

The Fortnighter

October 19, 2012 - Issue #5



Al Gair, MBA, CFP
Vice President &
Investment Advisor



Bonnie Walmsley
Associate

2500 - 666 Burrard Street,
Vancouver, B.C. V6C 3B1

T: 604.665.5526

E: al.gair@rbc.com

E: bonnie.walmsley@rbc.com

www.gairwealthmanagement.com

As we are all well aware, there is a rather important election looming in the U.S. in the next few weeks.

While I'm not going to make an outright prediction about results, it would be a pretty big surprise to me to see the challenger pull this one out of the bag. A recent article in the Economist pointed out that the #1 concern of US voters was the economy (no surprise here) – and that more voters thought an *Obama* victory would be better for the economy than a Romney victory. Mercy, if the Republicans can't convince the electorate that they are the better choice for handling the *business side* of running the country, I can't see how they're going to win this one.

This begs the question as to what would another four years of an Obama administration mean to the economy – and, in particular, the markets.

One item that I know alarms a lot of investors is the ever-expanding mountain of debt that the US government is saddled with – a number now on the order of \$16 trillion (!!!). 2012 alone was responsible for about \$1 trillion of this and it wouldn't be a shock to see the total push the \$20 trillion mark after another four years.

Fortunately, the beauty of being a government is that they have the ability to simply print more money.

Unfortunately, the beauty of being a government is that they have the ability to simply print more money. As long as the "debt ceiling" keeps getting raised, the US government can keep this exercise going indefinitely.

Now, I'm not one of those dooms-day types who believes this situation (even another four years of it) will lead to an economic collapse. The US is still the world's largest economy and their total debt, as a percentage of their G.D.P., is still well below that of many other countries.

But what is likely to happen is that US bond investors will gradually have their confidence in the economy eroded and demand greater compensation for funding the debt. The result would be that long-term US interest rates rise, inflation creeps back into the picture and the value of the US dollar falls relative to other currencies. That, to me, suggests a continued interest in the ultimate hedge against a weak US dollar – **gold**. More on this in a future issue of the Fortnighter.

Professional Wealth Management Since 1901



RBC Wealth Management
Dominion Securities

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 its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC Dominion Securities Inc. and its affiliates also may issue options on securities mentioned herein and may trade in options issued by others. Accordingly, RBC Dominion Securities Inc. or its affiliates may at any time have a long or short position in any such security or option thereon. Respecting your privacy is important to us. If you would prefer not to receive this type of communication, please let us know.

RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member CIPF. ©Registered trademark of Royal Bank of Canada. Used under licence. RBC Dominion Securities is a registered trademark of Royal Bank of Canada. Used under licence. ©Copyright 2012. All rights reserved