RBC Dominion Securities

Money
NEVER SLEEPS

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

OCTOBER 2009

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

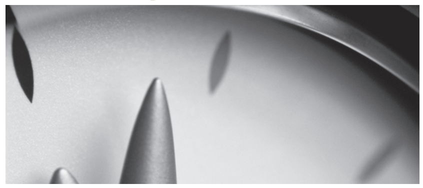
Trish Gordon
Assistant
(519) 675-2021
trish.boughner@rbc.com

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



A Different World

After Purgatory, we are told, comes Heaven

September has historically been the month when many of the financial market's various hysterias have taken place. A few weeks ago, most business sections reported *ad infinitum* the terrors of Septembers past and given the move since March, virtually guaranteed a tough month. This September (with a few days to go) has been one of the best I can recall. Similarly, the pundits who espoused the "sell in May and go away" philosophy have missed one of the greatest runs in history.

And there's the rub and the dilemma we find ourselves in at this juncture.

For the last few weeks we've listened to "expert" after "expert" tell us this is a "sucker's rally." Is that perhaps because these so-called pros have been wrong and they'd rather talk the markets down or talk individual investors out so they can ease in themselves? Kind of like a crude form of reverse psychology. There is no doubt the true movers of markets (hedge funds, mutual funds, pension funds), the "big boys and girls", want in and have been buying the dips.

The quarter-and-month end are rapidly approaching (as is year-end!), and that means portfolio managers who've missed this run find themselves in a very, very awkward situation and have no choice but to "window-dress" (i.e. buy) their portfolios. They need to show they are long (i.e. own equities) otherwise they will face an onslaught of withdrawals. To be under-invested after this kind of run is a portfolio manager's worst nightmare, so they need to show participation.

This time last year was the beginning of the financial crisis, when the failure of Lehman Brothers caused the financial system to nearly collapse, and investors and traders alike were grappling with how to respond to unprecedented situations. From September to March, it was not uncommon to experience triple-digit intraday swings.

Fast forward to present day and this

September has been a much different scenario. The world has evolved into a different place. The U.S. Federal Reserve has expanded powers to regulate the financial system, and related institutions are far less vulnerable than a year ago. In fact, after receiving billions of taxpayer money in the form of a bailout, many of the banking institutions have paid, or are seeking to pay back those controversial loans… with interest.

On a broader economic level, corporations have kept inventories at low levels and profitability seems to be returning. Current projections show positive GDP growth in Q3, as compared to the first half of 2009 when the economy contracted in the worst economic crisis in 70 years. Although it's still dark on the economic landscape, there does appear to be some light of dawn breaking.

The economic data which matters most are the housing and jobs numbers. Housing (existing and new home sales) have been getting better. The jobs lost are still a big number but trending better (the less worse scenario). The cries of a double dip recession are still out there, and every now and then you still hear the "D" word being used (as in "Depression"), but the real question is, when didn't something terrible happen in the past decade?

2000 Tech Collapse
2001 9/11 Terrorist Attack
2003 Invasion of Iraq/Afghanistan
2004 SARS
2005 Hurricane Katrina
2006 Income Trust Legislation Changes
2008 Credit Crisis
2009 Recession

And how handy have those Sesame Street show reruns come in?

The debate rages whether the recovery will look like an "L" (the hockey stick scenario), a "W" (the double dip scenario) or a "V" shape (the big, quick, rebound scenario). My guess is most managers are positioned for either of the first two, but few are anticipating the latter, which might explain why this rally has been so powerful.

A cyclical "V" shaped recovery cannot be entirely ruled out. If the Fed can successfully recalibrate the lending mechanism in order to short-circuit negative loops, then we might see a big boost in employment which would create a boost in consumption. The low inventory levels mentioned earlier allow the potential for an equally violent rebound. Of course, balance sheets, both corporate and individual, need to be repaired, but this longer term (higher savings rate) is a good thing. Given the amount of global stimulus a "V" shaped rebound should not be ruled out.

When you get a synchronized global move like the last six months, they never reverse. Single countries (like Japan in the 1990's, the USA in the 1930's) could have counter trends but large global moves like this, rarely, if ever. I find it hard to believe the global markets in unison will give all of this move back.

In an earlier edition of this newsletter, we talked about the political cycles. The numbers favour an up year. Since 1926, five of six Republican Presidents' first years have been negative…the only exception…1989 under George H. Bush (was + 32%). Of six Democratic first years, five show double digit gains, the lone loser was 1977 under Jimmy Carter (down 7%). The pattern is not strange when one thinks about it, with the markets expecting the worst from a Democrat (but being pleasantly surprised) and the best from a "pro-market" Republican (but being disappointed). For the record, I think since I've been in the business our best years were under Democrats.

SO WHERE DO WE GO?

There are many reasons to remain optimistic. The fundamentals continue to improve and do so rapidly. GDP could come in at a whopping 5-6% growth in the second half of the year.

Could we get a correction? Absolutely, but too many are looking (and hoping) for it so it may be deferred. When it comes, I still believe it will not be long or deep because too much money is on the sidelines earning zero trying to get in. Many investors, institutional and individual alike, remain out of the market, waiting for a 5-15% correction to get in. This remains a rally that everyone loves to hate. Perhaps we get a pullback, maybe soon, but don't count on it.

As we get on in 2009, managers will begin to look at 2010 earnings. Can't be worse than 2009, so lots of upward revisions year over year would be my guess. This is also a positive.

We will continue to do our best to navigate through these times. I am superstitious and not just because of my name, but I am hoping for the "V" scenario. Famous money manager Sir John Templeton always said the four most dangerous words in investing are "This time is different." That applies both when things are good, and when things are bad. This time is NOT different. This could be the start of the next great up cycle.

Wealth building tip

Going into debt is normally the last thing I'd suggest for clients who want to build wealth. But with the Spousal Loan Strategy, you can actually use debt to build wealth. With this strategy, you loan money to your lower-income spouse at an interest rate set by the Canada Revenue Agency (CRA). Your spouse then uses the loan to invest and, so long as they pay you annual interest, any investment income is taxable at their lower rate. Currently, the CRA-prescribed rate is at a generational low of 1%, making this an ideal time to consider this strategy.

Portfolio corner summary

One has to believe that the global economy needs a strong U.S. economy as its engine of growth. I've read many articles stating how the American reign has come to an end, much like the Roman or British Empires. Perhaps, but they remain the world's strongest military power and the largest producer and consumer of goods. But one can't argue the emerging markets like China, India, Brazil, etc. will be big players in the global economy.

At the beginning of the year, I liked tech and healthcare in the U.S. and commodities in Canada. So far so good. In fact, THE tech heavy NASDAQ index has been the best performer out of the March bottom. I think it will continue given strong balance sheets, global growth and no government interference. In Canada, commodities remain the favoured sector as the "easy" money has been made in the financials. The U.S. financials and risk/reward basis offer better upside.

Notes

We all know about influenza, but how about the disease that North America is trying to recover from? It's called AFFLUENZA. A condition, the bane of the middle class, defined as a "painful, contagious, socially transmitted condition of overload, debt, anxiety and waste resulting from the dogged pursuit of MORE."

GLOBAL CHILD – INJURY FATALITIES (2004)

Road Traffic Injuries	(22%)
Drowning	(17%)
Fire Related	(9%)
Homicide	(6%)
Self Inflicted Injuries	(4.4%)
Falls	(4.2%)
War	(2%)
Other Unintentional	(31%)

(Source: World Health Organization/Unicef)

* 95% of fatal accidents occur in developing countries

Outbidding Paul McCartney for the rights to his own songs, Michael Jackson bought 260 Beatles hits for $45 million in 1985. Now those tunes are said to be worth about $500 million, but with his death his 50% stake (shared with Sony) and their ownership is up in the air.

When George Bissell bought a Titusville, PA farm in 1859 he believed lamp oil could be derived from the odd black sludge that bubbled out of nearby creeks. To collect it, he developed the first modern oil well and struck black gold.

Around the globe

Canada (STRONG BUY)
- Economy shows resurgence after a "not made in Canada" recession.
- Retail sales and home sales better.
- Manufacturing remains weak.
- Canadian dollar has risen dramatically and expected to continue.
- Resurgence in commodities?
- Canadian banks have proven to be the best managed in a crisis.

U.S. (BUY)
- Biggest economy shows signs for stabilization.
- U.S. dollar weakness continues, but I am not sure they are unhappy about it.
- Since February, U.S. dollar down approx. 20% vs. the Loonie
- Housing market seems to have bottomed.
- Deficit to weigh on dollar?
- Still too early to declare victory but it's improving daily.

Europe (HOLD)
- Germany and France posted positive GDP numbers and seem to be first nations in the west to emerge from recession.
- Countries with sizeable housing bubbles (Spain, Ireland) remain in doldrums.
- Eastern Europe slower to recover due to bank exposure.

Asia (TRADING BUY)
- China back on track with 6-7% growth, their stimulus package acted faster.
- Japan has upgraded outlook for first time in three years, but deflation remains the major policy challenge.
- South Korea and Taiwan – both big exporting nations – are most sensitive to global trade but the landscape is improving.

Latin America (AVOID)
- Avoid except for Brazil that is!
- With the rest, left-leaning administrations and massive corruption do not make for good investments.

Quotes

"An idealist is a person who helps other people be prosperous."
Henry Ford

"You can't depend on your eyes when your imagination is out of focus."
Mark Twain

"Defeat doesn't finish a man – quit does. A man is not finished when he's defeated. He's finished when he quits."
Richard Nixon

Everyone pushes a falling fence.
Chinese Proverb

"I cannot give you the formula for success, but can give you the formula for failure, which is: try to please everybody."
Herbert B. Swope (US Editor/ Journalist)

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, Gord M.

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.