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### Client Letter – Spring 2012

*The investor's chief problem – and even his worst enemy – is likely to be himself. ~ Benjamin Graham*

*Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy when others are fearful. ~ Warren Buffett*

What a difference a few months make. Not that long ago the “risk on trade”, the phrase that’s been coined to reflect investor enthusiasm, was on full bore. Today, the “risk off trade”, its mirror image, is the flavour of the day. Dr Jekyll would love this environment.

The tail that is currently wagging the dog is the European Debt Crisis. Last Autumn and into the New Year it appeared that investors looked the other way and disregarded the debt woes overseas. The voters in Europe, however, have made it clear to the ruling parties. “Don’t touch my cheese” is the battle cry of the electorate as one by one the ruling parties of various European countries are turfed in favour of those who promise entitlements will continue as far as the eye can see. It’s anyone’s guess how long the promises will be kept as socialism is a great thing till you run out of other people’s money.

### Recent Observations from the Big Apple

I just got home from the New York Hard Asset Conference where a number of resource companies have an audience to tell their stories between key note presentations. The consensus seemed to be that when the 5 little PIIGS try to borrow money (that’s an acronym for Portugal, Italy, Ireland, Greece and Spain), there is a real risk that no one will be interested and therein lies the impetus for the Euro to become the “No Go”. Ergo, the U.S. Dollar according to Ian McAvity, is the best looking horse in the glue factory. All of the fiat currencies are of dubious backing.

Eric Sprott, a well know Canadian money manager, when asked where the price of gold will end up replied that it depends on how much currency the Americans can print. He thinks the price could move significantly higher than where it is today as central banks

around the world, particularly the Bank of China, have been ramping up their accumulation of gold dramatically over the last year. They are diversifying their reserves out of American Dollars and into hard assets like gold.

The Canadian Dollar has been slipping in value against the American currency. We are still viewed as a “commodity” country in many respects so the Loonie’s value has a tendency to be correlated with things like oil, minerals and agricultural commodities. As the global economy slows, in part related to the issues in Europe, the demand for a lot of the things we sell is reduced. A lesser valued dollar may be welcomed by Ontario’s manufacturers but scorned by Snowbirds and cross-border shoppers and golfers. If the European situation worsens, look for an ever increasing value in the U.S Dollar; having a bit of a stash in U.S. Dollars makes sense especially if you have near term or ongoing expenses denominated in our neighbours currency.

### Tuna Fish

The two primary drivers in investment decisions from an emotional perspective are fear and greed. I started my career in 1994 and have been through several market crashes, major “bull and bear” markets, inflation, deflation and too many other things to list here. There are a few things I am absolutely certain of. No one knows the future and there isn’t a singular investment that is best *all of the time*. Balance and discipline can help to protect us from ourselves, making emotional decisions that are often incorrect.

For my long standing clients of 20 years or more, allow me to share my tuna fish story (again) with those who have never heard it. You see, people are funny. Imagine your favourite canned good is that white chunk tuna by Cloverleaf packed in fresh water. It’s the one that usually prices out at \$3 per tin. Some put off paying that price or opt out for the lesser grade and priced tuna. So one day my buddy Robert is leisurely shopping at his local Zehrs store (owned by Loblaw), and he sees this great deal. Three tins of tuna for the price of two....it’s on sale for \$2 per tin!....a 33% discount. He says to himself, “Heck, the shelf life on this stuff is great, think I’ll buy 9 cans!”

That’s a pretty good deal. So what’s the point?

Grocery shopping is not an emotional activity whereas looking at one’s investments can be. Most people should treat their investments based on logic, not emotions, and look for bargains. In other words, if people approached their planning and investing without the influence of emotion they would likely be much further ahead.

### On the Horizon

The rest of the year looks to be full of some potentially game changing events. I look to the Greeks and other European countries to resolve their mess one way or the other (before it turns into *our* mess) and get ready for all of the political posturing in the States. The Presidential election will be here before you know it, this November in fact. What an

appropriate time to invest in one of those “DVR” machines so you can record your favourite TV shows and zip through the rhetoric.

Other likely newsworthy events might include an additional action by the United States Federal Reserve Board which not only controls the money supply in the United States but interest rate policy too. Thanks to the Fed, negative interest rates persist (interest rates less than the rate of inflation) and are candidly punishing savers, their retirement plans and pension funds. They continue to sop up the U.S. Government Debt (another Trillion Dollar+ shortfall this year, by the way!) and if they weren’t there to do it, God only knows what interest rates would gravitate to. Trust me, they would be much higher and that may not be a *bad* thing. From where I sit, it would put an end to this manipulative moral hazard that is producing too many unintended consequences for me to elaborate on in this medium. Suffice to say, the longer I live the crazier things seem to be.

### Stop the Paper

I’d like to remind clients that with the way technology has advanced over the years, we are happy to offer paperless statements. Not only does it help to reduce waste, it saves space, is secure and convenient. Statements are stored for 7 years and you always have the option of printing any of your statements along the way should the need arise. Let us know if you’re interested and we’ll help get you set up.

### We’re Here

Lately there has been increased volatility in the world’s markets. If there is an investment that unequivocally guarantees an increase in one’s purchasing power after you take into account taxes and inflation without any downside fluctuations, I haven’t seen it yet. I’ll keep looking but in the meantime, I still believe balance is best.

No matter what happens with geo politics and economic surprises, rest assured that Erin and I, along with the resources of RBC, are here to help guide you along the financial planning path. Whether it’s contemplation of Estate planning or a review of your tax situation, the summer is a great time to reflect on where you would like the future to take you. So please, feel free to give us a call if you have any concerns, questions or would like a review. We look forward to being of service to you and your family.

On behalf of myself, Erin and all of us at Dominion Securities, here’s wishing you a very happy and fulfilling summer.

Sincerely,

John Davies, CFP  
Investment Advisor

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