Summer 2010

THE PRIVATE WEALTH MANAGER

KARIM VISRAM
PRIVATE WEALTH MANAGEMENT GROUP

For the clients and friends of "Karim Visram Private Wealth Management Group" of RBC Dominion Securities

Karim F. Visram, CFA, CGA, CFP, FMA
Director Vice-President & Portfolio Manager
(416) 956-1913 | karim.visram@rbc.com

The Team

Jeamie Hong
Executive Assistant

Vijay Vyas, BA
Investment Associate

Alexandra Telford, BA
Assistant

Kelly Rivard, LLB
Will and Estate Consultant

Barrington Grey, BA, CFP, CLU
Regional Insurance Specialist

Jason Nelson, PFP
Financial Planner

RBC Dominion Securities Inc.
Royal Bank Plaza, South Tower, Suite 3900
Toronto, Ontario M5J 2J2

Please visit our website at:
www.karimvisram.com

A word from Karim

As we enjoy (or suffer through) the scorching heat of the summer, the equity markets are beginning their cooling phase of the year. This time may be stressful to us, but for Aqil and Kiyaan, it is party time. School is over and that means no homework for either. Aqil is planning on playing Nadal (or Federer) for the whole summer on the tennis courts. Meanwhile Kiyaan is enjoying being a fish – he loves being in water and diving into the water. Now if only we can invent a sport like water boxing, he would be in sport heaven. Maybe water boxing will be an Olympic sport in 2020 when he is 17 years old. I took Kiyaan to his first boxing match (a charitable event to help fight breast cancer – see photo on next page) and he could not take his eyes off the ring. I must confess I have mixed feelings for his interest in boxing. I rather it involve anything but fighting as I am totally against it. I pray he outgrows it. I will also be introducing him to music as he has shown interest in singing. Hopefully he is better at it than his dad.

After 2008's downturn and last year's strong recovery in stock markets, many had hoped that 2010 would see a return to relative normalcy and stability. Certainly, the year started on a positive note, as stocks turned

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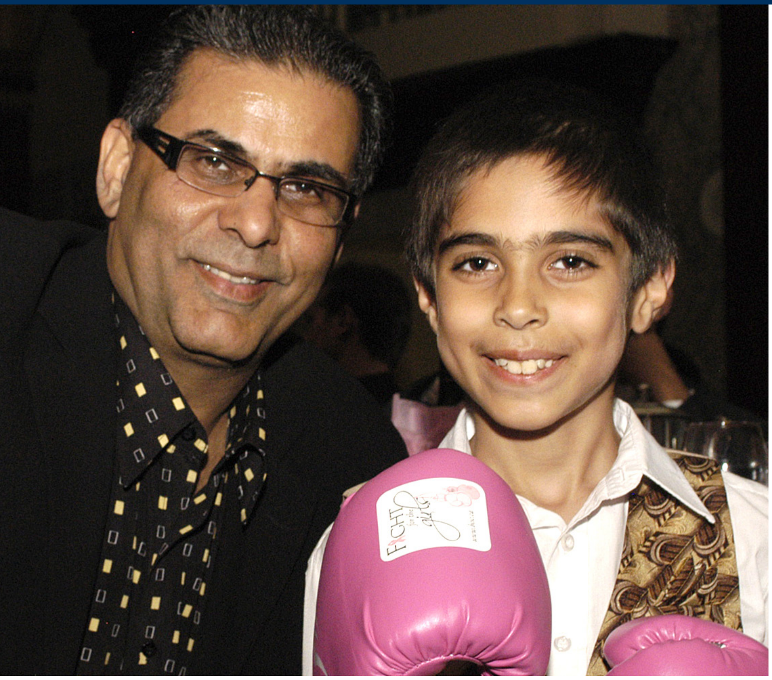

in a strong first quarter. Then, in rapid succession came:

- The intensification of the budget crisis in Greece that arose in February, with the risk of contagion across Europe.
- Concerns that European budget cuts would slow down economies, with global spill-over effects. This is especially problematic in light of the need to compete with a devalued Euro.
- The April 22 sinking of a BP oil drilling rig in the Gulf of Mexico – what a mess.
- The May 6 “flash crash” in which U.S. markets plummeted in a matter of minutes without explanation.
- The possibility of a double-dip recession in the U.S.

Navigating through the “calamity decade”:

Perspectives from the father of value investing

In talking to our clients about how portfolios should be positioned in light of the current challenges, we point to three guiding principles from Benjamin Graham, considered the father of value investing.

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Starting in 1926, Graham taught at Columbia University and wrote about investments for 30 years. His views shaped a generation of money managers, among them Warren Buffett.

Principle one: Investors have to understand their own ability to live with volatility. This is something that investors were reminded of in 2008 – many investors discovered what their true risk tolerance was in that market.

In the concluding remarks of his 1963 talk, Graham mentioned an old Wall Street adage that whenever clients asked for a stock recommendation, he’d answer by saying, “Do you want to eat well or sleep well? That will determine what I recommend.” Graham went on to say that he believed that by following sound policies, almost any investor should be able to eat well without losing any sleep – even in the insecure world of 1963, shortly after the Cuban Missile Crisis.

We share Benjamin Graham’s view on the need to both eat well and sleep well – our goal with every client is to tailor a portfolio that achieves these dual and sometimes contradictory objectives.

Principle two: The price you pay when you buy stocks is key. There are many factors that determine how investments perform over time – but few are more important than paying a reasonable price when you buy.

In his talk, Benjamin Graham said that because of the level of insecurity in the world, investors should always have an allocation to stocks, bonds and cash. The minimum level for stocks should be 25% of their portfolio and the maximum 75%.

Principle three: Warren Buffett’s two keys to investment successes. Graham’s student Warren Buffett has said that it only takes two things to make money – having a sound plan and sticking-to-it ... and that of those two, it’s the sticking to it part that most investors struggle with. Markets

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like we've seen of late create understandable stress and can lead to short-term decisions. This *New York Times* article in May talks about the cost to investors of acting impulsively: www.nytimes.com/2010/05/23/business/23stra.html?src=me&ref=business

At the risk of repeating a timeworn cliché, in our experience the only way to invest successfully over time is to maintain discipline and a long-term focus – to have the right plan and then to stick to it.

The three charts to the right speak to this. They show returns among large U.S. stocks from 1926 to 2009 after inflation is taken out.

The first chart shows one-year returns – and truly is a roller coaster. If this was what investing over time entailed, few would have the stomach for this. The next chart shows returns over three years – showing less volatility but still more than many investors would be comfortable with. Finally the third chart shows returns over a 10-year period – the longer you own stocks, the fewer extreme highs and lows you will experience, and end up with a path that investors can live with.

In closing, let me reiterate my appreciation for the continuing opportunity to work together – as always, I welcome your calls and questions and would be happy to talk at any time.

Source: Ibbotson SBBI Large Company Stock index, Morningstar Encorr database
Average=________

Math Puzzles

As we all must exercise our mind and body, this is an attempt at exercising the former (Source: Brain Bashers). Answers are given on Page 4.

Puzzle 1
Two friends were driving from their home to Manchester, Kevin drove the first 90 miles, and Daniel took over the remainder of the journey. On the way back, Kevin drove to begin with, and Daniel took over for the last 100 miles. Who drove the most?

Puzzle 2
A farmer was asked how many chickens he had sold at market that day. His reply was:

I've had four customers today, and each bought half of my remaining chickens, plus a half chicken.

The farmer sold all of his chickens at market that day. How many chickens did the farmer sell?

Investment Commentary Summary

Following a very steep 13-month advance off the crisis lows, equity markets reached a crossroads this past quarter encountering their first significant correction. Investors have been pondering a number of challenges including: the crisis of confidence in Europe; the implications of changes in Chinese fiscal and monetary policy especially important to a commodity-heavy market like Canada's; and an apparent peak in global leading indicators implying that economies will continue to expand, but at a slower pace.

Our longer-term view remains largely unchanged. The cash being generated by the average company in relation to its share price offers the investor a much higher yield than the coupon income on short-term cash instruments or bonds. That plus the prospect of future growth mean that stocks offer a compelling longer-term risk-reward potential. Markets have already retreated to levels which incorporate a fair amount of bad news. Current valuations will prove to be very attractive should the economic recovery continue to unfold at a moderate pace.

For the year ahead, we expect equities will provide returns that are superior to those earned on cash or bonds. Attractive valuations and a forecast that features a successful transition to a sustainable economic expansion underpin that expectation. However, returns are likely to be much more moderate than those delivered in the steep climb from the crisis lows last spring. Moreover, history suggests that such a phase usually entails above-average volatility. Accordingly we remain focused on the difficult-to-quantify-risks within the European debt markets and elsewhere. We have adjusted our recommended portfolio exposure to equities over the past several months – moving somewhat closer to a longer-term neutral setting – to align it more appropriately to our forecast environment.

Client Appreciation Event

We are so grateful to all our clients and their friends and family who joined us for our most successful event yet. On July 13th we hosted a "Lunch and Movie" afternoon just to say thank you for your business over the year and welcome new clients to our team. We were thrilled to see over 100 guests come out. We hope everyone enjoyed it. Please look out for our next event which will most likely be in the fall.

Puzzle answers:

1. Daniel drove 20 miles more than Kevin
2. 15 chickens

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