



Infomail

March 12, 2012

No Pain, No Gain – Climbing the Wall of Worry

“If God had wanted us to vote, he would have given us candidates.” Jay Leno

We have experienced a “rally of hope” from November to February in global financial markets. Hope that after dealing with a Greek default for over two years, that short term we might have some closure. Hope that North American economies are finally getting their legs after several years of below tepid growth. Hope that China may be actually executing a “soft landing” with their economy. Maybe even hope that the upcoming U.S. Presidential election will really create some real change this time.

It took a while for the rest of Europe to A) acknowledge there were issues and B) then actually act on them, but when they did, the changes were extreme. All of the leaders of the troubled Sovereign nations have been duly “unelected”. The European Central Bank (ECB) began a huge bond buying program, they created a similar to U.S. TARP like program, they created a permanent rescue funding program (ESM), and lent money to banks for 3 years @ 1% to create liquidity (LTRO), all of which seem to have if anything put a band-aid on the problem and created a firewall around Greece that creates an “orderly” default. Of course there are still issues, Portugal looks next on the default docket, but lenders have seemed to accept Greece and Portugal but saving much larger Spain and Italy.

In the U.S., the election process is in full swing, with delegates, caucuses, “Super Tuesday’s” all in play.

“Politics is the gentle art of getting votes from the poor and campaign funds from the rich, by promising to protect each from the other.”

Oscar Ameringer

(“The Mark Twain of American Socialism” 1870-1943)

It looks like Mitt Romney will be the Republican nominee, and while his resume is full of success at each stop, he has a tough time bonding with voters. It will be a close campaign, with perhaps the most “pro-business” candidate in quite some time, against an incumbent President who has a perception of being anti-business. The Republicans have done themselves no favours with internal mud slinging and candidates who refuse to withdraw. The spin doctors say it will help the eventual winner prepare for the general election, but regardless, I think voters are done with rhetoric and talk and will elect the candidate with the best plan they feel can get America back on the right track. The talk that portrays the nation as unfair and which attacks the American dream, might appeal to the “Occupy” protesters, but I can’t believe the average citizen buys into that. Sure, there are some silver-spooners who inherited a great deal, but they often squander it and will be passed

over by someone who's more ambitious, more driven and hungry. Merit and achievement has to carry nations to higher levels, not finger pointing or the blame game.

Perhaps the "Occupy" movement made some headway. According to the New York City Independent Budget Office, Wall Street bonuses were down 25% in 2011 from 2010 but this "good" news also translated into 4,300 jobs lost, and what do you think that will do to New York State taxes? Despite his rhetoric about fairness, President Obama has jumped into the Super PAC bandwagon and has taken in huge political donations through them; so much for rich people and huge corporations influencing the market, and so much for principles. Voters will figure things out, and elect the person who they believe has the nation's best interests as their priority.

As for Governor Romney being attacked for being "too wealthy" to be President, a recent Forbes list of American wealthiest President's (adjusted for inflation) are:

George Washington
Herbert Hoover
Thomas Jefferson
John F. Kennedy
Andrew Jackson
Theodore Roosevelt
Zachary Taylor
Franklin Roosevelt
Lynden Johnson
James Madison

Should Mr. Romney win, he would be #4 on the list, just ahead of Mr. Kennedy. Rich but not the richest! (Gartman Letter February 23, 2012)

The list of names is an impressive list, many of which would rank high as the best President's ever.

Back to markets, economic data from around the world has been improving, which combined with central bank liquidity, has pushed markets higher. There still remains lots of tail risk: unsustainable sovereign debt, questions of a Chinese bubble, and Middle East geopolitics.

Short term, I believe we are due for some sort of break/pullback/correction in the order of 5 – 10%. Not enough to disturb long term core positions, but enough to shake the tree. I think we then get a huge rally into mid/late summer, and with some luck perhaps record highs on the US side anyway which I believe is going into a period of outperformance after a "lost decade" of underperformance.

Not sure what the catalyst will be for the downside, perhaps Israel/Iran, maybe just because we are due. Sometimes the market can correct with indices going sideways and sectors rotating within the markets. Either way, I believe any pullbacks will be short in time and narrow in depth, just too much cash on the sidelines earning zero and needing to get back to work.

Stay Tuned,

Vito Finucci
Vice President & Director
Private Client Division

This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund.