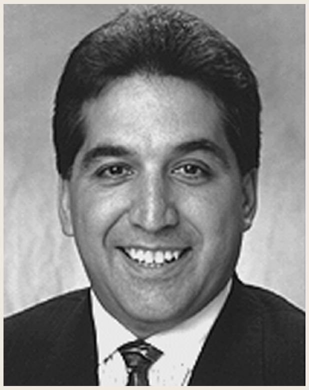
RBC Dominion Securities

Money
NEVER SLEEPS

The Newsletter for the Informed Investor

January 2026



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The big Picture

"THESE DAYS FEEL LIKE THE OLD DAYS"

Fool me once, shame on you; Fool me twice... Shame on me...

Investors must feel like Hercules did after he completed the first of his 12 tasks, the lingering aspects of the recent past were daunting, and yet there remained so many hurdles ahead. Unlike the other aspects of our lives when we mostly remember the good things that occurred in the past (as in "the good old days" as it were), in the financial markets, it seems that all we can conjure from the past are the negatives, as if all the old days were the "bad old days".

This feeling about the markets is certainly true for near-term events, if the rest of each year were evenly divided with up sessions versus down sessions. With that in mind what has developed is a mental hurdle that one would dare say is invisible. Although the global markets (TSX exempted) only crossed into positive territory in late November 2005, the start of 2006 allows room for optimism. We've had so many false starts in the last few years, that fewer and fewer investors take the bait each time, as shown by the volumes. But in the last couple of weeks, from a technical analysis standpoint, we have achieved some significant upside breakouts, and on convincing volume increases.
It was as recent as mid October (yes just 8-9 weeks ago) that things looked so grim that even those who thought there was a light at the end of the tunnel were not sure if the source was daylight or an oncoming train. One has to wonder what the possible pitfalls for the markets are at this point. One of the big concerns in 2005, which held markets down, was interest rates. In a few weeks Alan Greenspan steps down as Chairman of the powerful U.S. Federal Reserve. He wasn't just a good Fed Chairman, he was a great one, and that's why the trepidation surrounding his successor. The markets ushered in the news of Ben Bernake with a rousing surge, leaving many wondering why all the excitement? Was it a matter of the President not flubbing the appointment? Or was it that the markets hate worry and rampant speculation? Or could it be, it was simply a good choice? If you chose "all of the above", you are right.

The new most powerful person in the world's financial markets, Mr. Bernake has been decisive in his convictions in the past. Moreover, Mr. Bernake could be the elixir that Wall Street has been looking for. His credentials are impressive and he's 20+ years younger than Mr. Greenspan, so more "with it". He has been a proponent for lower

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Big Picture

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taxes, free trade, reform in the legal system, and most importantly, transparency and accountability for the Fed. Mr. Greenspan has raised interest rates enough to allow his replacement room to maneuver. Thus the feeling (and the market rally) in recent weeks that interest rate increases are near an end.

The other big economic concern of 2005 was oil prices, which rose over $20 U.S. a barrel during the year. I have no idea where oil is going, but if pressed, my guess would be lower. Regardless, at the end of the day, we will adjust to higher gasoline and energy prices. We did in the early 1970's, and we did in the early 1980's. We saw prices hit $70 during Katrina. But students of economics will know that in the end, the market finds a way to bring equilibrium. We have already seen speculators and manipulators start to back off, drilling has increased, and at the end of the day when consumers and businesses adjust their habits the price will come down (see the latest SUV sales numbers falling off a cliff?). No, oil will not go back to $20 a barrel for a long time, but I think we are at a short-term plateau.

But the biggest obstacle the markets have is investor psychology. Investors keep looking backwards to the dismal markets of 2000 – 2002 and refuse to get fooled into biting. During all my 20+ years in finance, I have never seen anything like the last few years where no matter what happens, no matter what data is released, no matter how markets react, a wall of pessimism exists over the economy. Everything has been so negative that the action/reactions eventually contradict themselves. When bond yields have risen as the Fed has increased rates, it's been considered bad for the housing market and the consumer. As bond yields have recently fallen and the yield curve narrows towards inversion, that's bad too because an inverted yield curve (where short interest rates are higher than long term interest rates) could signal recession.

When housing data has weakened, that's a sign of a bursting housing bubble. If the data strengthens, it's a negative too because the Fed may raise rates further. If foreigners buy US securities, it's bad because they (the US) aren't saving enough. If foreigners don't buy US bonds, interest rates will rise. If wages go up, inflation is coming. If wages fall, the economy is in trouble.

Here's an example of how public thinking works: During the 2004 US presidential campaign, when attacks on the economy were in full swing, 36% of Americans thought they were in a recession. A year later in late 2005, unemployment had fallen from 5.5% to 5%, and the real GDP is up a strong 3.7%, the number who think a recession is underway has climbed to 43%!

It's true, bad things have happened. Oil prices have gone up huge. Katrina wiped out a major US city. War in Iraq (and Afghanistan) still rage. General Motors may be going bankrupt. The bird flu is going to expand. Yes, yes, yes…. yet despite it all, most global economies (and especially North America) continue to flourish. Why? Because capitalism works and it finds a way.

Coming into December 2005, investors found themselves in an awkward position of actually believing, rather than being embarrassed, to openly suggest stocks were on the verge of a big, meaningful move to the upside. Investors have been acutely aware of the seemingly never-ending string of heartbreaks over the last few years. The increasing media coverage, particularly when it thrives to highlight the failures, doesn't help matters.

With much fanfare as of late, gold prices have climbed to their highest levels since 1983. Historically, the implications of a major run-up in gold have been negative for the US economy and the stock market. The knee jerk reaction is that gold is rallying in anticipation of higher inflation. Also historically, when there has been a spike in crude oil prices, gold has gone on the rally as well. The thinking is the US economy weakens to higher energy prices, which leads to a lower US dollar, leaving gold as the single viable hedge.

The keys to successful investing in 2006 will be about receptiveness, willingness, and eagerness on the part of investors. Investors will have to see good in the ordinary and great in the good for this to be a banner year. Outside of the emotional issues, investors which need help from the Fed (rates have to stop rising), corporations (as in rising earnings) and to a lesser extent, Mother Nature. The broad market averages have been mired for the most part since 2000, and many would-be investors have given up for good, but I would suspect that once the indices and headlines turn to the good, they will be back, just buying at much higher prices than the prudent readers of this newsletter!

I believe 2006 will surprise many investors, as the "wall of worry" which bull markets must climb remains in investors minds.

(As always, the views expressed are those of the author and not necessarily those of RBC Dominion Securities.)

Around the globe

U.S.A. (STRONG BUY)
- ❖ Cycle of Fed funds rate, which began in mid-2004 nearing conclusion.
- ❖ Residential real estate seems to be cooling (average selling price down 9 of last 13 months).
- ❖ Inverted yield curve (short rates higher than long rates) precursor to recession?
- ❖ Expectations for 2006 remain low despite strong corporate earnings growth.
- ❖ Hurricane effects have been minor.
- ❖ Strong Buy – Focus on Financials, Healthcare, and Technology.

Europe (SELECTIVE BUY)
- ❖ ECB just beginning to tighten rates.
- ❖ Bank of England hampered by a low growth, high inflation environment.
- ❖ Germany increasing their VAT (GST) type taxes from 16% to 19%, which may hurt?
- ❖ Selective Buy – Stick with Global Players.

Far East (STRONG BUY)
- ❖ Japan has begun a sustainable economic expansion, balance sheets healthy, deflation fears subside.
- ❖ Other economies showing resilience in recent months, notably Korea, Taiwan, and of course China.
- ❖ China shows little signs of slowing down (3rd Quarter GDP was 9.4%!).
- ❖ Strong Buy – Should lever from US gains.

Latin America (SWITCH)
- ❖ Brazil and Argentina paid down $25 Billion of IMF debt early, showing how prosperous their economies have become.
- ❖ Switch – Has had 2-3 good years.

Canada (BUY)
- ❖ Economy seems to have withstood 30% rise in dollar from 2003 to 2005.
- ❖ Oils, golds, financials now comprise 80% of TSX index.
- ❖ Rates now set to follow US lead?
- ❖ Economy running above full capacity – GDP exp. 3.6%.
- ❖ Outcome on January 23rd neutral unless surprise majority occurs.
- ❖ Buy – Be selective – Don't chase hot sectors.

"Quotes"

"When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much the old man had learned in seven years."
– *Mark Twain*

"All men dream, but not equally. Those who dream by night in the dusty recesses of their minds wake in the day to find that it was vanity: but the dreamers of the day are dangerous men, for they may act their dreams with open eyes, to make it possible."
– *T. E. Lawrence*

"Glory is fleeting, but obscurity is forever."
– *Napoleon*

"Love conquers all, except poverty and a toothache."
– *Mae West*

English inventor Michael Faraday conceived and built the first electric motor, then tried to get the backing of Prime Minister Gladstone who asked "What possible good is it?" to which Faraday replied (and changed Gladstone's attitude): "Some day you'll be able to tax it." (Gladstone did back it!).

Looking ahead

January
- ❖ The January Barometer since 1950 predicts year's course with .91% average.
- ❖ S & P gains first five days preceded full year gains 86% of time.
- ❖ 3 of last 4 January's have been down, last year almost 3% on Dow.

February
- ❖ Recent record 14 up, 8 down with average change of 0.6% for 22 years.
- ❖ Signals end of historically strongest period in markets.
- ❖ First trading day in February up 5 of last 6.

March
- ❖ Recent record 14 up, 8 down with average gain of 0.9%.
- ❖ Rather stormy in recent years with wild fluctuations.
- ❖ Since 2000, three up, three down, all moves big one way or another.
- ❖ Typically strong in midterm election years (like 2006) with average 1% gains.

(Source: 2006 Stock Traders Almanac)

Portfolio Corner

(Prices as of close January 6, 2006). Full research reports available on request.)

RECOMMENDATION

This Quarter's Buys:

Jean Coutu Pharma ($13.65 – PJC.A-TSX) – Retail pharmacy with over 2200 stores in Canada and USA (under Eckert name). Has fallen on hard times recently. Last years sales were $12 Billion and made $500 million. Pays small dividend (about 1%) but a growth story as it works way back to 12 month high of $22. Buy for 12-18 months and $18+ or better (medium risk).

BCE Inc. ($27.95 – BCE–TSX) – Bell Canada's parent company has fallen on tough times last few years. Lot's of pressure on management to add shareholder value, and I think they will come through. Have been selling non-core assets, a share repurchase program. Pays attractive 4.75% dividend while we wait. Hold for 12-18 months for $32 or better (conservative).

Annaly Mortgage Management ($12.00 – NLY-NYSE) – Mortgage manager in USA with sales of $544 million in 2004. Assets of over $19 Billion. Publicly traded since 1997 and was $21.50 in June 2002. Has been beat up due to Fed rate increases and effects on spread. Pays attractive 8.55%. Hold for 24 months (medium risk).

SUMMARY (AS OF CLOSE JANUARY 6, 2006)

We are very proud of our track record. While these are individual ideas we encourage them to be used as part of a larger portfolio. Go back 2-3 years and we have had some home runs for those who have been patient. Here's our track record over the past 15 months:

Date Recommended	Name	Price Then	Price Now	Total Return	Recommended
October 2004	Pfizer	29.62	24.70	(13.11%)	Buy
	Citigroup	43.60	48.75	16.30%	Buy
	Intel	19.90	26.10	32.25%	Buy
	Oracle	11.20	12.50	11.60%	Buy
	Qualcomm	38.00	48.00	27.00%	Hold
	Tellabs	9.10	11.20	23.10%	Hold
	Bea Systems	7.00	10.50	50.00%	Buy
	RF Micro Devices	6.05	6.20	2.5%	Strong Buy
	Compuware	4.65	8.10	74.2%	
	Corning	11.05	24.00	117.20%	Hold
	EMC Corp	10.85	13.25	22.12%	Buy
	Veeco Instruments	20.50	20.50	0%	Buy
	Sanmina	6.75	5.00	(26.0%)	
January 2005	Tupperware	19.80	22.95	20.40%	Stop Loss
	Patheon	8.45	5.55	(34.00%)	Buy
	IAC Interactive	25.25	29.95	18.60%	Hold
April 2005	Atlas Cold Storage	5.80	6.20	6.9%	Buy
	Symantec	20.97	19.05	(9.2%)	Buy
	Stratos Global	9.00	9.40	4.4%	Buy
July 2005	Time Warner	16.30	17.65	9.4%	Buy
	Teradyne	13.70	15.70	14.6%	Hold
October 2005	Deutsche Telecom	18.00	17.44	0%	Buy
	Canfor	14.65	14.40	0%	Buy
	Bank America	41.96	46.60	21.60%	Buy
	JP Morgan	33.45	40.00	21.60%	Buy
	Open Text	16.47	18.10	9.9%	Buy

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

Congrats to Eric S.
Our winner this quarter!

Notes

IBM has received approval on 6700 patents the last two years.

US shoppers spent a total of $232 Billion on their credit cards this holiday season, a 17.7% year over year increase.

Why capitalism works in Communist China: Scott Sullivan, the so-called "architect" of the WorldCom accounting scandal was sentenced to 5 years in prison. He could have gotten 27 years, but was cut a break for helping prosecute others in what was an $11 Billion fraud. Recently, the former President of the Bank of China's Hong Kong branch received a suspension: his death sentence. He and others embezzled approximately $3 Billion. There is still a good chance he will be put to death, but at the very least, he is going to be in jail forever.