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Securities**

# GreenMAIL



Written by Jason Greenlees for my Clients and Friends

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## Your Team

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long-term financial security  
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## For Openers



The TSX 300 finally surpassed 11,000, the level it was at in early 2000. This is a remarkable 94% move upwards from where it stood in late 2002 when the TSX 300 hit bottom at 5678. On the surface it would appear things are pretty good with our Canadian stock market. However, when you examine the numbers a little more closely you see that the drivers of the Canadian market performance has been small in number, and narrowly defined. Primarily oil stocks have driven returns in addition to a few financials, leading one to wonder whether this recent up-tick in the market is sustainable. Remember the composition of the TSX 300 in 1999 and the run-up at the time led by Nortel? At one point Nortel made up more than 40% of the TSX 300. The index's gains in 1999 were driven primarily by the heavy gains in Nortel. We all know

what happened to Nortel and the TSX 300 in 2000-2003. Now Oil and Gas stocks make up 40% of the TSX 300. The high price of oil and the corresponding increase in the share price of the oil and gas stocks has been the major contributor to the strong gains in the TSX 300 recently.

In fact, nine stocks are responsible for 81% of the index's 700-point gain since the start of the year. Can these few stocks continue to drive the market upwards indefinitely? With Oil prices at an all-time high, and no guarantee they will remain at the level, imagine what might happen to the market's performance – and that of many of the hottest investments from the last few years – if they drop.

World equity markets (which includes the US) have historically out-performed the TSX300 by

a substantial margin. However, what we have seen since 2002 is different. The gap in rolling 5-year performance has been widening in favour of the Canadian market and in fact this is the longest period that the TSX300 has consistently outperformed the MSCI World index in the last 15 years. I believe this is unlikely to be sustainable; the only question is when will the situation change?

I have been around long enough to see that many investors buy only when short-term performance numbers are good, as recent good performance makes them feel confident of a worthwhile investment. Conversely, many investors often sell when short-term performance turns weak, as the dip in the value of their investments albeit most often temporary, creates nervousness or heartache. Sadly this causes a great many investors to miss out on the full performance potential of their investments.

In a 2004 study, Dalbar reported that the market index returned 13% over 20 years, yet the average

investor who owned equity funds during that time returned only 3.5%. This was because the average investor added and withdrew from their funds at precisely the wrong times. Investing when funds and markets were performing well, getting nervous and withdrawing when they were performing badly. Essentially timing their actions so that they jumped in too late to benefit from good performance while being out of their funds when performance went from weak to strong. Dalbar concluded that investment return is far more dependent on investor behavior than on fund performance.

With this in mind, I continue to advocate loading up on US stocks that have performed so miserably in Canadian dollar terms. It would be easier for me to recommend adding to the sizzling hot Canadian market, but due to the rational just explained, I don't think that is in the best interest of my clients.

Make it a great autumn.

## My favourite Stocks

CANADIAN		UNITED STATES	
Bank of Montreal	Encana	Pfizer	General Electric
National Bank	Barrick Gold	Wells Fargo	Wendy's
Manulife Financial	Inco	Verizon Communications	Walt Disney
Loblaws	Thomson Corp	Johnson & Johnson	Air Products
Petro Canada	Rogers Communication	Microsoft	
	*		

## My favourite Mutual Funds

Mackenzie Ivy Canadian	Brandes Global Equity	Templeton Global Smaller Companies
Synergy Canadian Momentum	Bissett Canadian Value	

## My favourite Income Trusts

Diversitrust Energy Income, currently yielding	9%
Yellow Pages, currently yielding	6%
Barclays Global Income Trust Index, currently yielding	7.3%
Enbridge Income Fund, currently yielding	7%

# We Are Listening To You

We recently sent out a survey to all of our clients to find out how we can improve upon our current quarterly client review process.

As it stands now, every three months Elton prints off a detailed list of all your assets merged into one single portfolio. I then review your portfolio and indicate all my investment suggestions in writing on the cover of your portfolio report. Elton then logs my recommendations onto our system and sends out this report to you along with my quarterly newsletter, Greenmail. If I have made some suggestions, we wait one week to hear back from you to see if you are on side with those recommendations. If we do not hear from you after one week, Elton will follow up on the suggestions via email or telephone.

Here is what you said you liked about our current review process:

- They are frequent enough that you feel confident we are on top of things
- They keep you informed
- It leaves you feeling confident that we actually care about you
- You are comforted that someone is actually taking the time to regularly look at your investments
- You know how much money you have made or lost in any given year, as well as how much money you have made or lost since being a client of ours, and what both of these figures work out to on a percentage basis
- That it is very helpful to see all of your various investment accounts in one large portfolio. For example, by merging your RSPs, cash accounts, and corporate accounts into one giant portfolio it lets you know the total value of your investments.
- It is a great way of showing gains and losses on individual securities
- It is a clear way of presenting our recommendations
- It is clear and easy to comprehend
- It shows the breakdown of asset allocation, so that the client knows how much you have in bonds, stocks and or mutual funds

Here is what you said you don't like or would like to see improved:

- Show a graphical representation of a portfolio's overall progress
- When a security has declined in value and been down for a while, write a brief explanation of why we still recommend holding it
- Show sub-totals of book value (original cost to purchase securities) and compare this to the current market price, and then show how much each security is up or down in real dollars as well as a percentage
- Show how the portfolio did over the past quarter
- Too much information
- Some of you would like your review emailed to you rather than sent via mail
- My handwriting is sometimes hard to read and it would be easier to read if suggestions were printed
- Insufficient detail on buy and sell recommendations

Here are the improvements we have made based on this feedback:

- We will now graphically show the performance of your portfolio, going back to January 2000
- We will now show the book value of each security, the current market price, and how much that security has gone up or down in real dollars as well as what this represents as a percentage gain or loss
- We will now show the portfolios quarterly performance
- We have made a note of the clients who want to receive their quarterly review via email and will send it electronically to them going forward
- I will print my recommendations rather than writing them
- Given most of our clients understand the process we use to buy or sell securities, we will not be providing information as to why we recommend buying or selling a particular security. However, if you ever want to know the rational behind any recommendations, we encourage you to call our office and we would be more than happy to explain our suggestions in detail.

# Time to **Blow my Own Horn**

## GREAT CALLS

- CI Fund Management up more than 50% in the past six months
- Wendy's is up 43% in the last year
- Synergy Canadian mutual fund, up 60% in the past two years
- Royal Bank up 4 0% this year
- Yellow Pages Income Trust, up more than 40% since I purchased it two years ago
- Diversitrust Energy Income fund up more than 15% since I purchased it less than a year ago for most of my clients

## AND THE NOT SO GREAT CALLS...

- Tembec is down 70% in the past year
- Walt Disney is down 20% in the past year
- Celestica is down 30% in the past few months
- All US stocks and stock mutual funds are 8% lower than they would have been because of the strong increase in the CD\$

## I am an Ironman



Most of you have an email address, so by now you know I completed my first Ironman in August of this year. This is a picture of me crossing the finish line.



## Elton's **Excerpt**

A FEW WORDS FROM MY ASSOCIATE

I am sad, but at the same time happy to announce that as of October 15, I will be moving on to a new position within RBC Dominion Securities analyzing hedge funds. I have enjoyed the four years I have worked here and it has been my utmost pleasure to serve every one of you. Thank you for the support, guidance and encouragement you have provided me during my time at Dominion Securities. Even though I will miss my time here, I am looking forward to this new challenge and to starting a new phase of my career.

As we progress in the transition of my role to another individual, please rest assured that there will not be any disruption to the services we provide. I will also be available to Jason in relative close proximity following the transition for any matters that require my assistance.

I bid you all good health and happiness.

All the best over the next quarter.

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