

May 24, 2012

The market has been exceptionally strong in spite of negative global economic news and a softer summer market is to be expected. I will report over the next couple of weeks and my expectation is that we will see some buying opportunities in quality dividend-paying stocks which will position us well for the latter part of 2013 into 2014.

The **May 24 Market Commentary from Bob Dickey** is available for download **here**.

As you head off to the cottage this weekend ... you might want to read our event review **What about the Cottage?** Our guest speaker, Lisa Sticht-Maksymec, a member of **Palette Valo LLP** shared some options you can consider when structuring your will. Click to download your copy **here**.

Market Digest:

Recap of The US Federal Reserve comments May 22:

Ben Bernanke is taking a holistic view of the labour market and has noted that "conditions in the job market have shown some improvement recently" but "the job market remains weak overall". Bernanke highlighted the persistent drop in participation and the still elevated number of folks working part-time for economic reasons.

Bernanke admitted that a robust recovery would warrant less accommodation.

Some members of the FOMC are concerned about the level of risk-taking in the financial markets according to the minutes. The statement makes specific mention of some members expressing concerns about bond-issuance by companies of "lower-credit-quality". The Fed minutes also suggested that some members were starting to mull a reduction in the size of the central bank's asset purchase program.

Reaction to Bernake's comments commenced immediately with a significant pull back in Asian markets--the Nikkei plunged 7.3% and Europe's markets down 2.3% on average. The next day, the US and Canadian markets were also down and I anticipate this will continue to play out over the next few weeks with the summer sell-off we have been anticipating coming to pass.

Views on Canadian Bank Stocks

I have taken a close look at the Canadian bank stocks. Despite growing earnings and mounting capital, the stock prices have been somewhat stuck in the mud -not bad, but somewhat tepid in the realm of actual returns. Price/earnings multiples reflect concerns about the double leverage of Canada - macroeconomic leverage to commodities and households leverage to their financial institutions.

The Canadian government has clearly indicated their desire to flat-line prices for the Canadian housing market by tightening the mortgage market and continually advising Canadians to show restraint in their borrowing.

Housing Market Concerns

If we see a significant softening in the housing market, banks exposure to higher losses in their lending portfolios may have a significant impact on share price. It is too early to determine the outcome for the housing market, but for now the following facts are cause for concern:

- Resale volumes are off from a year ago despite even lower mortgage rates
- Q1/13 Toronto condo sales are down 55% year on year, according to condo research firm **Urbanation Inc.**
- **The Economist** labels Canada's housing market as "especially vulnerable" given a dearth of buyers and prices that are high relative to rents and incomes

Tighter credit, a high home ownership rate, and shifting sentiment will factor into the equation as well. The potential for housing to strike an adverse feedback loop into the labour market is also disquieting. I will continue to monitor and we will discuss in detail during our upcoming reviews.

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*The future influences the present
just as much as the past.*

Friedrich Nietzsche (1844-1900) German-Swiss philosopher and writer.

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market Digest

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our online **library**

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Estate Planning Event Review: What About the Cottage?

Because of emotional attachments, cottages are one of the trickiest assets when it comes to planning your will.

Lisa Sticht-Maksymec shared insightful options to consider when structuring your estate plan for the family cottage.

Download the event review...**here**.

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briefs on tax,
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RRSP's, RIF's and
more...

Semi-Annual Reviews:

As part of our semi-annual reviews coming up in June, I continue to monitor performance of specific sectors in the market and the performance of our Canadian market relative to the US and global markets.

Contact us to set up
an appointment.



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