutions will be deflationary
- Eastern Europe tenuous with default risk (Hungary, Romania, Poland)
- U.K. has a stagnant economy combined with an inflation spike, not good
- Euro has been punished and it's very existence questioned

Asia (HOLD)

- China has taken steps to slow the pace of economic growth and reduce risk of asset bubbles, especially in real estate
- Japan remains sluggish, with gross debt to GDP now at over 180%
- Korean conflict heating up?

Quotes

"The budget should be balanced, the Treasury should be filled, public debt should be reduced, the arrogance of officialdom should be tempered and controlled, and the assistance to foreign lands should be curtailed lest Rome be bankrupt. People must again work, instead of living on public assistance."
Cicero 55 BC

"Capitalism has created the highest standard of living ever known on earth. The evidence is incontrovertible…yet those who are loudest in proclaiming their desire to eliminate poverty are loudest in denouncing capitalism. Man's well being is not their goal."
Ayn Rand

"I'm so old that whenever I eat out, they ask me for the money up front."
Anonymous

"I had plastic surgery last week. I cut up my credit cards."
Comedian, Henny Youngman

"My problem lies in reconciling my gross habits with my net income."
Actor Errol Flynn

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, Frank L.

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.