

# Davidson Professional Wealth Management

of RBC Dominion Securities

**Lifelong Wealth Management Solutions**



## Spring Market Commentary

April 15th, 2013

*Professional Wealth Management Since 1901*



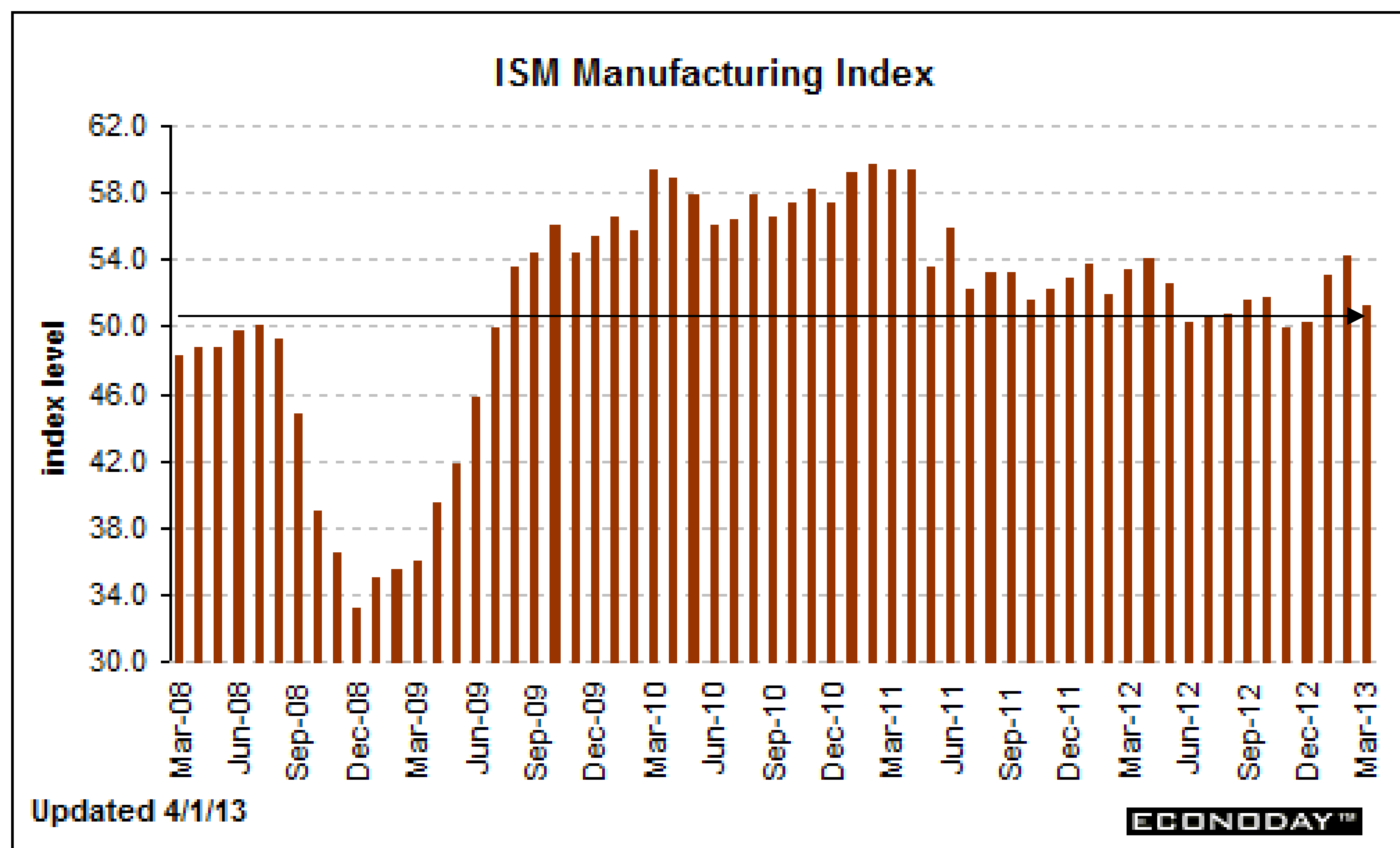
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# US Manufacturing

- US manufacturing remains in modest expansion, above 50 on this chart, which suggests economic growth.
- A strong January and February have given way to a weak March. The April reading will be closely watched for signs of further weakness.
- This chart also suggests that inflation will remain benign for the next several months while economic growth is modest.

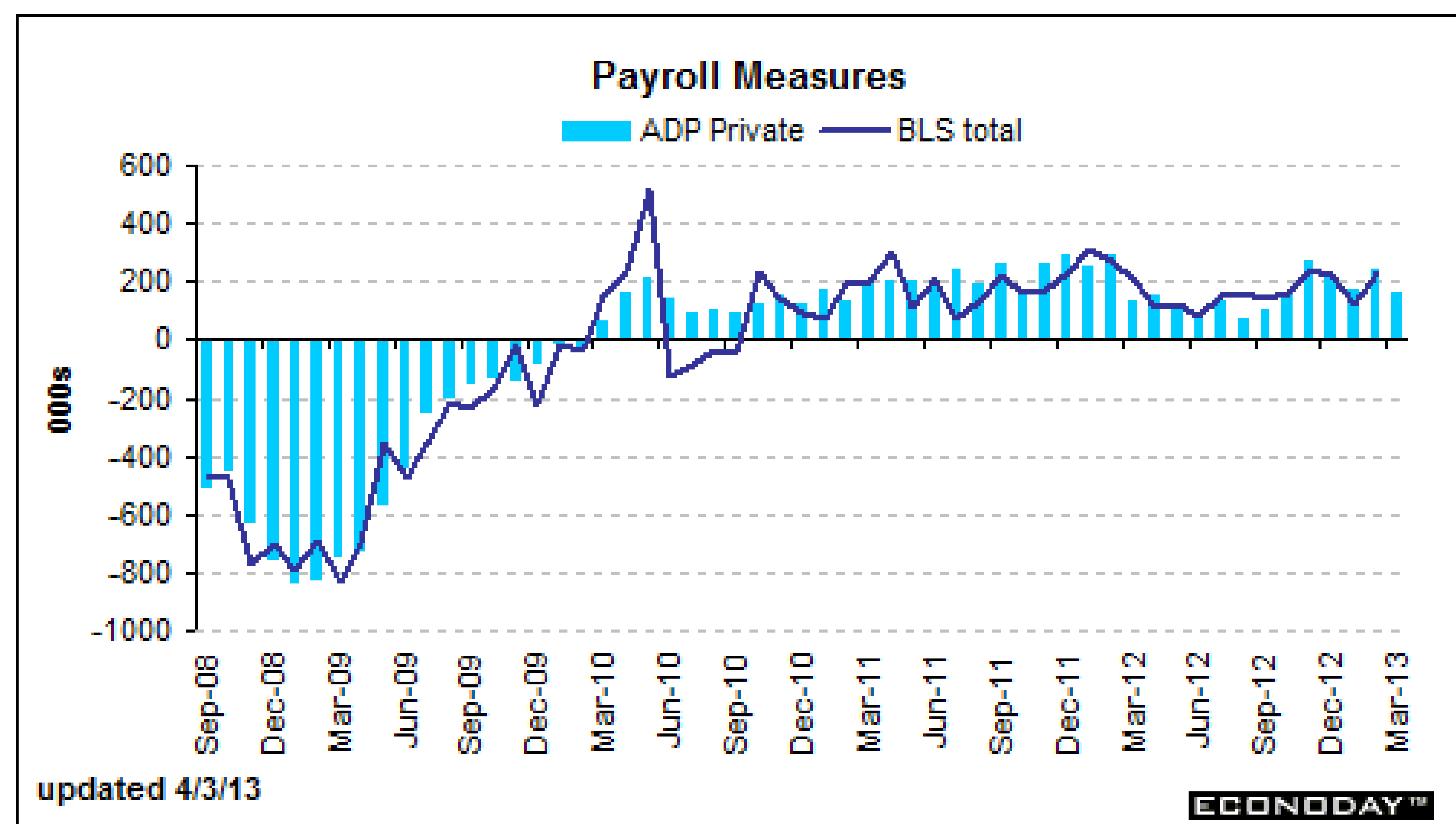


Data Source: Econoday



# US Employment

- US employment continues to show modest improvement.
- There are still many jobs left to replace as illustrated by the magnitude of the job losses in 2008 and 2009.
- The US has only created about 2.2 million jobs since 2001. A healthy, growing US economy should add about 240,000 jobs per month.
- The past 12 months the US has added an average of 169,000 jobs per month, so much work is yet to be done

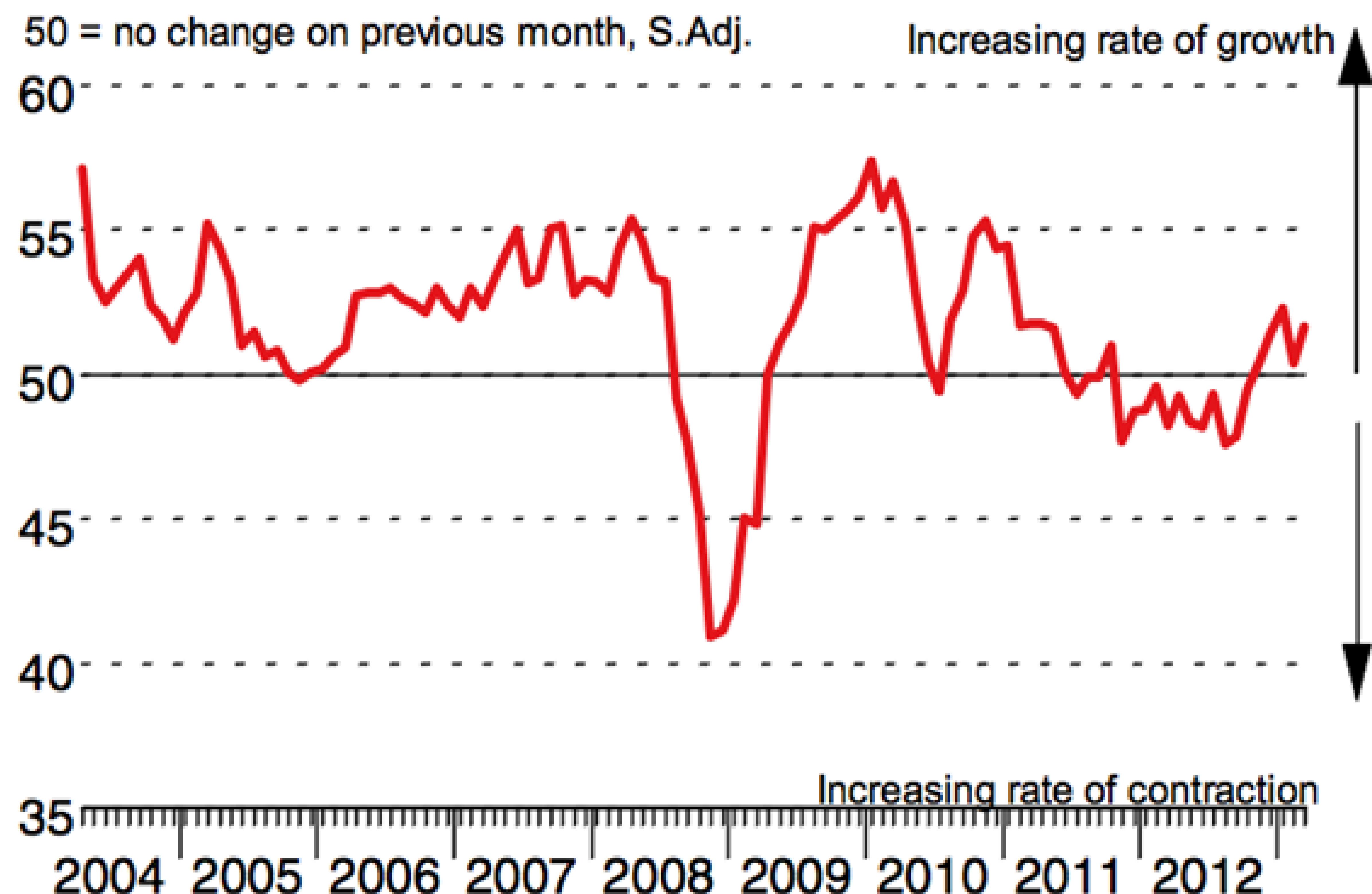


Data Source: Econoday

# Chinese Manufacturing

- Chinese manufacturing has rebounded from contraction which occurred in late 2011 and early 2012.
- Growth is still below target and potential, despite Chinese efforts to encourage faster expansion.
- Chinese manufacturing drives significant demand for natural resources, and as such is very important to the Canadian economy.

## HSBC China Manufacturing PMI



Markit Economics

Data Source: Markit Economics

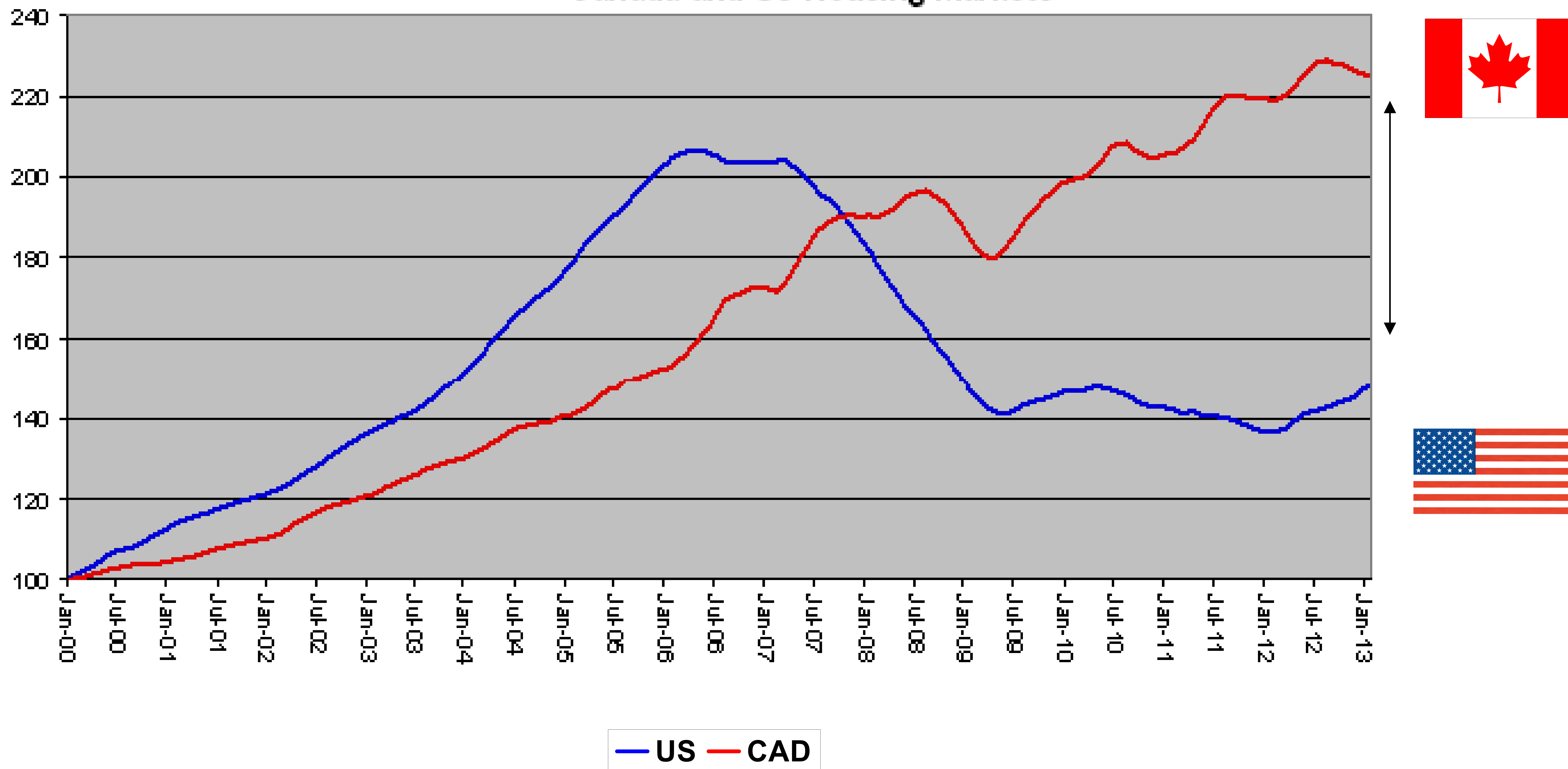


# Canada vs The US

- Canadians as a whole feel quite good about the state of their economy in comparison to Americans.
- Our housing market has thrived while the broad US market suffered greatly through the latter half of the last decade and languishes still.
- The US suffered near systematic bank failures due to lack of risk management. Canadian banks weathered the financial crisis and have been used as a benchmark for fiscal responsibility
- Despite all these feel good stories the Canadian equity markets have lagged our southern neighbours, and may continue to do so.

# Housing Markets

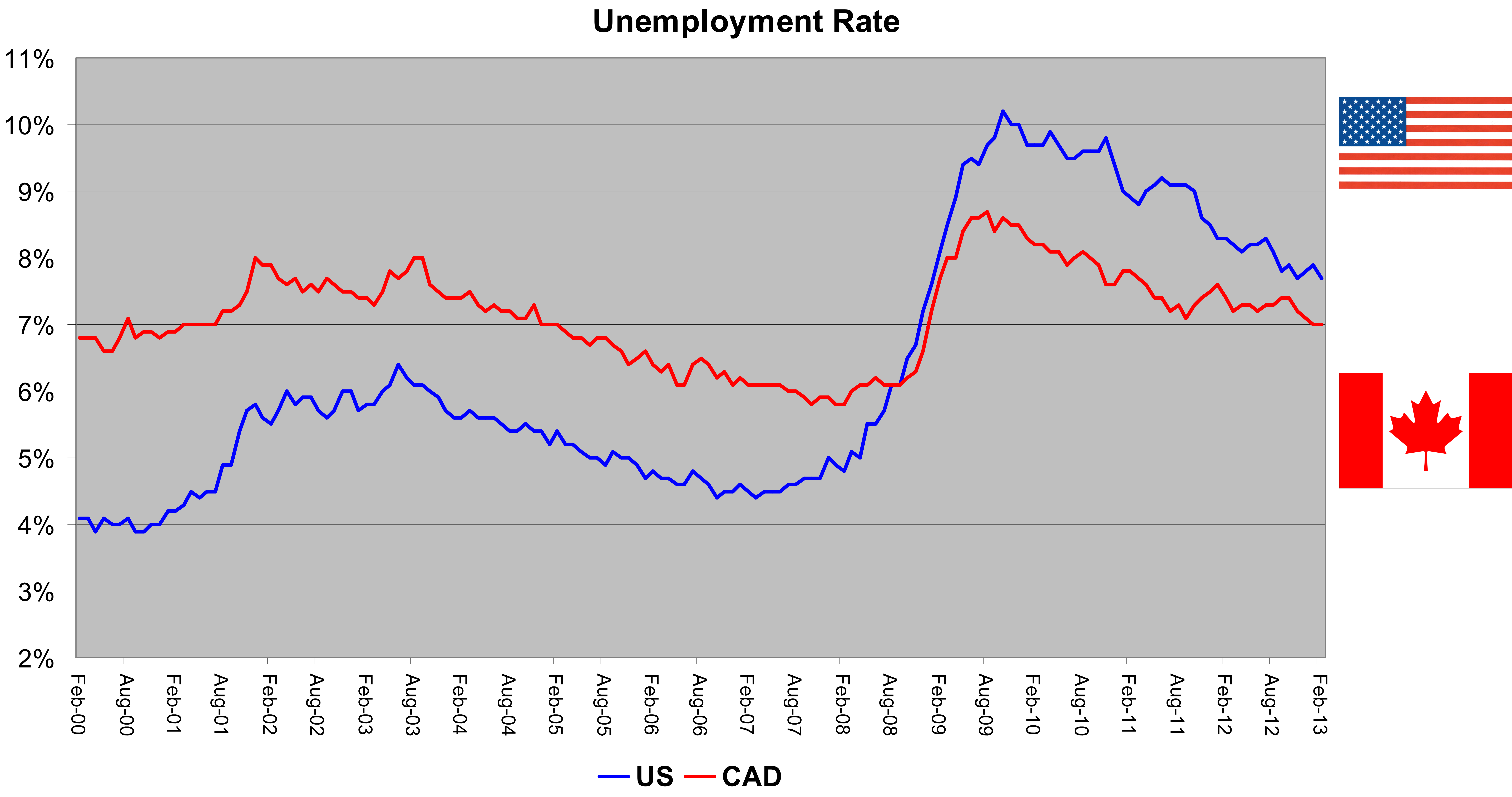
## Canada and US Housing Markets



•Data Sources: S&P/Case- Shiller Home Price Index, Teranet-National Bank House Price Index

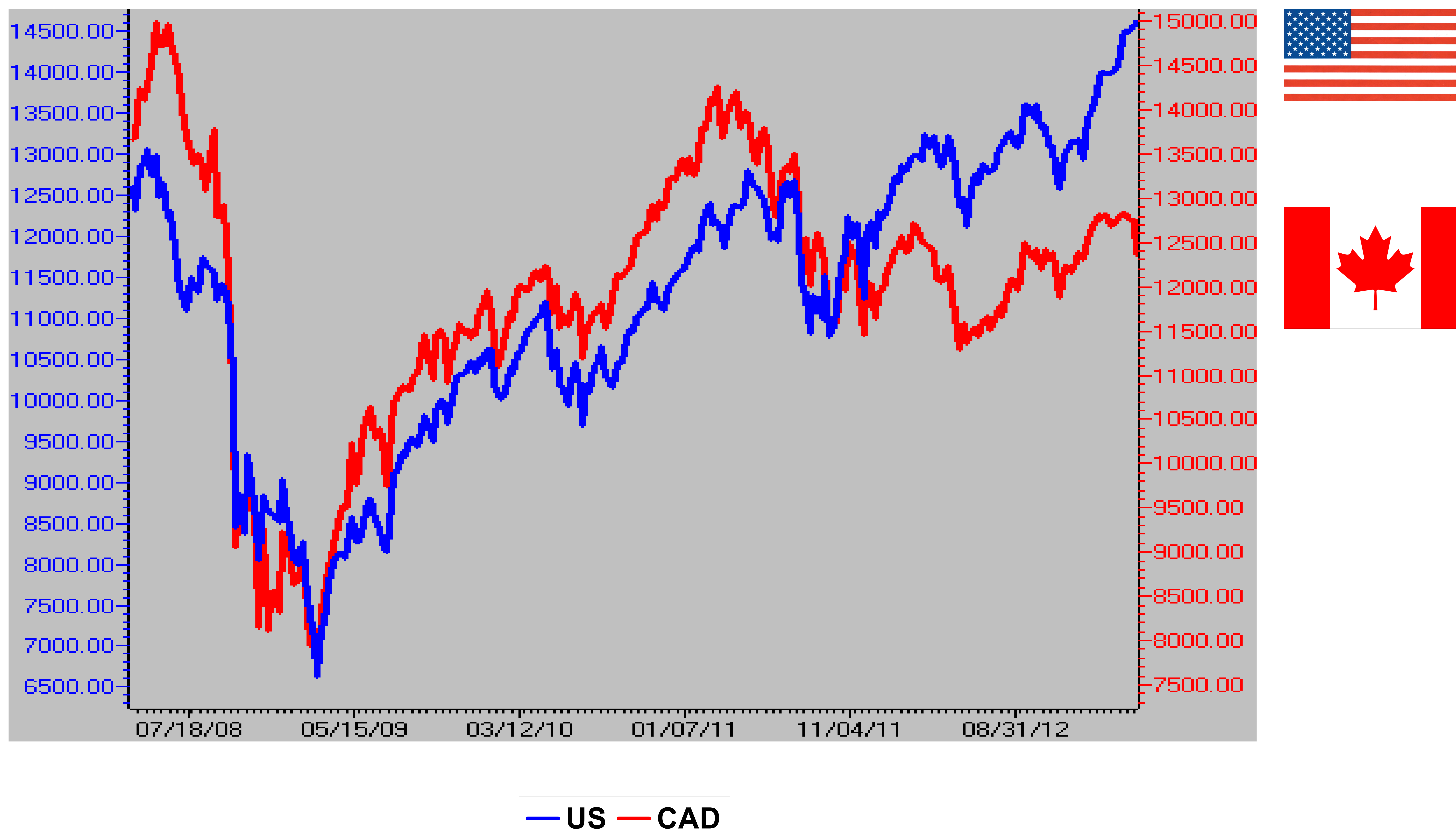


# Unemployment Rates





# TSX vs DJIA



# Rationale

- This illustrates how dependent Canadian market valuation is on foreign demand for natural resources
- The slowdown in China has had a major impact on metals and energy prices. This has impacted the expected profits and valuations of resources companies which make up over 40% of Canada's stock market
- The US market is much more broadly diversified and has enjoyed a strong run
- We increased our portfolio's exposure to US equity in early 2010 and again in 2011 in anticipation of this



# Market Recap

The first quarter of 2013 brought a relief rally as the US government was able to get a partial deal done to avert the full negative impact of the fiscal cliff. The US markets have surged to near all time highs despite a number of distressing headlines.

We have seen a seasonal pattern of summer weakness over the past three years and, given the strong run through the early part of this year, would not be surprised to see another run of summer doldrums. As such we are overweight cash, having taken profits on a number of positions since January.

While we recognize that we are still in a long term, or secular, bear market there are still opportunities for investors during the shorter duration or cyclical upturns. As such we continue to favour dividend paying and growing equities and tactical management of cash levels.

Clients within our Private Investment Management program (PIM) and Third Party Pension Management program will receive their quarterly update and personalized portfolio reports within the next two weeks.



# TSX Performance: Annual, 6 & 3 Months

- 2013 started strong but we have seen some consolidation of those gains

- The materials sectors has been weak, particularly companies with exposure to gold



# S&P Performance: Annual, 6 & 3 Months

- The US market has started out the year with a broad based rally

- An entire year's worth of projected gains in three months have prompted analysts to adjust year end price targets for the US indices





# EAFE Performance: Annual, 6 & 3 Months

- A decent start for international markets despite issues in Cyprus and the Korean peninsula

- Equity gains in Developed markets have outpaced emerging markets due to slowing Chinese growth



EAFE = Europe, Australasia, and Far East Markets



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