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

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Vice-President & Director
Vito Finucci
(519) 675-2011
vito.finucci@rbc.com

Alyson Medeiros, CFP
Associate Advisor, Financial Planner
(519) 675-2505
alyson.medeiros@rbc.com

Jodie Fuller
Associate Advisor
(519) 675-2511
jodie.fuller@rbc.com

Trish Gordon
Assistant
(519) 675-2021
trish.boughner@rbc.com

Theresa Kelly
Assistant
(519) 675-2021
theresa.kelly@rbc.com

Fax: (519) 675-2020

Website:
www.rbcds.com/vito.finucci

RBC Dominion Securities Inc.
148 Fullarton St., Suite 1900
London, Ontario N6A 5P3

The **big** Picture



Where Have You Gone, Joe DiMaggio?



"Those days are gone, and we're not so self assured..." The Beatles, "Help"

With the industrialized world facing its first serious deflationary downturn since the Depression, the world looks to Barack Obama as the leader of the rescue brigade. He inherited that role when he won the Presidency. Obama mania remains high as reflected in the domestic polls, his reception in Cairo recently, and his European tour, which drew crowds which only rock stars could bring. The hopes of the entire world rest on this one man who, if you think about it, is "on-the-job training." I'm not sure I've seen any other President have this many press conferences and be the point man, front and centre, rather than let his people run them. But I

have to admit, he still has the ability to captivate when he speaks.

Another leader of a different sort was born in California in 1914, the eighth of nine children, born to immigrants from Italy. It is said he took to playing baseball to avoid having to clean his dad's fishing boat. He became baseball's first \$100,000 salary and was known as the game's best, hardest-working player, often playing through pain. By the time he retired, Joe DiMaggio became the only player to be an All-Star selection each of the years he played (13 yrs from 1936 – 1951), led the Yankees to a World Series Championship (9 of the 13 years), and became the model of consistency, his 56 consecutive game hitting streak in 1941

may be the greatest sporting record which may never be broken. He avoided the spotlight and was always extremely private, even when dating the #1 lady in Hollywood (Marilyn Monroe). He was a great leader, a great teammate, and the embodiment of class, and the reason I am a Yankee fan to this day.

I share this vignette not just because I am a baseball fan, but it is the qualities that Joe DiMaggio displayed as a hero to a nation that needed those qualities coming out of depression and during the Second World War, that, as Simon and Garfunkel, a generation later idolized, in the famous line in their song "Mrs. Robinson", "a nation turns its lonely eyes to you."

As the lessons of the Depression remain but a memory two generations later, once again, America (and the world) looks for a leader to take us out of an economic environment brought on by years of excess, poor corporate governance, political interference, cheap money, and that deadly sin...greed.

Asset bubbles are strange animals. They seem obvious after they blow up but Fed Chairman Bernanke and Greenspan have both argued they cannot be detected. At this point, that is less relevant as to how to work out of this mess. The recent collapse of residential property prices is a classic asset bubble which is still deflating. The "green shoot" lobbyists may be overlooking the importance of property prices to the overall economy. Homeowners for the last 20 years have made property wealth a large part of the balance sheets, and in North America (and the UK) many people have directed savings (in many cases, all savings) towards property in recent years and no small part of the profits were recycled into the economy through equity withdrawal schemes. (This applies mainly in the USA, but has created a level of consumption which cannot be sustained unless property prices continue to rise.)

The Case-Shiller Index in the USA, one of the best measures of the housing market, peaked in July 2006 and has since dropped 32%. But the scary part is, to revert to the historical mean, U.S. property prices have to fall by about 40% or so, which means housing is only through 75% of its bear market. In December 2006, the total value of the U.S. housing market stood at about \$22 trillion, and with the 32% drop, sits at approximately \$15 trillion, however the mortgage debt remains more or less the same at \$10.6 trillion. In other words, in simple math from my banking days, the debt-to-equity in the U.S. housing market was 48% in December 2006, is now 70%, and could go to 80% if prices meet the historic mean.

Add to that any investments in equities those same people may own which are down 30-50%, it doesn't take much to figure out why this bounce is so slow to come around and muted. Now that there has been a bounce, the markets have been treading water lately for several reasons:

- The markets have made a huge move from the lows in a relatively short period and are due for a pullback.
- The markets need a catalyst, in other words, "real" good news, not just "less bad" news.
- The markets need leadership.

- The markets are worried about the new U.S. administration's intentions already seeing what they've done within healthcare, the financials and the auto sectors.

In the meantime, there's another kind of disagreement brewing – among the G8 nations. On one side, the USA, UK and IMF would like to keep the stimulus flowing or even increase it. On the other hand, traditionally fiscally conservative Germany and even France have made it known their opposition to outrageous spending. Doubts have even arisen if the U.S. can retain its role as economic leader of the free world. The U.S. dollar has been pounded, and nations like China and Russia have openly commented on their questioning the U.S. dollar as the world's reserve currency.

There is no secret that the White House has embarked on a campaign to redistribute wealth, and now trepidation grows about new regulations lurking in the wings with respect to Wall Street and executive compensation in general. Speaking of compensation, one of DiMaggio's famous lines came just before he died in 1999. When asked what kind of salary he would ask Yankee owner George Steinbrenner for if he was still playing, his answer was "George, we are about to become partners."

Now it is President Obama's job to get the economy performing the way it did between Reagan's first term and the recession of 1999. The menu of multi-trillion dollar smorgasbord of policies does not seem to contain a lot of items that creates jobs now, and continuously into the future. What happened to the infrastructure spending and "shovel ready" projects which have suddenly gone silent? The administration could have stimulated large scale job creation much needed in California by authorizing and promoting offshore drilling. Instead, he banned it, but promised a vision of millions of jobs in clean energy. Let's hope his enthusiasm and optimism in these days of mass communications can translate into a positive economy, not just in the USA, but globally.

I do not share the gloom and doom of those who preach Depression. Too many have been negative for too long. While I will always remain optimistic, I believe in the system and I believe capitalism will prevail, and the age-old virtues of integrity, good work ethics, and entrepreneurship will prevail.

When asked why he always played so hard, every play, every day, every game, DiMaggio responded that there could always be one kid or one person in the stands who would only ever see him play one time in their lifetime and he never wanted to let them down. The world could use more of this philosophy.

Joltin' Joe may have left, but let's hope for our kids and grandchildren's sake, his spirit has not gone away.





THE LITTLE PICTURE

On July 7 and 8, the 20th Annual Children's Golf Classic was held at Sunningdale Golf Club. As many of you know, I've been involved with this event since Day One and have been the tourney sponsor for the past 17 years. This year, I am very proud to say we raised well over \$200,000 (the final numbers not in yet) and took our total over the years to \$2,038,000, an incredible number. My heartfelt thanks go out to all my clients and friends who made donations and auction contributions. 100% of the proceeds goes towards our local Children's Hospital. Thank you all from the bottom of my heart! VF

Portfolio corner summary

(as at July 10, 2009):

It's July and most markets are still negative on the year. This will still take some time, but I do believe the worst is over. Continue to buy names which are well managed and leaders, and hopefully pay some yield as well. Give them 18-24 months.

IN CANADA:

Royal Bank of Canada (\$44.85 – 4.45%), BCE Inc. (\$23.81 – 6.45%), Telus Corp. (\$30.18 – 6.35%), Rogers Communication Inc. (\$29.30 – 3.89%), TransCanada Pipeline Corp. (\$30.50 – 4.96%), ARC Energy Trust (\$15.78 – 7.54%). For growth...Research In Motion Ltd., Toromont Industries Ltd., various commodity names (too many to list)

IN U.S.A.:

General Electric Co. (\$10.74 – 3.73%), Dow Chemical Co. (\$14.55 – 4.12%), Microsoft Corp. (\$22.19 – 2.32%), Caterpillar Inc. (\$30.40 – 5.51%), Deere & Co. (\$35.31 – 3.14%), US Steel Corp. (\$31.00 – 0.65%), Trinity Industries Inc. (\$12.21 – 2.65%) among a long list

IN EUROPE:

Diageo PLC (\$56.08 – 3.99%), BT Group (\$16.20 – 6.01%), Nokia Corp. (\$14.16 – 3.86%), Siemens (\$65.22 – 2.38%), Eni (\$44.07 – 6.07%)

IN ASIA:

Taiwan Semiconductor Mfg. Co. (\$9.43 – 3.77%), China Medical Techs Inc. (\$17.99 – 0%)

NOTES

The net worth of American households slipped again and is now down \$14 trillion from its peak in Q3 2007. In the most recent quarter (Q1 2009) it decreased \$1.3 trillion and now down six quarters in a row. (June 12th – Wall Street Strategies)

Annualized returns for U.S. equities (in USD) for the 10 years ending May 31st 2009 were -1.7%. These are the worst numbers since 1938 (-0.9%) and worse than 1964 to 1974 (+1.2%). The low watermarks of 1938 and 1974 were followed by a 24-year bull market and 27-year run respectively. Past performance does not promise any future gains, but let's hope history repeats itself in this case.

David Beckham made \$10 million per month playing soccer for the LA Galaxy and barely dressed a game to earn it. Yet no one stood outside the soccer stadiums and protested. But take a guy running a company with 90,000 employees in 60 countries and the vitriol of hate that arises when the subject of executive compensation arises, and the guy kicking a soccer ball is a hero. This hypocrisy casts light on the ongoing battle of class warfare taking place.

In 1891, Asa Candler, an Atlanta entrepreneur, paid pharmacist John Pemberton \$2,300 for the formula for his weird brown health drink. Last year, Coca-Cola has revenue of over \$22 billion!



Around the globe



Canada (SELECTIVE BUY)

- GDP expected to fall 2.2% in 2009.
- Impact of lower commodity prices now being felt hard.
- But with our largest trading partner in deep recession, will impact.
- Issues with challenges to minority government raising concerns.
- Longer term oil and gas, and commodities should prove to be leaders.

U.S. (SELECTIVE BUY)

- GDP decline of 2.7% expected in 2009.
- U.S. recession longest of post-war period at 15 months.
- Unemployment close to 10%, household net worth down over \$10 trillion.
- New administrations initial "stimulus" fails to inspire.
- Like Technology in USA.

Europe (HOLD)

- GDP decline of 2% expected.
- Rates still declining in Euro zone as they were slow to act after ill timed rate increase in 2008.
- Good consumer names and select financials in Europe.

Asia (BUY)

- GDP in Japan expected to fall 3.25%.
- Economics like Singapore, where exports are 180% of GDP, downturn worse.
- China still key in this area, but exports are still 40% -Chinese GDP expected at 6-7%, down from 10-12%.
- Korea and Taiwan struggling with a sharp fall in exports as well.

Latin America (AVOID)

- Far left leaning governments combined with collapsing commodity prices do not bode well for this area.
- Except for Brazil, none of these stories seem attractive.

QUOTES

"A government that is big enough to give you all you want is big enough to take everything you have."

Barry Goldwater

"I cannot give you the formula for success, but I can give you the formula for failure – which is: Try to please everybody." *Herbert B. Swope*

"The worst part of success is to try finding someone who is happy for you."

Bette Midler

"Find a job that you love, and you'll never work a day in your life."

John P Grier

"I'm at the age where food has taken the place of sex in my life. In fact, I've just had a mirror put over my kitchen table."

Comedian, Rodney Dangerfield

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, Josie 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.

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