Davidson Professional Wealth Management

of RBC Dominion Securities

Market Commentary

October 15th, 2012

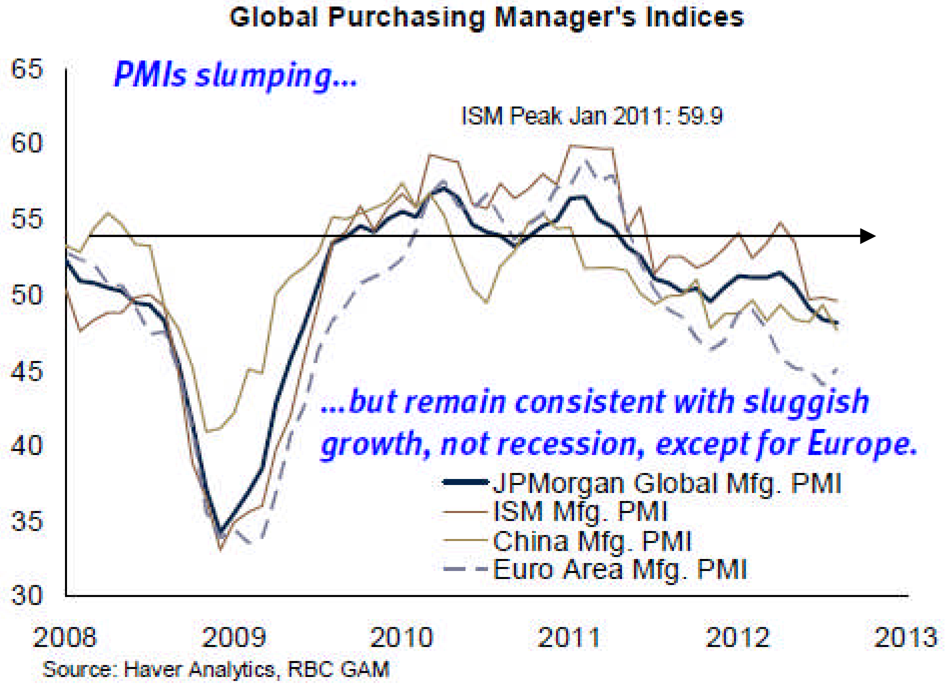
In this Issue

October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February.

Mark Twain

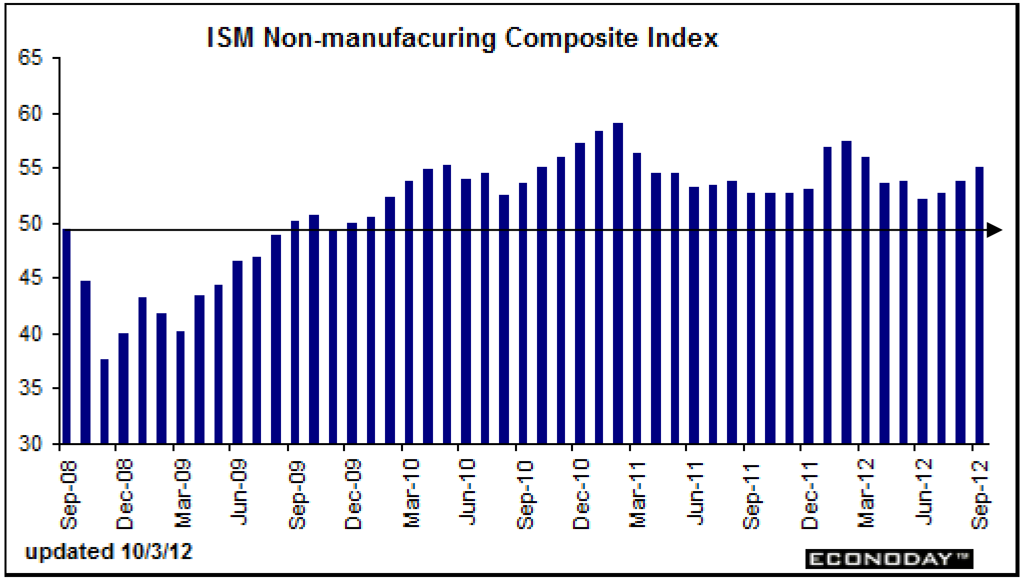
Global Economic Overview

- The global economy showed signs of slowing down throughout the summer months with weak data coming from Europe and China in particular. One of the most watched indicators, the Global PMI, has broken below the 50 line which demarcates the boundary between growth and contraction. While this does not forecast a recession, it must be watched closely.



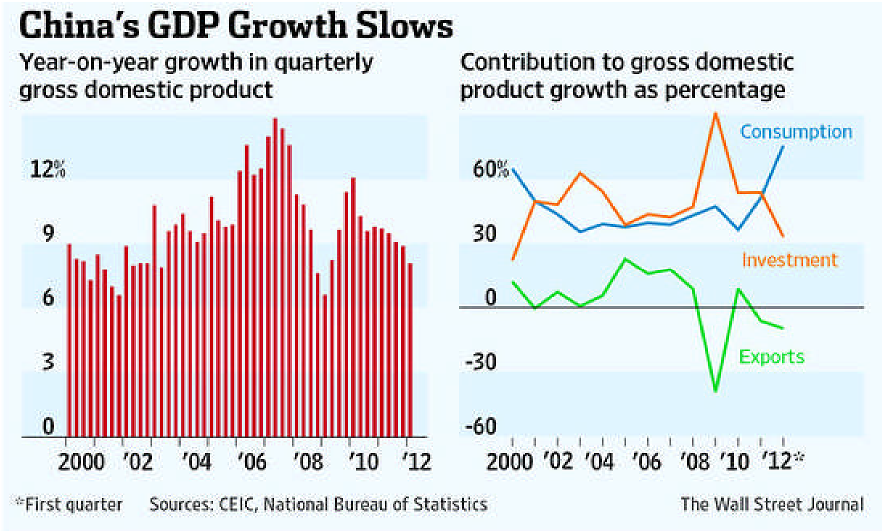
The United States

➢The US economy has remained one of the bright spots in a slowing global economy. Growth in the non-manufacturing sector in the US continues despite the problems in Europe and China. The data points above 50 represent growth in the non-manufacturing sector which represents over 80% of the economic activity in the US. This is a key reason why the US market is currently outperforming its peers.



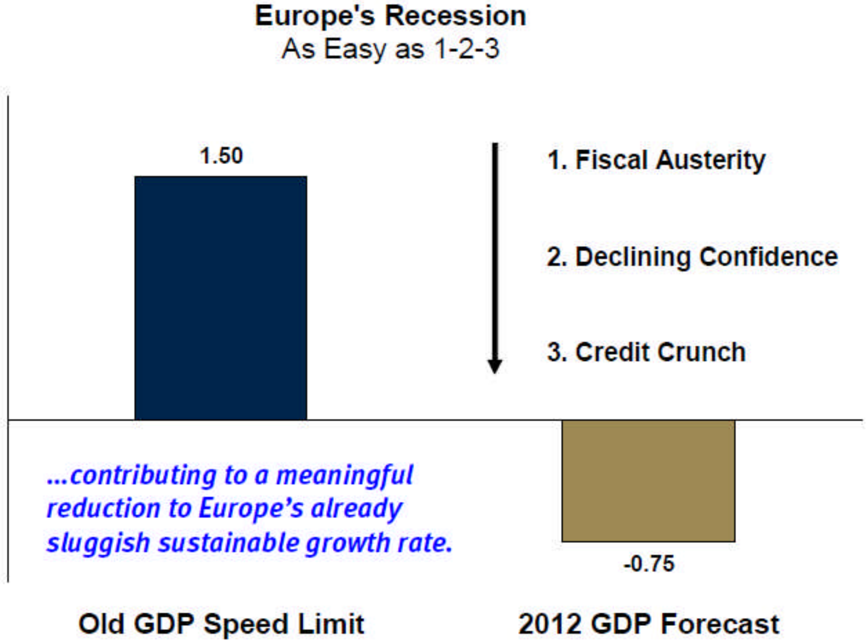
China

➢The Chinese economy, while still enjoying an enviable rate of growth, continues to slow. As economies mature their makeup changes and so too does their growth potential. The chart at the right indicates just that as we see domestic consumption beginning to rise and investment declining. As China's middle class grows we expect domestic consumption will represent a greater proportion of GDP and that growth will be more moderate than the incredible years in the previous decade.



Europe

➢Europe remains front and centre in the media spotlight with the pending bailout of Spain and the continuing austerity battle throughout the "Club Med" countries. What this means to growth in the region is summarized in the chart to the right which illustrates a European recession. As the crisis weighs on companies and individuals they will curb their own spending until more certainty arises with respect to the ultimate fate of the Eurozone. Once confidence is restored, then investment and spending will begin to rise again.



Source: RBC GAM

Market Recap

Despite the negative headlines that have prevailed in the media the equity markets have fared well over three months and one year measurement time periods. It has not been a straight line up however, with events in Europe and China causing investors concern through the early part of the summer, leading to significant pullbacks (see charts beginning page 9).

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.

Fixed Income Rates

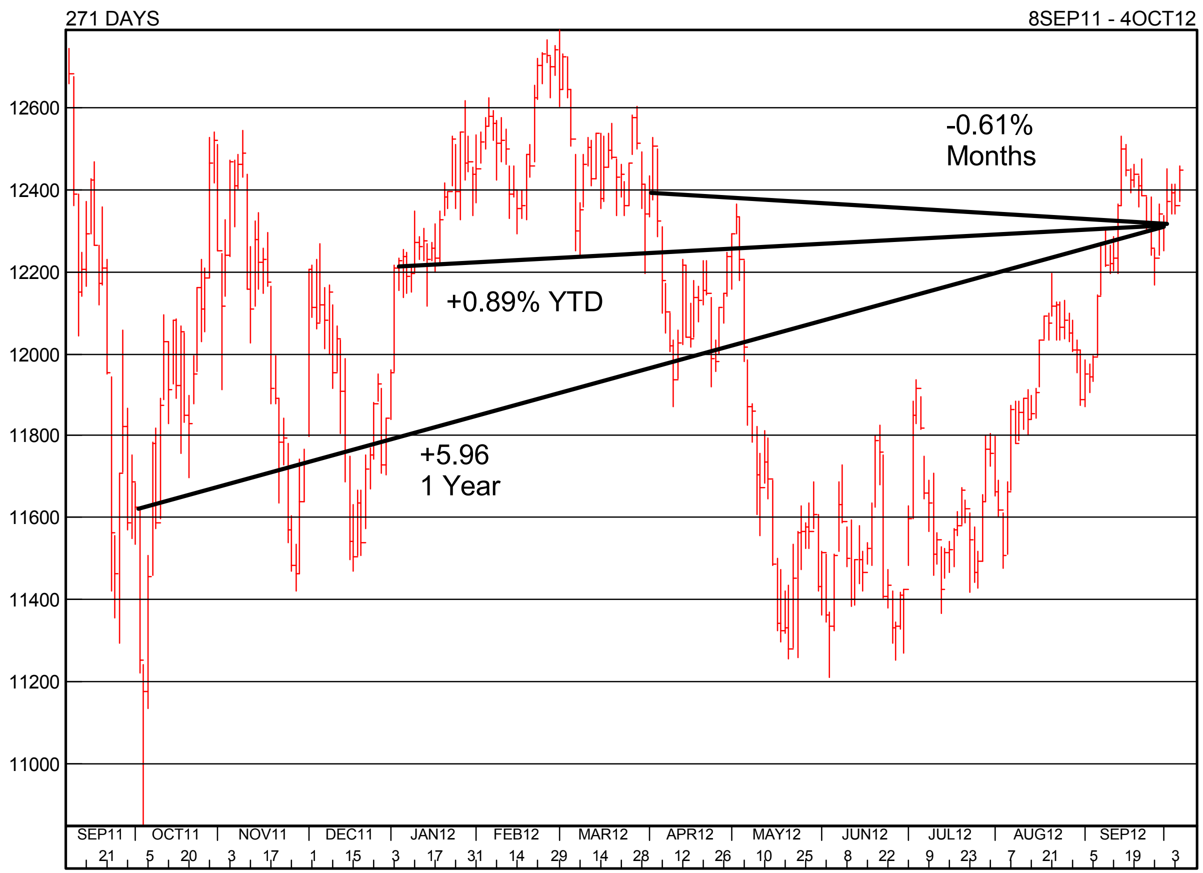
- The rates that are available for fixed income securities remain at historically low levels due to Central Bank actions and investors expectations of very low growth as well as a lack of appetite for risk in the face of slowing economic data.

- Fixed income investing remains challenging and investors who seek safety first and foremost will find it difficult to keep pace with inflation. In most cases fixed income provides stability for client portfolio's but contributes very little to growth.

GIC Rates	
1 yr	1.85%
5 yr	2.55%
Gov't of Canada Yields	
2 yr	1.09%
5 yr	1.32%
10 yr	1.76%
US Treasury Yields	
2 yr	0.24%
5 yr	0.63%
10 yr	1.68%
* as of October 5 2012	

TSX

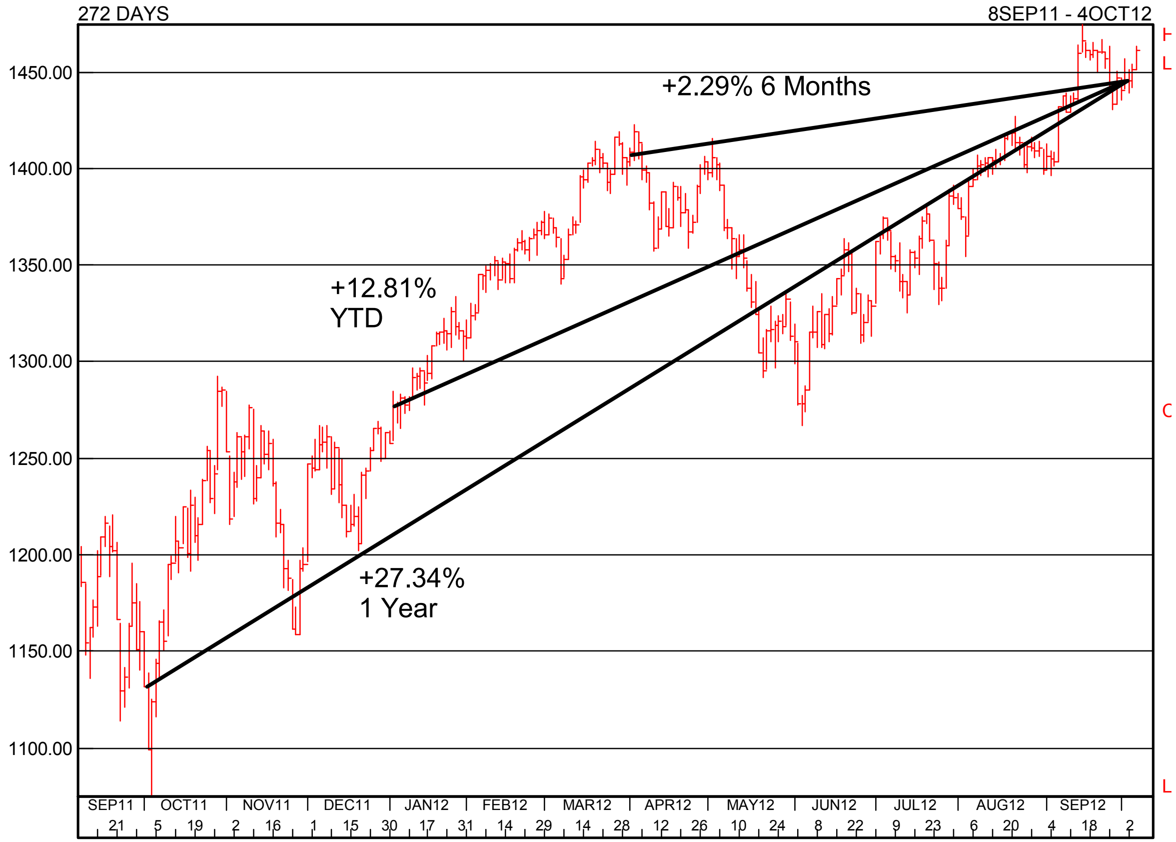
Heavy exposure to the resource sector has held the TSX back over the past year. Slowing growth in China and the spectre of European recession has moderated expectations for global economic growth and slowed the appetite for commodities in general. Despite this we've seen a positive year over year return.



S&P 500

The US market has been a very strong performer. Corporate profits continue to be strong, a weak US dollar is good for exports and domestic demand has remained resilient in the face of slowing global growth.

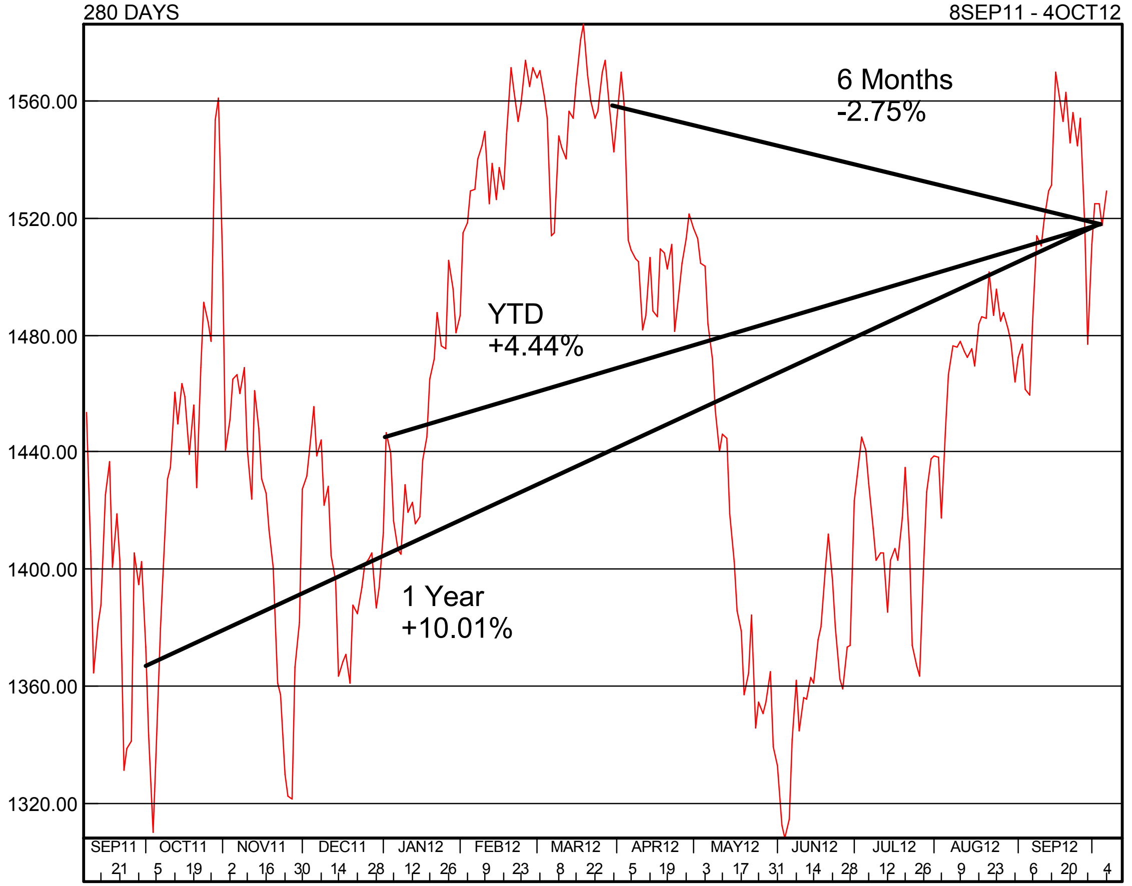
There are signs that the housing market in the US is beginning to turn, which if true could provide a tailwind to GDP growth after half a decade of drag.



MSCI EAFE

The overseas markets have been very volatile as the previously discussed drama continues to unfold in Europe. This has lead to very large swings in equity valuations over the past year.

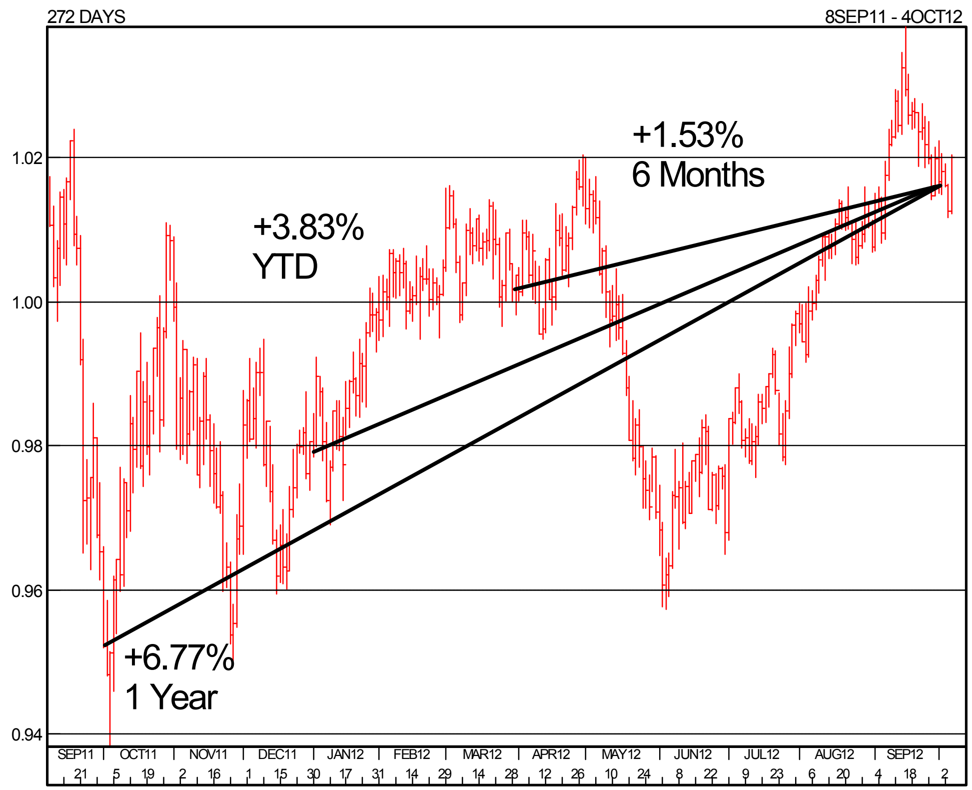
Despite this the EAFE average is still up 10% over a one year period. Many concerns remain in the Eurozone and these issues are likely to persist for years to come which will likely lead to ongoing volatility in European equity markets.



Canadian Dollar vs. US Dollar

The Loonie has rallied quite strongly against the Greenback over the past year. Much of what is driving exchange rates is speculation and excess liquidity provided by the central banks.

The Canadian dollar remains well above purchasing power parity with the US dollar, and is overvalued on that basis by approximately 15%. When economic conditions return to a more normal state expect the Loonie to trade closer to parity with the greenback.



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