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GreenMAIL



Written by Jason Greenlees for my Clients and Friends

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For Openers

After a strong finish to the second quarter and strong start to the third quarter, the stock markets from around the world have fizzled out. The net result is that the Canadian market is up a measly 4% year-to-date. The U.S. market as measured by the S&P500 is up 4% year to date as well.

On a positive note it appears the Fed is finished hiking interest rates south of the border. Historically stocks perform very well after the Fed raises interest rates for the last time of a cycle. However, the biggest concern facing investors right now is the fact that we are very close to having an inverted yield curve. An inverted yield curve occurs when you can earn a higher rate on short-term bonds than longer dated bonds. For example, you can earn 3.83% on a one-year Canada bond right now and the 10-year Canada bond is only yielding 3.97%

Historically inverted yield curves are a pre-cursor to a recession. In theory the inverted yield curve implies the Fed has raised rates too high and that the economy will eventually be slowed down to the point that it actually experiences two quarters in a row of negative growth.

An economy that has negative growth implies that companies are earning less which all things being equal leads to lower stock prices. So the question facing investors right now is where is the economy heading in the near future. Only time will tell how things work out.

My opening remarks are always just a commentary about where we have been and where we might go in the near future. I write these for interest sake only as short-term predictions have nothing to do with being a successful investor. A far more important message to leave you with is to remain patient with your investments and to take a minimum of a 10-year time frame when investing in stocks or stock mutual funds.

Enjoy the fall!

INVESTING 101

If you are a client of mine you receive a quarterly report of your investments. I typically include all of your different investment portfolios into one large portfolio. For example, you may have one RSP for the husband, and one RSP for the wife, you may have a couple of different joint accounts, and you may have a corporate account. In my experience clients find it useful to see how their overall investment portfolio looks. There are lots of very helpful pieces of information that this report shows. For this reason I personally review every single one of these reports before I send them out to my clients. It has come to my attention recently that many of my clients do not understand all of the information in these reports. So over the next few editions of Greenmail, I will attempt to clarify these quarterly reports so that you are able to gain the maximum benefit.

If you are not a client, I still think this information will be pertinent to you, as I am sure you are receiving something similar from your advisor. The reports might be organized a little differently but the terminology will be the same.

Lets start with Book Value. One of the first columns you will notice on your report, which is also shown on some of your monthly statements, is Book Value. Book Value is the dollar amount that you originally paid for a particular security. For example, if you purchased \$10,000 worth of Royal Bank shares in 2002, your book value is \$10,000. Said another way, your book value is your original cost.

Anytime you add more to a particular investment, your book value will change. If you purchased another \$5,000 of Royal Bank a year later, your new book value will be \$15,000. Which is the original \$10,000 cost plus the additional \$5,000 purchase.

This number is fairly straightforward for stocks and bonds. It does get a little more confusing for mutual funds. Most mutual funds pay quarterly distributions, which are simply reinvested and used to purchase more units. Therefore, every quarter, you are in essence buying more units at the current market price. This then changes your book value, the same way as my preceding example of adding more money to Royal Bank shares.

Secondly, from time to time mutual funds declare taxable distributions, which investors have to pay tax on. In order to prevent these investors from paying tax twice, the mutual fund company increases the book value, so that when the investor eventually sells they will have a smaller capital gain, or larger capital loss. Therefore, the book value you see for mutual funds may in fact not be the true cost that you paid for that security. Book value is important for taxable accounts, as it is the value one must use when calculating their capital gain or loss when they dispose of a security.

Next quarter, I will go into Market Value and Gain/Loss figures.



Peter's Pointers A Few Words From My Associate

With the beginning of the school year upon us, I have received a few inquiries with regards to Registered Education Savings Plans (RESP) withdrawals. If your child is attending university or college and would like to take some money out of an RESP, there are two items needed. The first thing we require is a signed RESP withdrawal form, which can be requested from me. We also require a letter from the university or college that your child is attending, stating proof of enrolment. This letter can be obtained directly from the university or college office. It should indicate your child is currently enrolled in full time status as

well as the course start date and length (in weeks). Most university and college offices have a template of this letter. Once I have received the above two items, the turnaround time for getting the money to you is usually one week. I should point out that the most you can take out of an RESP in the first 13 weeks of enrolment is \$5,000 providing there has been no prior withdrawals within the last 12-months. As always, if you have any questions, please do not hesitate to contact me.

The Not So Great Calls...

- Loblaws is down 12% since April of this year.
- Nortel is down 40% this year.
- Connor Clark Real Return Bond fund is down 12%, net of distributions since its debut in August of last year.
- Home Depot is down 20% since the end of March.

And Time To Blow My Own Horn – Great Calls...

- Synergy Canadian mutual fund, has been averaging 20% per year for the past three years.
- Brandes Global Equity fund is up 11% year to date.
- Inco up 65% year-to-date.
- Verizon Communications is up more than 20% since May of this year.
- Pfizer is up more than 25% in the past two months. Finally!
- Microsoft has rallied more than 20% since June of this year.
- Rogers Communication is up 30% since June of this year.
- Cisco is up 25% in the past month

As a point of interest, you can see that some of my U.S. stock recommendations that have been in the Not So Great Calls section for many years have finally started to have some significant moves upward and have moved out of the doghouse and into the Great Calls. Proof yet again of how patient investors are eventually rewarded. I believe large US Large Cap stocks will continue to out-perform Canadian stocks.

“Keep away from people who try to belittle your ambitions. Small people always do that, but the really great make you feel that you, too, can become great.”

MARK TWAIN

Words Of Wisdom -*How Important Is Your Mind In Your Overall Success?*

Several years ago an experiment was conducted with a high school basketball team demonstrating how creative imagination can improve performance at anything you do. Students of roughly equal ability were divided into three groups to test their skills at free-throw shots.

The first group practiced throwing free throws for 20 minutes, every day for a month. The second group, the control group of the experiment, did not practice at all. The third group practiced their free-throws in their imagination for 20 minutes a day for a month. At the end of the experiment the results showed that the first group improved their average by 24%. The second group showed no improvement at all, and the third group through their use of mental rehearsal, improved by 23%. By practicing in their imagination they improved their results. Your imagination is a powerhouse! It can be used to work for you or against you. If you fill your mind with thoughts of fear, doubt, defeat, and uncertainty then the results you produce will be undesirable. On the other hand, your creative imagination can help you visualize solutions to difficult problems, create new ideas, and project a mental image of you succeeding at achieving your goals. By creating a desire first in your mental world it then becomes possible to create it in your physical world. Picture yourself vividly as accomplishing your desires and that alone will contribute immeasurably to your success. Imagination involves seeing things not simply as they are not, but as they can be.

I read somewhere that Tiger Woods takes the time to imagine the outcome of every shot he takes. He pictures it in his mind. How the shot will come off his club, the shape the ball flight will make, how the ball will land and then how it will roll. Tiger has become a master at using visualization to make him the best in the world at his craft. I am suggesting you can use this tool to become more effective at whatever is important to you.

Perils of Retirement – *Food For Thought*

A team of economists found that Americans aged 50 to 75 who retire suffer a 23 to 29% increase in difficulties associated with mobility and daily activities, an 8% increase in illness and an 11% decline in mental health, compared with their counterparts who don't stop working.

My take on this is that when you retire you need to take on activities that continue to mentally stimulate you and that involve physically activity.

My Second Ironman Journey

As some of you are aware I recently went out to Penticton, B.C. where I took on my second Ironman triathlon, which consists of a 4km swim, followed by a 180km bike ride and then a full marathon run, which is 42km.

The second-time around was not quite as exciting as the first, I guess it never is. However, I was very nervous going into the big day. Even though I had done my preparation and averaged more than 16 hours a week of training for the past six months, I knew how much my body was going to hurt as the day went on.

This year's Ironman Canada set a new world record for the largest amount of competitors. There were more than 2300 participants. All 2300 people swimming at the same time makes for total chaos. I was instructed this year by my coach to start way out to the left and this actually led to a much more peaceful swim. Other than the odd swimmer swimming over top of me, and the odd fist in the face by a swimmer who I collided with, the swim was very peaceful. I felt much more relaxed and enjoyed a nice long swim. I was out of the water in 1 hour 18 minutes. After less than a four-minute transition, I had my wet suit off and my bike shoes and helmet on and was away on my bike.

My game plan was to take it easy on the bike and save myself for the run. If you go too hard on the bike you hit the wall later in the run. Many people encounter this and end up walking most, if not the entire marathon. I wanted to prevent this. So I kept an eye on my heart rate monitor and tried to keep my heart rate below 133 bpm. I was able to maintain my strategy for the first three hours of the bike course. Then a few too many competitors passed me; I got a little excited and started pushing myself too hard. When I got to the final climb of the bike course at Yellow Lake, which is a 10km climb up a mountain, I could feel my legs were sore. I knew in that moment I had pushed too hard on the bike. I later discovered that my average heart rate on the bike was 142, which was way too high. I averaged more than 31km/hour and finished the bike in 5 hours and 47 minutes. This was ahead my goal which is good, but I also knew I had pushed too hard and I was now about to pay the price.

I was in the second transition for less than three minutes, whipped on my running shoes and away I went to run a marathon. As I took my first couple of strides, I was tired. I distinctly remember having the thought, "I am starting a marathon run and I am exhausted." This is where the day becomes very mentally challenging. You have to push the pain thoughts out of your head and keep pushing your body along and you have to do this for a number of hours. Your whole body is completely wasted and fatigued; yet you still have to run a marathon. I personally find this is the toughest part of the sport.

My goal was to try and average 6 minutes per km. As the run went on, this became more and more difficult. Then to make matters worse I had a brain cramp, and stopped eating at each of the aid stations. I was sick of power gels and Gatorade. Now here I was walking again, just like I did last year. Something came over me and I decided, "Today is not going to go the way it did last year, I am not walking the whole way in". I was going to run, even if it killed me. I began to force food down at each aid station and got a little bit of a second wind. I was not able to hold the running speed I wanted, but at least I was running again.

I ended up running most of the run, and finally made my way to the town of Penticton again. The crowds were large and I was able to enjoy running past them for the last few kms, unlike last year, when I did not even know where I was due to the pain I was in.

I ran over the finish line in 11 hours 57 minutes, which is nearly 45 minutes faster than last year. I ran a 4 hour 44 minute marathon, which is slower than I wanted, but I was still happy with the result. I finished with no injuries and enjoyed the experience so much that I signed up again for next year.

Thank you to my numerous clients who have taken an interest in my extra-curricular activities and who continuously asked me how my training was going. I appreciate your support and well wishes. I used your positive energy to push me throughout the day.

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