

Davidson Professional Wealth Management

of RBC Dominion Securities

Lifelong Wealth Management Solutions



Winter Market Commentary

January 7th, 2013

Professional Wealth Management Since 1901



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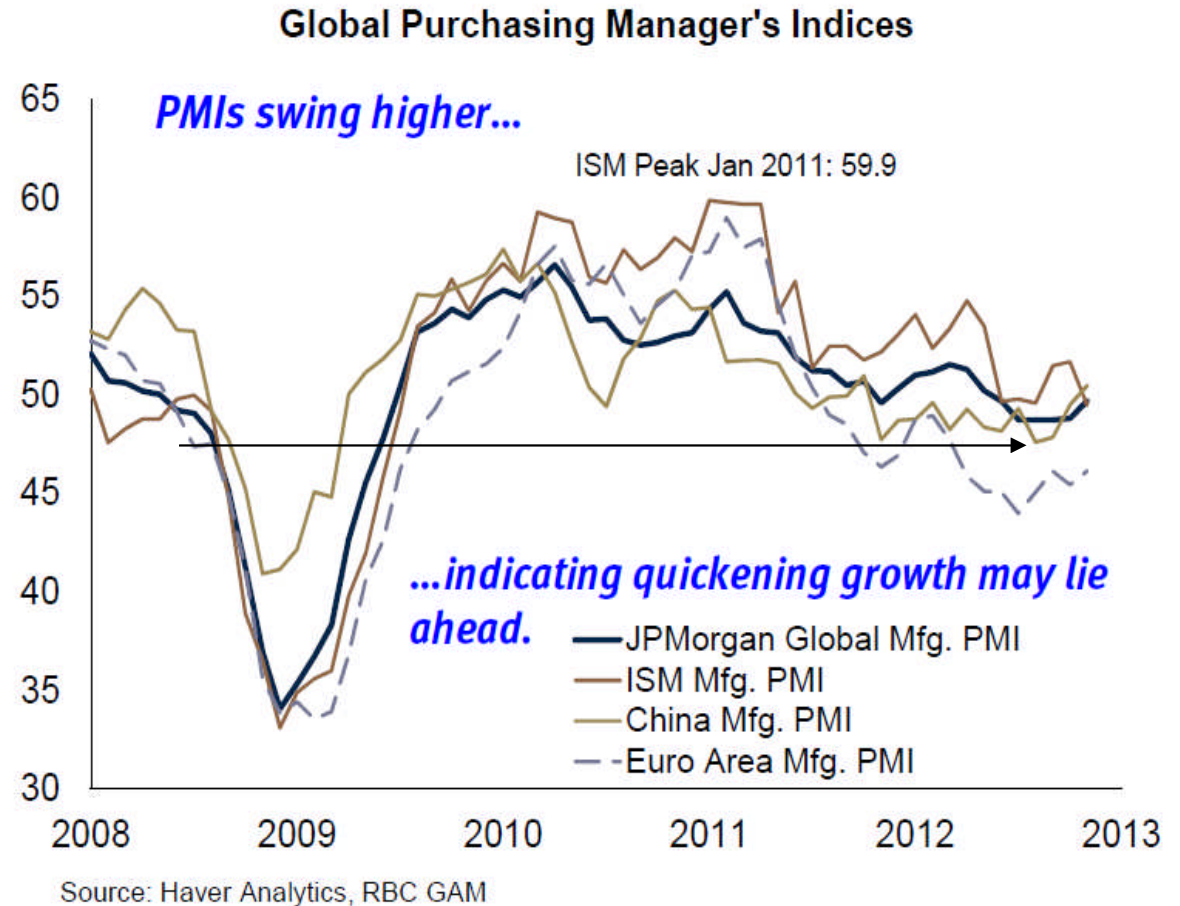
- Global Economic Overview.....Headwinds to global growth are diminishing.
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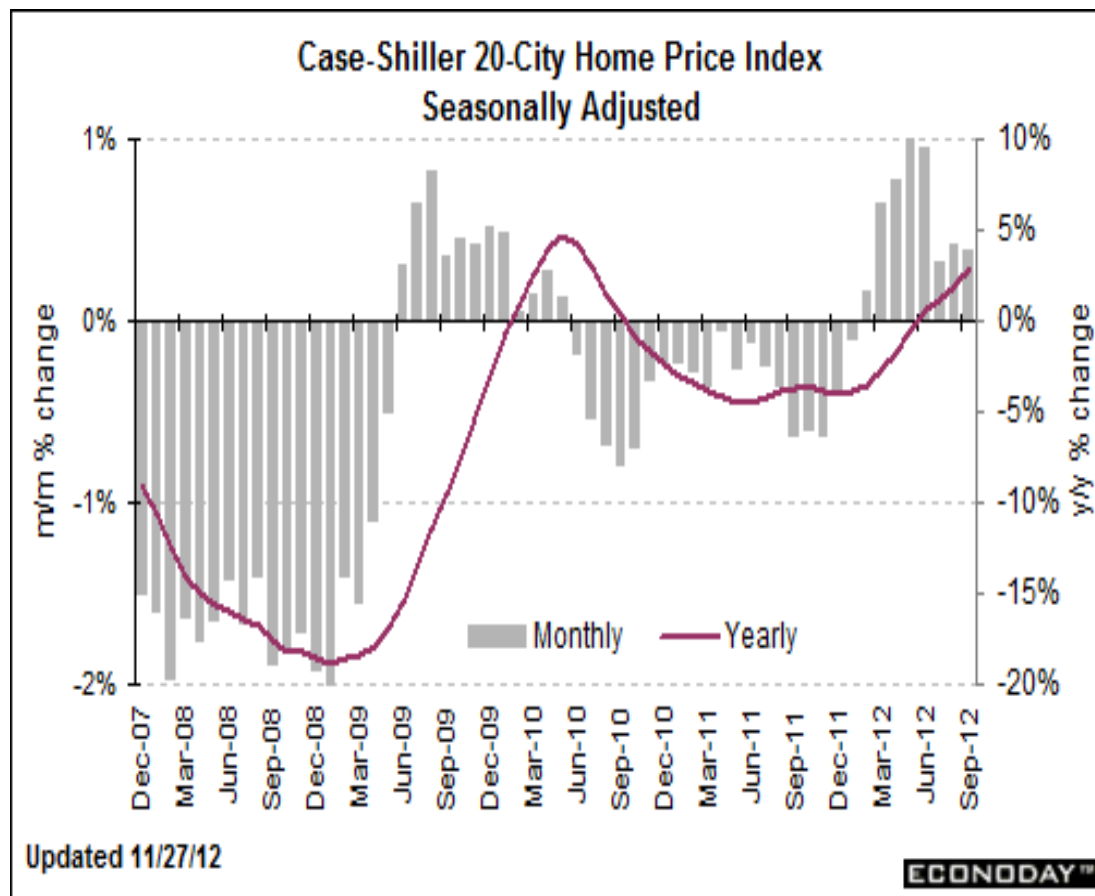
Global Purchasing Manager Indices

- The global purchasing manager index provides a view into the economic future
- PMI's appear to have turned a corner this fall
- This could indicate a pickup in economic growth in 2013



US Housing

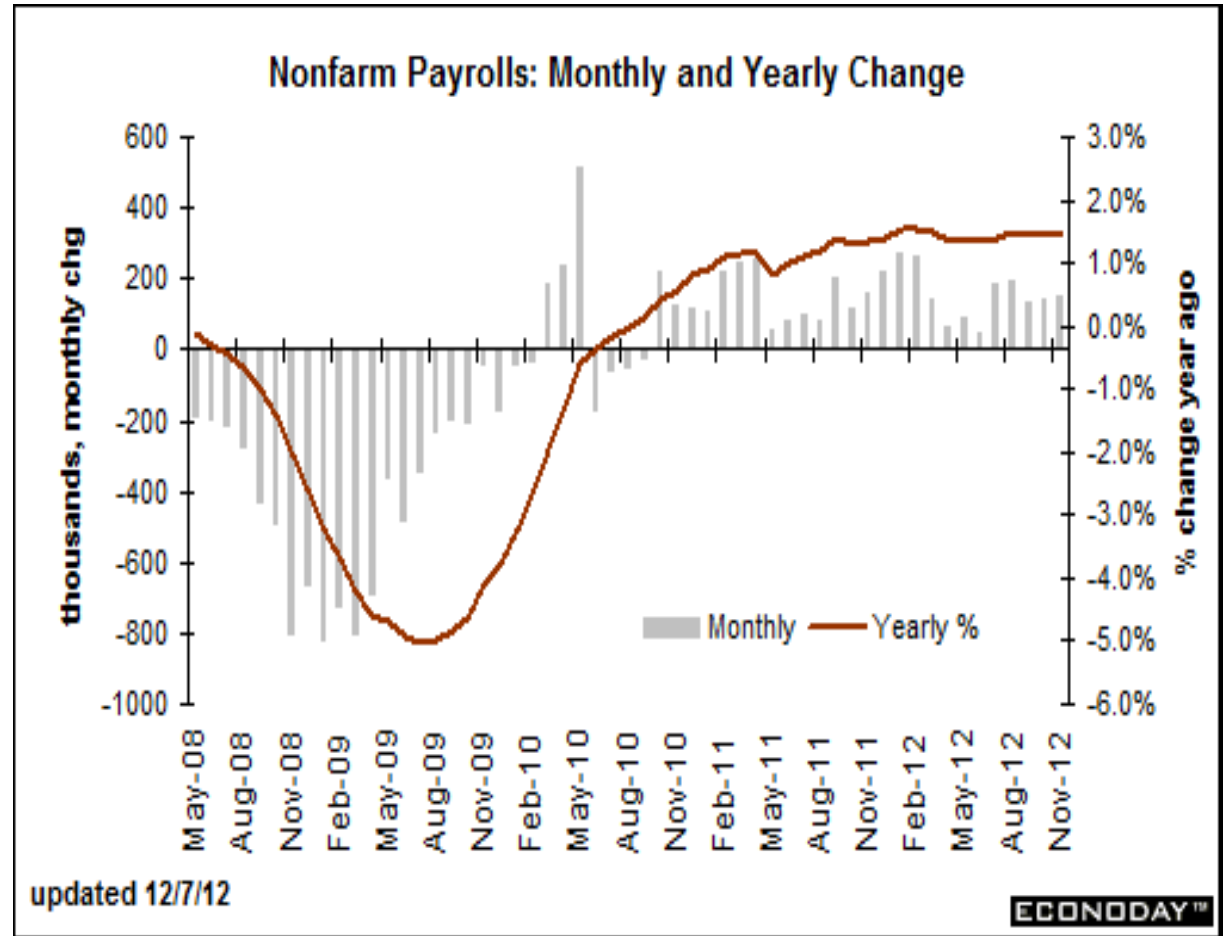
- The US housing slump which helped trigger the financial crisis is showing signs of abating
- Housing prices (illustrated in the chart at right), housing inventory and new home construction all seem to be pointing to sustained recovery
- This is one of the precursors for a more broadly based economic recovery



Data Source: Haver Analytics

US Employment

- US employment has slowly and steadily been improving since the financial crisis
- Companies have been slow to hire due to political and economic uncertainty
- Employment numbers are typically a lagging indicator



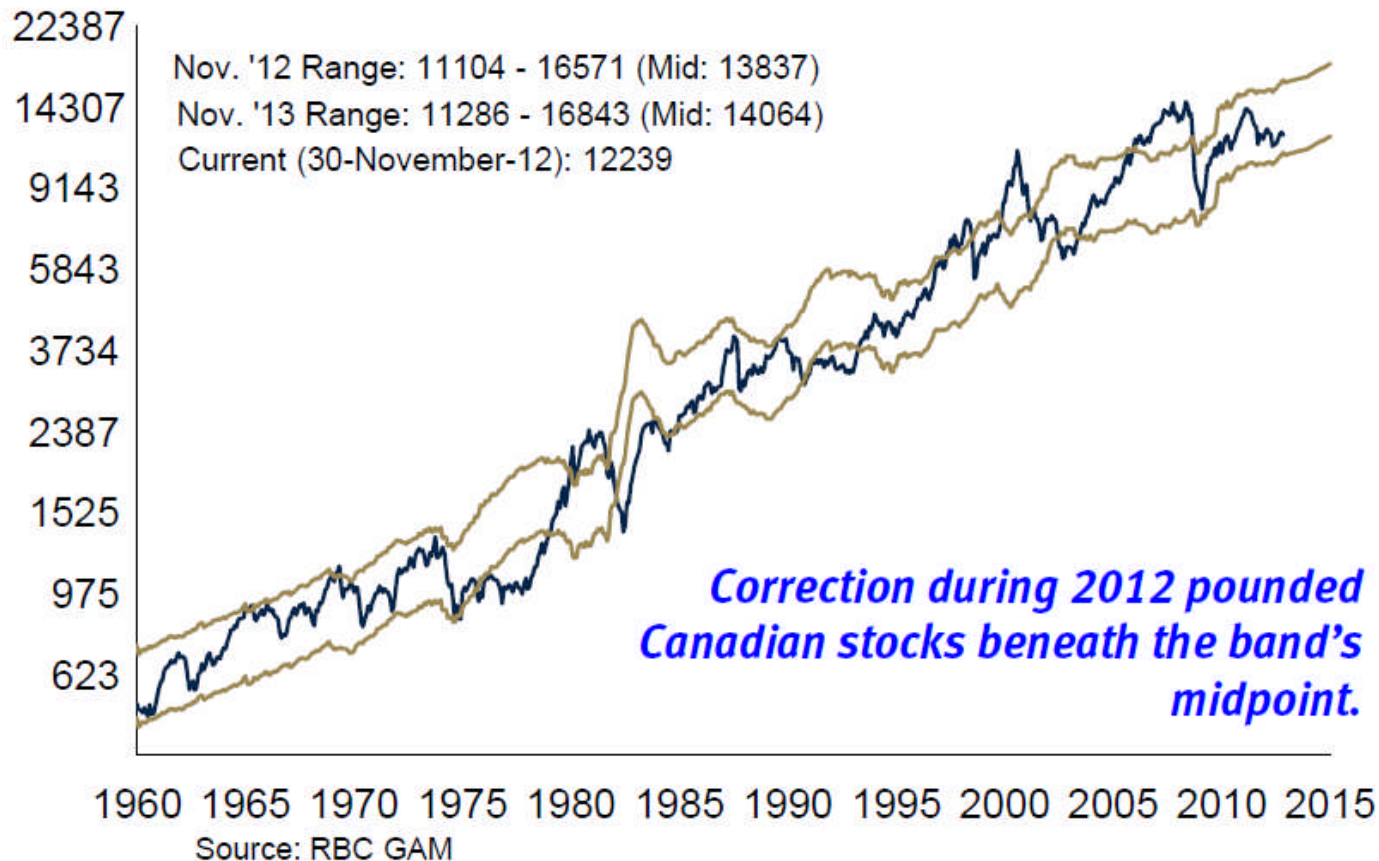
Data Source: Haver Analytics

How expensive are stocks and bonds right now?

- We use valuation models to give us a sense of where markets should be relative to their historical values
- Investors tend to disregard valuations when “Fear” and “Greed” drive the market
- When pessimism is high they trade at deep discounts and when euphoria takes hold they trade at high premiums
- Valuation models are not very helpful in terms of timing investment decisions but they do provide a sense of where long term value resides

Canada

S&P/TSX Composite Equilibrium Normalized Earnings & Valuations



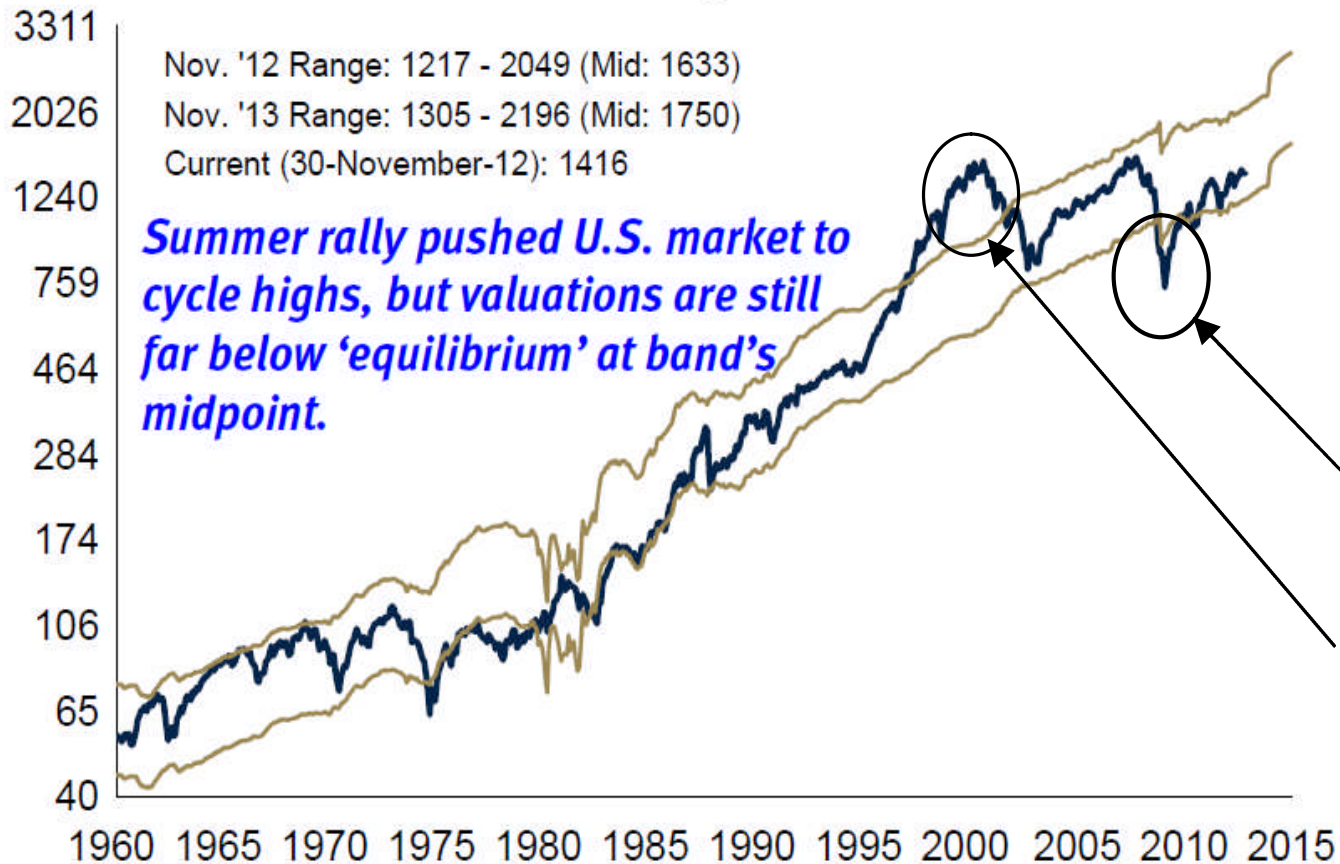
- Canadian equities reside in the lower middle of the fair value band

- Pessimism about Europe and China have kept valuations modest

- Canada's market can be said to be slightly undervalued

United States

S&P 500 Equilibrium Normalized Earnings & Valuations



Source: RBC GAM

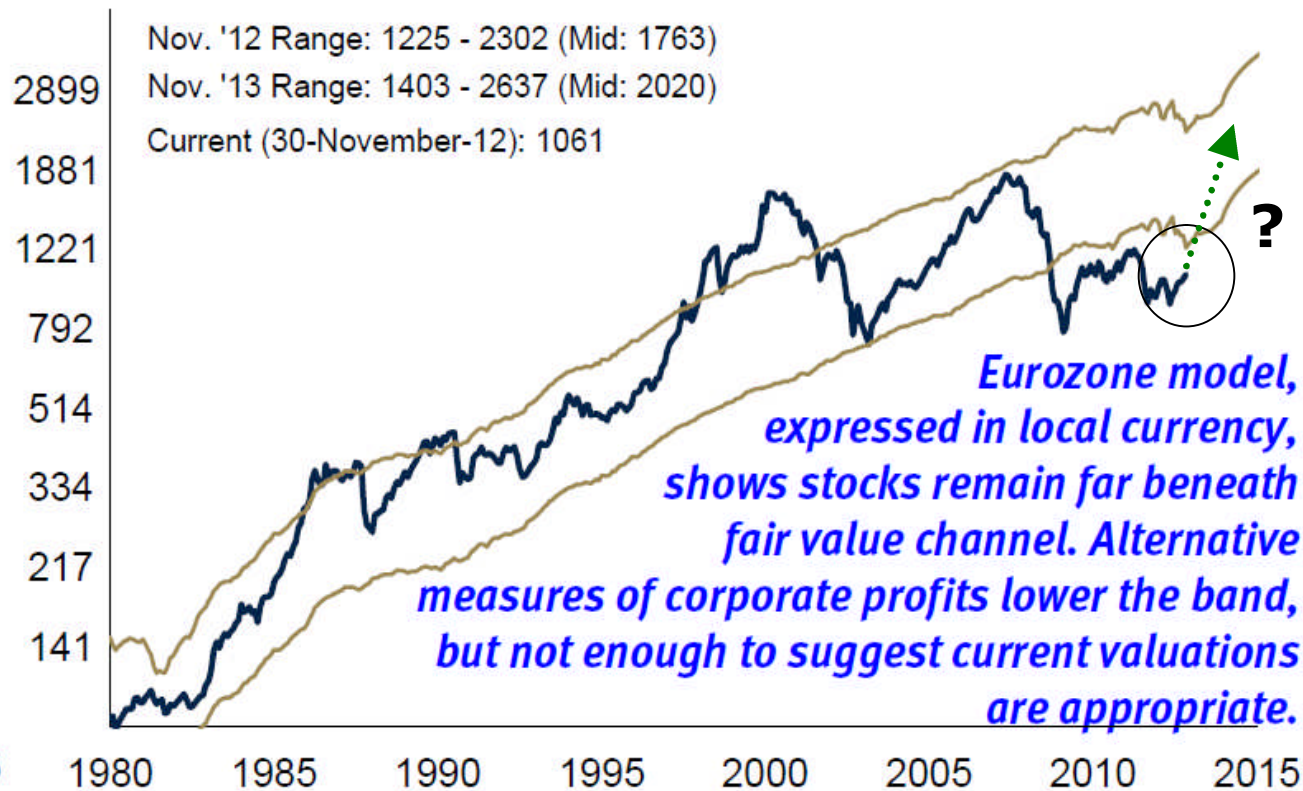
- The US market is slightly less expensive than Canada

- US equities rallied sharply last year but still represent good value

- Note how "cheap" US equities were in 2008 when everyone was fearful and how "expensive" the market was during the tech mania bubble in 2000

Europe

Eurozone Datastream Index Normalized Earnings & Valuations



Source: Datastream, Consensus Economics, RBC

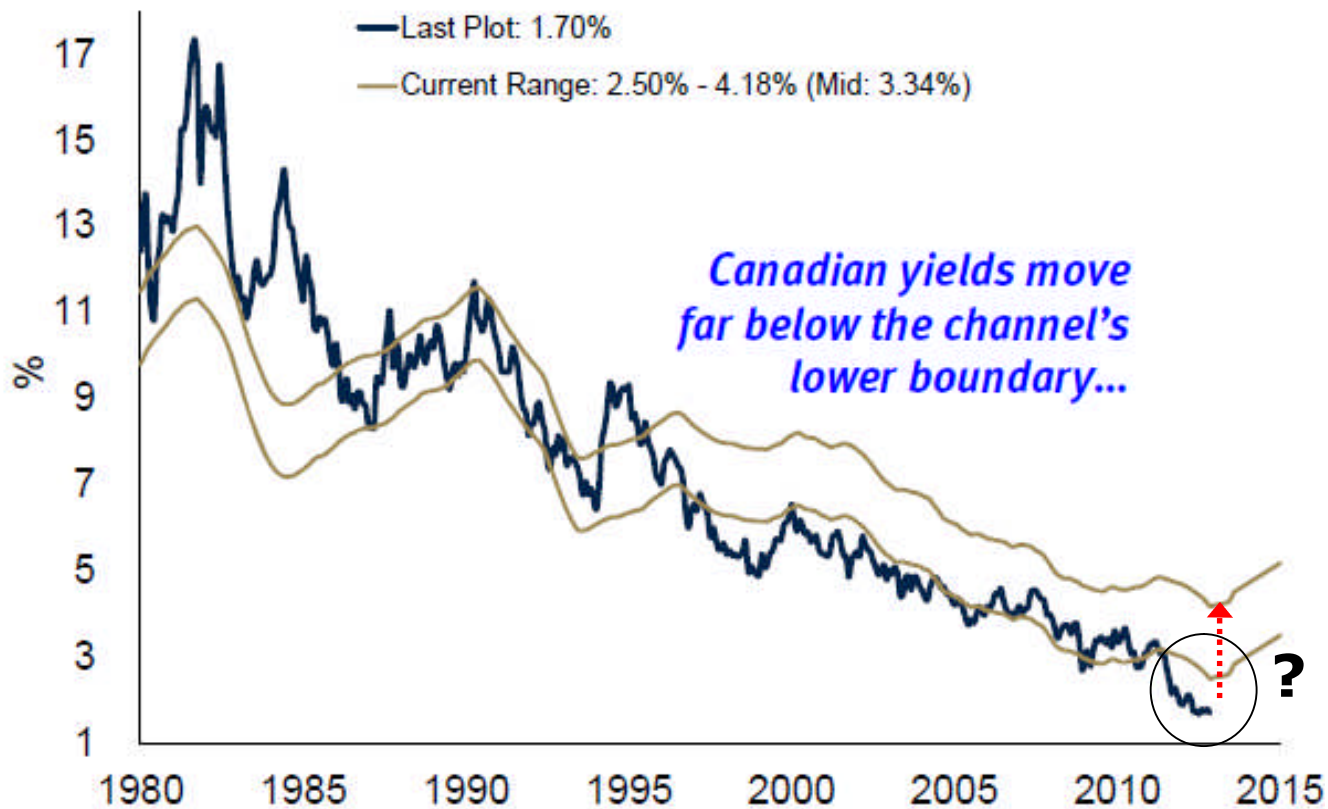
- Europe's markets are among the least expensive in the world

- The concerns over Greece, Spain and the other nations have kept equity prices depressed

- If investor sentiment were to return to normal European equities could rally sharply

Bonds

Canada 10-Year Bond Yield Equilibrium Range



Source: RBC GAM, RBC CM

- Interest rates and fixed income prices have become extreme
- Rates could move quickly higher, resulting in falling bond prices
- Bond holders should take care to reduce their longer term bond exposure

Market Recap

2012 was a challenging year for investors as negative political and economic headlines from Europe, China and the US seemed to foreshadow another recession. For investors that stayed the course it was a rewarding year, particularly those that had exposure to the US and International markets. See charts beginning page 12

2013 brings with it a new deal that averts most the much publicized "Fiscal Cliff" in the US. This along with a resurgence in Global growth could indicate another good year for investors.

There are always pitfalls to consider, this year, at some point, we'll likely revisit European sovereign debt issues, the US Debt ceiling and likely meet some new issues. Bond investors should be wary of rising rates and position portfolio appropriately. The key to investment success is to stick to your plan and rebalance accordingly.

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

- 2012 was positive for Canadian stocks overall but with significant volatility
- Financial and consumer goods sectors were strong performers
- Energy and materials sectors were negative performers, with gold and natural gas companies suffering the worst declines



S&P Performance: Annual, 6 & 3 Months

- 2012 was a good year for US stocks which, despite two significant sell-offs posted double digit gains

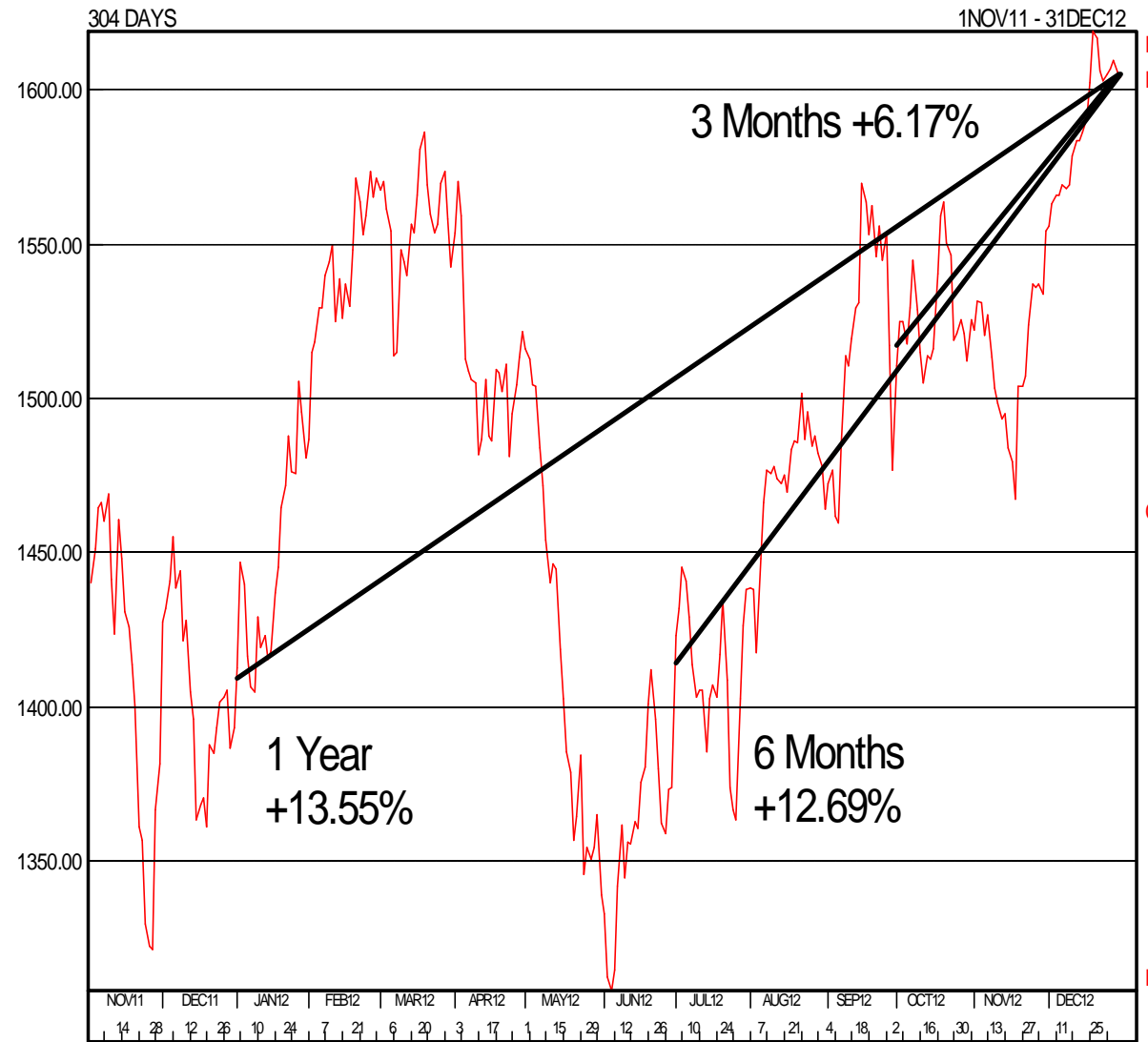
- The market seems to be pricing in a better 2013, with the US housing outlook improving

- US companies have benefited from a weak US dollar which has helped make their goods less expensive to the world



EAFE Performance: Annual, 6 & 3 Months

- 2012 was also a good year for Overseas stocks, despite significant volatility
- Emerging markets rebounded towards the end of the year
- Europe also experienced a relief rally as the concerns around Spanish banks and the Greek government debt issues abated



EAFE = Europe, Australasia, and Far East Markets

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