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Jason Greenlees

Investment Advisor

416-842-2426

jason.greenlees@rbc.com

Peter Tsang

Associate

416-842-2422

peter.tsang@rbc.com

RBC Dominion Securities
Royal Bank Plaza, South Tower
Suite 3900, PO Box 88
Toronto, ON M4J 2J2
Fax: 416-842-2222
1-800-561-6431

Written by Jason Greenlees for my Clients and Friends

Winter 2006

For Openers

It was another great year for the Canadian stock market, which climbed 24% last year. The TSX Composite has now climbed 82% since October 2002 and is now back to the level it was at in August 2000. Imagine you had gone on a vacation in August 2000 until now and had ignored your investment statements while you were away. If you got back today and opened your investment statements, you would notice your Canadian investments had not grown at all. But you would have also missed the roller coaster 50% drop in the value of your money from August 2000 until October 2002. While you might not be happy that the value of your investments had not grown over the past six years, you would certainly find comfort in the fact that you did not have to experience watching your investments shrink by half. More importantly, you would not have panicked in October 2002 and sold some of your investments at a heavy loss, which a lot of people did.

My point is the stock market is very volatile. It can go up a lot in very short periods of time, and it can go down a lot in very short periods of time. If you have the patience and discipline to ignore

this short-term volatility, and stay invested, you will earn the long-term returns that the stock market will produce. The TSX Composite has produced 10.2% compound annual returns since 1934. The price to earn this 10.2% return was to be prepared to watch the value of your money drop 50% over a short period of time, like it did from August 2000 to October 2002.

I know there are some critics out there who are thinking to themselves, "yes, but this does not change the fact that I have made no money in the past five years in the Canadian stock market". I say to those critics, you are missing my point! The TSX Composite will eventually surpass the levels it is currently trading at and move on to set new highs. There will be dips along the way, but I have no reason to believe that the TSX Composite will not generate great returns over time.

Things have not been as rosy in the US market, which barely increased 1% in Canadian Dollar terms this past year. This is the fifth year in a row that the Canadian market has outperformed the US market. The S&P500 has rallied 50% since October 2002, but still stands

almost 20% lower today than when it set its all time high in August 2000. So if you came back from the same vacation I just described, you would notice your US investments are 20% lower than before you left. Actually they are worth even less. The Canadian dollar has increased 30% over that same period. Canadian investors of the S&P500 are down 35% over the past six years.

However, the S&P500 has delivered 11.8% compound returns since 1934. This works out to 1.6% more per year than the Canadian market over the same period. Compounding over a long period of time makes a huge difference in the value of your money. Given the recent dismal performance of the US market, and the strong Canadian dollar, I argue now is a great time to be buying US stocks.

As I have mentioned in past editions of Greenmail, I believe the biggest value I bring to my clients is perspective. I pride myself on keeping my clients invested through good markets and bad. I believe

every investor left to their own devices, will eventually cave in and make the “big mistake”. I describe the “big mistake” as selling at the an inopportune time. Yes, I help my clients with their estate plan. I help them choose the appropriate investments. I help them with their taxes. I help them prepare their Wills. I help them clearly articulate their goals. I help them to create a binder of all their important financial documents. But the number one thing I do for my clients is to continually advocate owning stocks or stock mutual funds, and then keep invested when they are ready to jump off the boat when the market gets difficult. I helped my clients to stay invested in the market between August 2000 through to October 2002 when the market dropped nearly 50%. I also helped my clients stay invested since October 2002 until now; the market has rallied 82% over that same period. That is precisely what my clients pay me for.

All the best in 2006.

The Sampling Life's Pleasure Series™

Thanks to all those who attended my 4th Annual Wine Tasting Extravaganza in November, part of my Sampling Life's Pleasure Series. A good time was had by all. The purpose of these events is to meet with my clients in a fun, non-business setting and to share some of life's finer pleasures together.



Time to Blow my Own Horn

GREAT CALLS

- Wendy's is up 40% in the last year
- Synergy Canadian mutual fund, up 75% in the past two years
- Yellow Pages Income Trust, up 25% in the past year.
- Diversitrust Energy Income fund, up 25% in the past year
- PetroCanada, up 55% in the past year
- Manulife Financial, up 17% in the past two months

AND THE NOT SO GREAT CALLS...

- Tembec is down 80% in the past year
- Having 30% of most of my clients assets invested in US stocks which are flat over the past year compared to the 20% returns the Canadian market delivered.

Due Diligence Visit to *Brandes Investment Partners*



In November of this year I went down to San Diego to visit with Brandes Investment Partners. The picture is of Charles Brandes, the founder of Brandes Investment Partners, and me. Charles started with nothing 30 years ago and has helped build a company that now manages in excess of \$100 billion. Using the same principals that his firm uses to manage its client's money, he has become one of the world's wealthiest.

I currently have close to \$10 million of my client's money, as well as my own personal money, invested with Brandes. I went down to San Diego at my own cost, to ensure that Brandes is worthy of investing my client's money. I came back feeling even more confident than I did when I went down there. For this reason, I continue to feel comfortable recommending Brandes to my clients.

Over the past 15 years, there has been no money manager that I am aware of available to Canadians who has generated the 16% compound annual returns that Brandes has. Sure there have been a few one or two year periods where Brandes underperformed their benchmark, or their peers, but over longer periods of time, Brandes is consistently at the top of the class.

I wrote up a summary of what I learned on my trip. If you would like a copy, please let me know and I will send it to you.

My favourite Stocks

CANADIAN		UNITED STATES	
Bank of Montreal	Encana	Pfizer	Motorola
National Bank	Barrick Gold	Verizon Communications	General Electric
Manulife Financial	Inco	Johnson & Johnson	Home Depot
Loblaws	Thomson Corp	Microsoft	Walt Disney
Petro Canada	Rogers Communication		Air Products

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	8%
Yellow Pages, currently yielding	6%
Barclays Global Income Trust Index, currently yielding	7.3%
Enbridge Income Fund, currently yielding	6%

Early Christmas Present from Paul Martin and the Boys...

Income Trusts have been a hot topic lately as the Canadian government raised the possibility that they may change the tax treatment of these investments so that they are taxed more heavily. This news came in October, and the TSX300 subsequently declined more than 10% in that month alone, proof again that the market does not like uncertainty. Good news came in November when the federal government announced that it would leave the tax treatment of income trusts unchanged. They also announced that in order to level the playing field for stocks, they will be cutting the taxes on dividends.

For individuals at the top marginal tax rate, this will reduce their federal marginal tax rate on dividends by approximately 5%. Said another way, investors just got a 20% rise in the amount of money they keep in their pocket after tax on all dividends received. If the provinces also increase the dividend tax credit, the marginal tax rate on dividends will decrease even further.

Therefore any stock that pays a decent dividend just became worth more to investors. For example, the bank stocks and utility stocks, which typically pay higher dividends than most other Canadian stocks, have had a nice rally since the government's announcement.

So in effect investors were rewarded with three pieces of good news. First the income trusts that they own most probably increased in price since the announcement. Secondly, most of their dividend paying stocks have seen their stock price increase. Thirdly, investors will now pay less tax on their dividends, which of course increases their after-tax investment returns.

Christmas came early this year for Canadian investors. If you have any questions on how these changes affect you, please do not hesitate to call.

Peter's Pointers - A Few Words From My New Associate

As you are probably aware, I took over as Jason's Associate in October of this year. I know many of you really liked working with Elton, and so I have big shoes to fill. I am up to the challenge! Let me start off by giving you a brief background. I graduated with an Economics degree from the University of Toronto in 2002. I've been in the financial industry ever since; starting off at the retail branch level with TD Bank, progressing to the discount brokerage side, and finally landing here at RBC Dominion Securities. These past couple months have been a whirlwind for me, as I'm meeting new people and adjusting to new systems. Elton is actually a close friend of mine and is the one who introduced me to Jason and led to my new career. Therefore, I am still in close contact with Elton and he has been a tremendous help in the transition period.

I look forward to talking and meeting with all of you over the next few months, and helping Jason to service your financial planning needs.

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