RBC Dominion Securities

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

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The big Picture

Is Greed Good?

"Greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures, the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, knowledge, has marked the upward surge of mankind and greed, you mark my words, will not only save Teldar Paper, but that other malfunctioning corporation called the USA"*… Gordon Gekko (as played by Michael Douglas in the movie Wall Street, 1987)*

As I began putting pen to paper to begin this quarter's newsletter, the 2010 version of Oliver Stone's Wall Street was premiering in theatres. The sequel carries the name of this newsletter, and for total honesty and transparency, the quote came from the original movie. As I sat in the theatre watching the sequel that night, I couldn't help but wonder how times had changed. When the original came out in 1987, people were amazed by some of the actual goings-on on the real Wall Street. The original was visionary, as but months later the market crashed in October 1987 and not long after, the names Milken and Boesky became notorious after charges of insider trading were laid. In the 2010 version however, was there really anything Oliver Stone could present post 2008-2009 financial crisis and post Bernie Madoff hi-jinks that would actually surprise people?

Probably not.

In 1987, investors were just starting to allocate a huge amount of wealth to the equities market, and that trend would continue almost unabated until the year 2000, when the internet bubble began to burst. In 2010, there almost seems to be a combination of fear, anxiety, angst and disdain for the markets after the second serious bear market in less than 10 years and a lost decade which produced virtually zero returns in most markets around the world. As I write, there has been a net outflow from equity funds for sixteen consecutive weeks, even despite the best September in nearly 70 years. And where is it going? Bond and income funds, despite 10-year yields in the USA running less than 3%. It seems like the investing crowd is making the same mistake it always makes.

What do the years 1987, 1997, 2001 and 2007 have in common? They were the highest net years of mutual fund buying (net inflows) in most recent years. They were also all at the top of those cycles.

What do 1994, 2002 and 2008 have in common? Yep, that's right, lowest net inflows into mutual funds, and right again, right at the bottom of the cycles, investors were selling when they should have been buying.

Year to date, 2010 is looking to be as bad or worse than the 2002-2003 numbers, at the bottom of that cycle before we went to all-time highs later in 2007.

So what I am hoping for is that investors will filter out all the noise. Remember but a few weeks ago all the media hype about the perils of September/October? The talking heads on CNBC couldn't have a segment without the warnings. And what did we get? The best September in decades. When we told clients five of the last six September/October periods were actually up, most were surprised. The only negative period was 2008 and it was a doozy, down 20-25% triggered by the collapse of Lehman Brothers, the once venerable 120-year-old firm.

Markets have produced conflicting signals all year. Many were down as the overused phrase "double dip" made the rounds. So while North American markets struggled, emerging markets rallied, and many commodities like copper, cotton, and yes, gold, hit all-time highs, all in anticipation of a reacceleration in the economies of China and greater Asia.

These conflicting messages are indicative of the amazing amount of noise emanating from the economic data. Given the consensus out there that growth will be sluggish and "half speed" is the New Normal, is it surprising the data and messages would conflict?

On September 20th, the National Bureau of Economic Research (NBER) made it official, declaring the Great Recession of 2008-2009 as having ended in mid-2009. The same group told us the last recession ended in November 2001, but stock and bond markets limped along for almost another year and a half. This recovery, with perhaps 2-3% real GDP growth, will go as the weakest on record.

So the recession has ended, but has the recovery begun?

With nearly 15 million unemployed in the USA, anemic retail sales, and disappointing housing numbers, it's hard to believe housing has only "led" the economy in expansions 80% of the time in the past, so while a big part of the economy, not always the leader. Yes, the U.S. economy will continue to muddle along because the U.S. consumer has drastically adjusted their spending patterns and debt accumulation. This recession is different than previous recessions, the latest one triggered by the financials sector and while they continue to repair their balance sheets, adjusting to new regulations and capital requirements, there will be less ability for credit to expand. In prior recessions banks had greater ability to lend to stimulate economic activity leading to higher economic growth.

But don't write off the USA just yet. With a $14-15 trillion economy, they are still 3X the size of the world's new #2 economy: the fast-growing China.

The good life and rapid growth that started in the early 1980s was fueled by massive financial leveraging and excessive debt, first in the global financial sector, starting in the 1970s and in the early 1980s among consumers. That leverage propelled the dot com bubble in the late 1990s followed by the housing bubble which peaked in 2005. Now those sectors are being forced to deleverage and in the process are transferring their debts to governments and central banks.

This deleveraging will probably take up to a decade or more – and that might be good news. If done too quickly, major economies would experience depressions worse than the 1930s. This deleveraging will result in slow economic growth and probably deflationary forces for still some time.

In typical post-WWII economic recoveries, there have been four cylinders firing to push the economy out of recessions. At present only one, the ending of inventory liquidation is generating positive effects. The other three – employment gains, consumer spending growth and a revival in residential construction – are all sputtering at best.

The last problem the markets face is a lack of confidence in leadership. Considering the current President was elected to save the economy, about 20 months and at least a trillion dollars later, the promise has turned to frustration. The problem has been the misdirection of resources to support an ideology that has put agenda above saving the economy. Those include…

- The redistribution of wealth
- Controlling banks
- Taking over health care
- Cap and trade
- Jobs?

"Unusual uncertainty" has become the new "irrational exuberance."

As for the notion of punishing the rich, the last amusing excuse I heard yesterday for hiking taxes on the wealthy was that they don't spend their money. So I guess now we will take people's savings if they don't spend it? I find it somewhat offensive that somehow people must spend their money or the government will take it from them. I realize the current Administration calculates that poorer Americans should be conduits of redistributed money, which is brilliant politics for the masses, but don't portray it as "caring". The government gets more money to pump into schemes that don't work. They have never worked. They've won elections, but they have never built nations.

Despite the recent mass exodus of the President's economic team, a clear sign of failure and frustration, the message from the White House remains the same: money generated in the country is theirs, much as King George once believed prior to the American Revolution. Is it any wonder that the TEA Party (Taxed Enough Already) is gaining so many followers? The thing is people don't get rich by being dumb and not working hard. Trust me, they will figure it out, and move their capital to where it is treated better. It will be bad for jobs, and bad for the economy, since most of them run businesses, especially small businesses which are the backbone and job-creating lifeblood of any economy.

We live in interesting and complicated times. The key is to avoid the noise and stay invested. Diversify, buy quality and don't try to time the markets. Buy names that are global and which pay you while you wait for the growth. That will be the key going forward.

Gordon Gekko is often misquoted (he never actually said "Greed is good") in that context. Read it again, and tell me most of us don't agree with the belief that greed, not just for money, is what built the phenomenal lives we enjoy in the Western world. I know it was greed for a better life that brought my ancestors here from a war-torn country. To this date, my 78-year-old father has never had a credit card in his whole life, and it's a valuable lesson to follow.

In some respects, Mr. Gekko was right. In many ways, greed is good and in the end it's what we need to get us back to prosperity.

The Little Picture

We would like to welcome Jessica Restivo to our RBC "family". Jessica will be covering Trish's upcoming maternity leave (yep, #2 on the way!). She comes to us as a recent Western graduate, so please welcome her when you get a chance. I know you will all be patient with her as her learning curve progresses on a very demanding desk!

Welcome Jessica!

Portfolio corner summary

We've been saying for some time that investors need to focus on dividend payers which will also provide some upside growth. I also believe energy and commodities will perform well, so Canada should do well going forward. In the USA, global players, technology and the shippers are areas I favour. Emerging Markets are going to do very well, but only for investors who can tolerate some volatility.

Product corner summary

TAX SAVINGS THROUGH RRSP INVESTING

While most individuals recognize the benefits of investing in an RRSP, many do not exploit its unique advantages to their fullest potential. One of the primary benefits to investing in an RRSP is tax savings.

Contributions to an RRSP are deductible for tax purposes within certain prescribed limits. This deduction reduces the amount of taxable income and thus the tax payable. The actual tax savings will depend on your marginal tax rate. The table below outlines the amount of tax saved and the after-tax cost of a $1,000 RRSP contribution based on various marginal tax rates.

Marginal Tax Rate	Tax Saved	After-tax Cost
25%	$250	$750
40%	$400	$600
45%	$450	$550

Contact us early to make the most of your RRSP contribution. The maximum RRSP contribution limit for the 2010 tax year is $22,000. We can work together to meet your RRSP and ultimately your retirement objectives.

Dates to Remember:
RRSP Contribution Deadline for 2010 Tax Year: March 1, 2011
RESP Year–End Deadline December 31, 2010

SAVE TAXES – INVEST EARLY – MAXIMIZE CONTRIBUTIONS

Notes

As of the second quarter of 2010, China's GDP passed Japan's to become the second largest in the world, after the USA. "Experts" say China is on track to replace the U.S. as the biggest economy as soon as 2030. It will take some work; the U.S. economy is approximately $14 trillion to China's $5 trillion. *(NY Times, August 15, 2010)*

Top Countries for Crude Oil Imports to the USA
(By % - 2009)

Canada	21.40%	Notables –	Iraq	5.00%
Mexico	12.10%		Brazil	3.25%
Saudi Arabia	10.91%		Russia	2.56%
Venezuela	10.65%		Kuwait	2.04%
Nigeria	8.51%		[so Saudi Arabia and Kuwait "only" 13% of total]	

(Gartman Letter August 15, 2010)

Philips Lighting (with $10B annual sales) estimates LED bulbs could make up 70-90% of the market in 10 years. They are 10X more efficient than incandescent bulbs and twice as efficient as fluorescents. Assuming daily use of two to three hours per day, they can have a lifespan of 20 years. May make sense despite the cost of $30 - $40 per bulb, Wal-Mart and Starbucks have already committed to converting hundreds of retail outlets with an estimated pay back of two to three years.
(Fortune Magazine February 8, 2010)

More on Taxes… (US statistics)
In 2006, 37.3% of the households in the U.S. paid no income taxes
In 2007, 37.9% did not pay taxes
In 2008, 48.5% did not, and
In 2009, 46.9% did not

So let me get this right, pretty well 50% of Americans paid no taxes? No wonder they elect politicians who raise taxes on the other half. The new minority, the productive citizens of the nation, seemed to be doomed. This trend is unsustainable and not the way to build a better nation.
(Gartman Letter July 13, 2010)

Around the globe

Canada (STRONG BUY)
- Best fiscal situation in G8
- Expected GDP growth of 3.20% for 2010, 2.90% for 2011
- Economy has slowed since Bank of Canada raised rates
- First of G8 countries to raise interest rates, was it premature?
- Canadian $ has been very strong, businesses optimistic
- Commodities will be the future

Asia (LIMITED BUY)
- China remains the engine despite official efforts to slow it down (Q1 GDP was almost 12%, Q2 11%) – questions remain on Chinese housing market, is it a bubble?
- China's boom has spilled over into South Korea, Indonesia and Singapore
- Japan's domestic demand remains sluggish with deflation persisting
- Key, perhaps globally, will be how much will China slow down

U.S. (STRONG BUY)
- Expected GDP growth of 2.70% for 2010, 2.50% for 2011
- Short term interest rates to remain low, more Fed Reserve stimulus pending
- Retail sales softening, housing market still sluggish at best
- Jobs number remain weak which impacts the biggest current obstacle – consumer confidence

Europe (AVOID)
- Expected GDP growth of 1.00% for 2010, 1.50% for 2011
- Germany rebounding on back of increased exports
- News remains grim in periphery countries where Greece's economy contracted 6%, Spain, Portugal and Ireland not as bad, but still grim – UK struggling
- ECB not in a position to raise rates for some time

Latin America (AVOID)
- Except for Brazil, no interest

Quotes

"I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around [the banks] will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered."*(Letter to Secretary of the Treasury Albert Gallatin, 1802)*

Sometimes I wake up grumpy… sometimes I let him sleep. *(Anonymous)*

We can't solve problems by using the same kind of thinking we used when we created them. *(Albert Einstein)*

"You know, I - - I would say that when I - - the one thing I'm clear about is that I'd rather be a really good one – term President than a mediocre two – term President. And I - - and I believe that." *(President Obama to Diane Sawyer, January 2010)*

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 D.

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.