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 the train leaving the station?

(In case of emergency, break glass…)

The current state of affairs is being compared to the Savings and Loans crisis in the USA in the 1980s. As that crisis worsened, analysts tried to top each other's estimates of the debacle's costs to the Federal Government. The actual number ended up being a lot less than even the conservative estimates. Today, we are hearing the subprime fiasco will run up to $300 - $400 billion. A more realistic number will most likely be less than half, probably $125 - $150 billion. Not a figure to ignore, but nowhere near enough to sink the U.S. economy as I wrote in my last issue. Subprime loans represent 1/8 the value of all U.S. residential mortgages. One big difference today from the 1980s is insured depositors are not in the picture, so the Federal Government isn't directly on the hook. And remember too, all these mortgages are secured by a house or condo, which won't go to zero.

An interesting, noteworthy item happened April 1st. UBS Corp., one of the biggest financials in the world, announced an increase in write-downs from $10 billion to $19 billion and the stock jumped from $28 to $33, or 18%. When bad news stops getting bad reactions, my experience tells me we are close to the bottom.

But is this the real thing? Is the new bull market train leaving the station?

For the time being, it looks as though the Bear Stearns announcement on March 17th may have been the climax of the bottoming process. Since then the market has remained volatile, but has stopped going down. Are we out of the woods yet? "Maybe" would be my answer very short-term. If we take a longer view – say one, two, or three years from now, my answer would be that this most recent period looks and feels like a bottoming process.

It's OK to be early if that's the case. No one rings a bell to tell us we are at the bottom.

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Big Picture | *Continued from Page 1*

Despite my 25 years in finance, human psychology continues to amaze me. The oldest axiom in investing is: "Buy low, sell high". Yet despite the thousands of books written on the topic, investors want to flee whenever we get these sharp pullbacks. The stock market seems to be the only thing in the world that people want to sell at lower prices. The deeper the plunge; the stronger the urge to sell. It is human to worry but we have over 120 years or so of history to lean on for reassurance:

The facts remain:

1. The markets are cheaper than they have been in years.
2. The Fed (and other central banks) are using all tools available to mitigate recession and economic slowdown.
3. Recessions historically are short lived and the ensuing rebounds have yielded huge windfalls.
4. The global economy continues to grow, especially in emerging markets.

The first quarter of 2008 resulted in the worst start in 80 years or so. Some people are losing their homes, but total home ownership was at an all-time record high in 2005-6. More than 95% of people are working, which is excellent. So in some ways, things are as tough as they've been in recent memory, but the pessimism levels I am seeing go way beyond the reality of the situation.

From what I have read, only four markets on the entire globe even had positive returns in the first quarter: Chile, Taiwan, Mexico and Brazil, not exactly your mainstream markets! Even China, the "country that's going to take over the world", was down more than 30% so far in 2008. Coming into 2008, emerging markets were all the rage, but they have been crushed. Then it was commodities that were supposed to rise – but they've been sold down too. I'm not saying there will not be another push in gold, for example, but there's been so much hype I wonder if the easy money has been made.

Let me give you an example with one close to my heart, Royal Bank of Canada (RBC), my employer for 25 years. Last summer RBC traded at just over $61 per share. Eight months later, on the day of the Bear Stearns news, it hit $42.82, an approximately 30% decline. That works out to a market capitalization loss of about $21 billion. Bear in mind that RBC's total write-down due to the credit crunch is "only" $450 million. Let me remind you of Merck and its issues with the drug Vioxx, which at the time accounted for $2 billion in sales. In the months after the bad news broke, Merck dropped from approximately $60 to $25; a loss out of $30 billion in market capitalization, which was 15 times what Vioxx generated in sales. That did not make sense, and Merck proceeded to rise from the $25 in 2005 to $61 as recently as December 2007.

I encourage you not to try to pick an exact bottom. History will show it's almost impossible and more luck than anything. But I will comment that by mid to late March, pessimism was at one of the highest levels I have ever seen. Historically, that has been a great contrarian indicator. You have to have the demeanor of James Bond and stay cool. Let things evolve. Don't let the talking heads or media (most with agendas) distract or dissuade you.

From a historical standpoint, equities have been the best place to be when everything seems bleak, as stocks in the long run are the best wealth creator. Things have been difficult for the last six months or so, but 2-3 years from now, investors will realize what an opportunity this has been.

The Little Picture

On July 9th we will be hosting the 19th annual children's Golf Classic at Sunningdale Golf & Country Club. Last year, with the help of Canadian golf legend Mike Weir, we were able to raise an amazing $562,000 for our local Children's Hospital. If you would like to help us with this year's cause you can do so either through products or services for silent/live auction, or a cash donation (all over $10 will get tax receipts). Please forward requests/donations to:

Heather Hoare
C/O Children's Health Foundation
345 Westminster Ave.
London, ON N6C 4V3
(519) 432-8062 ext 17

Or let us know at (519) 675-2011.!

QUOTES

"One never dives into the water to save a drowning man more eagerly than when there are others present who dare not take the risk."
Friedrich Nieitzsche

"Of the four wars in my lifetime, none came about because the U.S. was too strong."
President Ronald Reagan

"My mother is such a lousy cook that Thanksgiving at her house is a time of sorrow."
Comedian Rita Rudner

"I asked 10 or 15 people for suggestions. Finally one lady friend asked the right question: "What do you love most?" That's how I started painting money."
Andy Warhol

NOTES

HISTORY OF RECESSIONS

Recessions are characterized by two quarters or more of negative GDP (Gross Domestic Product) growth.

The longest U.S. Recession – October 1873 – 1879 (65 months) triggered by economic problems in Europe which triggered the failure of the largest U.S. bank (Jay Cook + Co.). This failure snuffed out post-Civil War speculation.

The stock market crash of 1929 didn't trigger a recession; one was already in place and went on to last 43 months.

There have been 32 economic cycles between 1854 and 2001, with the average lasting 4-6 years. The 10 business cycles from 1945 to 2001 lasted an average of 5.6 years. Even if the economy slipped into recession in November 2007, that would end a six year cycle.

(source: Wikipedia)

Portfolio Corner Summary

(As of close April 9, 2008)

This quarter's recommendations:

SOFT (AGRICULTURAL) COMMODITIES

Market Vectors - Agribusiness (NYSE - MOO $57.26) ETF which allows for basket play on the agricultural commodities. Passive, more static play in what could be a very hot sector over the next 2-4 years. (12 month range – Hi $59.90, Lo $40.19)

Ceres Global Ag Corp. (TSX – CRP $10.80) First recommended on the new issue last fall. Proactively managed basket, managed by the legendary Frank Mersch from Front Street. (12 month range – Hi $12.09, Lo $10.00)

MID-TIER TECHS

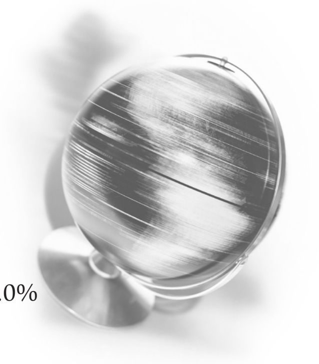
Broadcom Corporation (NYSE - BRCM $20.50) Broadband communications semiconductor supplier that manufactures complete system-on-a-chip software solutions. (12 month range – Hi $43.07, Lo $16.38)

Nvidia Corp. (NYSE - NVDA $19.33) Designs, develops and markets graphics processing units and media communications processors for PCs, Cellular, Gaming etc. (12 month range – Hi $39.67, Lo $17.31)

Juniper Networks (NYSE – JNPR $22.96) Provides Internet infrastructure (networking) solutions to Internet and other telecommunications service providers. (12 month range – Hi $37.95, Lo $19.86)

China Digital TV Holding Co. (NYSE – STV $17.81) – The play on Chinese digital TV and cable. Down from high of $55.31 to current $19 or so. Very aggressive/speculative play but with recent market correction a decent long-term play on sector. Think 24-36 months. (12 month range – Hi $55.31, Lo $15.02)

Around the
globe



Canada (BUY)
- ❖ Domestic economy remains on solid footing while trade and manufacturing feel pinch of economic slowdown and high Canadian dollar
- ❖ More interest rate cuts expected, despite strength in commodities
- ❖ GDP growth for 2008 forecast at 2 - 2.5%
- ❖ If financial worries can subside, expect TSX at 14,000 sometime in 2008

U.S.A. (STRONG BUY)
- ❖ U.S. dollar continues to fall against most major currencies – down 37% at worst
- ❖ Damage to housing and confidence in general have caused significant growth slowdown
- ❖ Fed using everything in it's power to prevent hard recession
- ❖ GDP growth will come close to recession levels
- ❖ Expect interest rates to go to 1.5% - 2.0%
- ❖ GDP growth for 2008 expected around 2%

Europe (HOLD)
- ❖ Forecasts have been revised downward, now for 2008 1.5% - 2.0%
- ❖ ECB stubborn on rate cuts due to above target inflation
- ❖ UK cut rates .25% to 5.25% in February
- ❖ Leading indicators falling across Continental Europe

Asia (TRADING BUY)
- ❖ Japan's growth inconsistent, despite rates at 0.5%
- ❖ Chinese growth may start to "slow" from 9-10% to 6-8%
- ❖ Rising wages, strong retail sales, lowest unemployment in 35 years, all pushing up inflation
- ❖ Barbell will determine how Asia performs: China vs. USA

Latin America (AVOID)
- ❖ Only 4 markets in entire globe up in Q1, but three were in Latin America (Chile, Mexico, Brazil) but still too volatile politically for my liking

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

Congrats, Leslie.

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.