RBC Dominion Securities

Money NEVER SLEEPS

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

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The big Picture

A Temporary Interruption of a Permanent Uptrend

BUY BEFORE THE SALE ENDS

"It's tough to make Predictions, especially about the Future" – Yogi Berra

As I put pen to paper this Thanksgiving weekend, I could not help but notice that every paper I pick up is doom and gloom. When was the last time you've seen the phrase "since the Depression" used as often as in the last month by newspapers, radio, commentators, analysts and even politicians? I have to admit here and now that all the events of the last couple weeks even had me, the eternal optimist, rattled at several points. I do however believe, that by the time you read this, the bottom will have been seen.

Yes it's been tough. Yes it's been volatile. This bear market will go down in history not for the size of the decline (which historically by the way is "in line") but for the extreme volatility over a relatively short period.

The best definition of a bear market I have ever heard was last week on a conference call with 42-year industry veteran Nick Murray and it goes:

"A bear market is an extended period of time where people who think this time it's different, sell at prices we'll never see again, to people who know this time is no different."

Now read that again. And again.

He is 100% bang on. By his calculation, this is his 13th bear market in 42 years, and each and every low of that cycle were never seen again. I started in 1988, and by my calculation, this is my 5th official bear market (1987-1988, 1991-1992, 1997-1998, 2000-2002, 2007-2008) although there were a couple of tough ones tucked in there (1989 mini-crash and 1994 for example). Some of you reading this will have experienced more of them than you can (or would like to!) remember.

Mr. Murray followed his definition of a bear market with the four truths about bear markets:

1) They are normal, natural, and organic and part of a never ending cycle. Markets follow the economy, the main driver of which is human nature. Emotions pull markets to excessively high levels (greed) and in turn to excessively low levels (fear).

2) They are essential and necessary to long term premium returns of equities.

Efficient markets demand it and are an efficient markets way of paying for volatility.

3) They are as common as dirt. Since WWII there have been 13, so expect one every five years (unfortunately they are not always regular). The average decline is about 30%, and the average 15-16 months in duration.

4) And this is the big one – thus the title of this issue – THEY ARE A TEMPORARY INTERRUPTION OF A PERMANENT UPTREND

It is also worth noting some of the U.S. stock market's all-time best returns were built upon the despair of the preceding period. Going back to 1900: 81% in 1915 (after -10% and - 31% in 1913, 1914), 67% in 1933 (-17% 1929, -34% 1930, -53% 1931, -23% 1932), 38% in 1975 (-28% 1974). And yes, at Friday's close (October 10th), the year-to-date results are the worst since…1937.

There are many comparisons being done to the 1930s and today, but trust me, this is not a depression. Unemployment is maybe 6%. Historians of the time will know that central banks and governments did everything they could do wrong at the time which exasperated the problems – raised rates, reduced liquidity, bad fiscal policy, raised taxes, trade barriers – etc…while our forefathers bore the brunt of the period, the lessons learned have helped following generations to avoid making the same mistakes.

There will be a lot of finger pointing and blame to be passed around. In the end, everyone was to blame. Government and regulations, rating agencies, central bankers, lenders, and yes even borrowers…the generation who has to live large and have it all now, who have forgotten the other lessons of the Great Depression – thrift, humility, living within means – are just as much to blame.

While all segments of society bear responsibility for nations gone wild, there is one group that will certainly get heat: the hedge funds. This mysterious group of unregulated "cowboys" through their leveraging and poor performance has helped to ignite the panic. In addition, in September, over $72 billion were redeemed from mutual funds in the U.S. ($4.7 billion in Canada). Last week $52 billion was redeemed, record (dollar) numbers, though not as a percentage of total mutual fund assets, which in the U.S. are $5.6 trillion.

There is no doubt there has been some value created. GE is at a 13-year low, Home Depot (11-year low), GM (58-year low) and Exxon Mobil (four-year low). Exxon Mobil? The world's largest oil company? Was oil at all-time highs but a few months ago? This is where again in the short term, markets can be irrational and driven by emotions, the more long term, the more rational they become. A few more bad days like this and the Dallas Cowboys will be more valuable than Delta Airlines. Does that make sense?

We have been in full panic mode. To see the Dow down 28% in just seven trading days is panic. Remember, the "crash of 1987" was 22% in one day. This crisis is one of confidence, and where a financial crisis became an economic crisis, not the other way around. Remember, most global economies showed positive growth up to Q2 2008.

US Bear Markets: S&P 500 Composite

Mkt Top	Mkt Bottom	Avg Peak to Trough Decline, %	Duration in Months
Mar-00	Oct-02	-49.1	31
Jul-98	Oct-98	-19.6	3
Jul-90	Oct-90	-20.4	3
Aug-87	Dec-87	-34.5	3
Nov-80	Aug-82	-27.8	21
Sep-76	Mar-78	-19.4	18
Jan-73	Oct-74	-48.0	21
Nov-68	May-70	-36.1	18
Feb-66	Oct-66	-22.2	8
Dec-61	Jun-62	-28.0	7
Aug-56	Oct-57	-21.6	15
AVG		**-29.7**	**13**

Source: Global Financial Data Inc.

Canadian Bear Markets: TSX Composite

Mkt Top	Mkt Bottom	Avg Peak to Trough Decline, %	Duration in Months
Sep-00	Oct-02*	-50.0	26
Apr-98	Oct-98*	-31.8	6
Oct-89	Oct-90*	-25.5	13
Aug-87	Oct-87*	-31.0	3
Nov-80	Jul-82*	-44.0	20
Oct-73	Dec-74*	-37.8	14
May-69	Jun-70*	-28.3	13
Dec-61	Sep-62*	-18.4	9
Jul-59	Jul-60	-17.5	12
Jul-56	Dec-57*	-30.0	17
AVG		**-31.4**	**13**

*Associated with US bear market. Source: Global Financial Data Inc.

Now, it seems people have lost faith in their financial institutions, their country, maybe the world. Confidence in our leaders may be at all time lows. The crazy thing is that the only solution may be to use the same playbook that got us here in the first place:

- Cheap money
- Spreading loans indiscriminately to everyone

The biggest challenge remains an environment where the banking system is not functioning normally. Banks don't trust banks, let alone consumers.

But one crucial lesson stands out through all this: speed matters. Dithering costs. Anyone who followed Japan's dithering in the 1990's ended up in what is referred to as the "Lost Decade". Standing aside and hoping the problem goes away is not a good idea. Fed Chairman Bernanke, a student of the Depression, in my opinion has been excellent. He's been timely, used innovative methodology and had the foresight his European counterparts did not. The announcement this past weekend from the G7 meeting is positive the market reaction tells us that.

But despite what the media focuses on, not all the news is bad:

- Globalization is not going to stop – it has favourable effects on productivity, profitability and inflation.
- Markets are priced as cheap as they have been in decades.
- Oil has plunged from $145 or so to below $80 – that's a good thing.
- If the world was coming to an end, why has gold plunged?
- Lower Canadian $ will help manufacturers (especially Ontario).
- Commodity prices are lower across the board – this will reduce inflation fears.
- Lower interest rates across the world, and should remain low for some time.

- The world generates $7 trillion a year in savings – this sum will get invested one way or another, sooner or later.
- Crisis like these lead to changes which prevent them (hopefully) from happening again.
- U.S. dollar has broken its 8-10 year downtrend – a theme of "Buy America" I believe will emerge after the U.S. election. The current political regime will be over, and regardless of who wins, there will be a perception of a long-awaited new dawn in U.S. politics.

Going Forward

First, try not to let your emotions cloud your judgment irrespective of the financial media headlines. While there will be more uncomfortable days ahead as we muddle through this corrective process.

Many of you may believe I have a vested interest in being positive. Don't believe me; believe 100+ years of history which supports my thinking. Don't believe me; believe a 78-year-old man named Warren Buffet, one of the greatest investors of all time, who for the past 2-3 years bought very little but in the last month committed 15% of his substantial net worth to two new transactions, Goldman Sachs and General Electric. He looks to buy when everyone else wants to sell. If the idea is to buy low and sell high – then there's a reason he is one of the greatest investors ever.

So… **#1 – Hold and be patient**

#2 – If you have cash and some courage – buy before the sale ends

#3 – (a distant #3) – Sell if that's what it takes to sleep at night.

I will only remind people that whenever (and I think it was last week for the record) the bottom is, and at whatever level, I can safely say that we, as investors, will likely never see those lows again in our lifetime.

Quotes

"They kill good trees to put out bad newspapers."
James Watt

"The business of America is business."
President Calvin Coolidge

"Everyone pushes a falling fence."
Chinese Proverb

"Age is mind over matter. If you don't mind, it doesn't matter."
Baseball's ageless wonder – Satchell Paige

On AIG: "It's a little scary that the world's largest insurance company hasn't planned for a rainy day."

Notes

How bad can the economy be when by mid August, 85% of the advertising inventory for Super Bowl XLIII (late January) was already sold out. That means only 10 of 67 in-game spots remained with more than five months to go and a 30-second spot was going for a record high of $3 million. *(optionMonster 09-11-08)*

What inflation? Where we worry about 2-3% inflation, Zimbabwe's economy has collapsed so bad that it is running at more then 100,000% per annum. The Zimbabwe dollar is "fixed" at 30,000:1 against the U.S. dollar and $100 worth of U.S. $ weighs 9 pounds in the local currency. *(The Gartman Report)*

A disturbing trend? According to the U.S. Federal Reserve bank, the average American household had homeowner's equity of 63% in the early 1990's. House prices have risen steadily, coupled with down-payments and regular mortgage payments but by the end of the 1990's, that equity figure was down to 57%, and 55% in 2003, 50% in 2006, and 45% by Q2 2008. Not the kind of long term trend we'd like to see. *(Gartman Report 09-24-08)*

The new prime minister of Japan, Tara Aso, is the first Catholic Prime Minister in the History of Japan *(Wall Street Strategies 09-26-08)*

Portfolio Corner Summary

(As of close October 14, 2008)

This quarter's recommendations:

General Electric (GE – NYSE $20.80) – One of the greatest companies with a 100+ year history. Currently near 13 year lows and have already confirmed dividend for 2009, so yield of 6% looks safe. Will make $20 Billion+ net this year. Good enough for Warren Buffet, good enough for me. (12 month range – Hi $41.20, Lo $18.40)

In Canada – **Teck Cominco (TCK.B - $18.75), Agrium (AGU - $40), Research in Motion (RIM - $70 but aggressive), Trans Alta (TA - $22.50), Arc Energy (AET.UN - $17), Suncor (SU - $29), Bombardier (BBD - $4.20), Russel Metals (RUS - $19.50)**

In U.S.A. – **Bank America (BAC - $26.50), John Deere (DE - $41), Intel (INTC - $16), IBM (IBM - $93), Perini Corp. (PCR - $17), US Steel (X - $47), Bristol Myers (BMY - $18.65), Diageo (DEO - $62.40), Broadcom (BRCM - $15.25)**

…and many more… too long a list but for those thinking 18-24 months, they could be greatly rewarded.

Around the globe

Canada (BUY)

- Growth stalling, expected to be 1% for 2008
- Since June, TSX has fallen by 20% led down by commodities/natural resources
- Canadian economy has felt strain of stronger currency, especially manufacturing, heavy in Ontario
- Energy and materials still make 50% of TSX vs. 17% for S&P 500 (Financials 27% of TSX) – two-tiered economy has developed in Canada

U.S.A. (STRONG BUY)

- Despite recession cries, growth in first half of 2008 at a positive 1.75%
- U.S. greenback best gains in 35 years past two quarters, stops seven year decline
- Federal Reserve has already cut rates 325 basis points to 2%
- Home prices down 20% from peak already, and looks like more to come
- Consumer is key to U.S. economy but with credit tightening?
- U.S. market is cheapest it's been in years

Europe (HOLD)

- Declining business and consumer confidence leaves average growth at 1.25%
- Accelerated weakness in UK housing market
- Expect interest rate cuts to happen as all major European economies face slowing growth – as much as 1%
- Euro seems to be very overvalued vs. U.S. dollar, Yen – expect it to fall

Asia (TRADING BUY)

- Japan's economy continues to limp along, led by weak consumer spending and now weaker exports – faces high inflation due to high imports
- China – consumer spending stays strong – exports down (especially to the USA)
- India – inflation soaring at 13% (July)
- Asian economies feel big impact of higher energy due to imports

Latin America (AVOID)

- Brazil remains core economy with relatively strong growth and accommodative monetary policy – has been a surprise
- I still think many South American economies have had bad economic policies covered up by high oil revenues. That will change and it will be interesting to see what's under the kimono.

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, Victoria S.

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.