JANUARY 2011 NEWSLETTER

Published for the friends and clients of Financial Advisor
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<u>RRSP's</u>

The maximum RRSP contribution in 2010 was $22,000 and for 2011 is $22,450.

<u>The deadline is March 1, 2011</u>.

Due to the pathetic bond yields currently available, we will likely be investing the contributions in money market or in equities, depending on your risk

<u>2010 – A Good Year</u>

In spite of reports of continued doom and gloom by financial pundits, 2010 was a good year for equity investors.

	Dec 31/09	Sept 30/10	Dec 31/10	% Gain for Qtr	% Gain for Year
S&P 500	1,127	1,141	1,257	10.1%	11.5%
TSX 300	11,754	12,368	13,443	8.7%	14.4%

The TSX 300 gain, while impressive, was better than most conservative portfolios produced last year.

The TSX Cap Materials Sector, which is made up of mostly gold stocks was up 32.7% last year.

Investors looking for dividend income would likely not own gold stocks and as a result underperformed the TSX 300.

The largest bank stock, Royal Bank, was down 4% for the year, including dividends and the largest oil stock, Suncor was up less than 1%.

In spite of this underperformance of dividend paying shares, most of our diversified equity portfolios still produced returns 3 – 4 times as much as GIC returns.

Currently, markets have quite good positive momentum and I expect 2011 to be a decent equity year.

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Canadian T-Bills and Bonds

	June 30/10	Sept 30/10	Dec 31/10
90 day	0.46%	0.85%	0.99%
180 day	0.75%	0.97%	1.12%
1 year	1.03%	1.21%	1.36%
2 year	1.27%	1.33%	1.53%
5 year	2.32%	1.91%	2.30%
10 year	3.00%	2.75%	3.11%
30 year	3.64%	3.38%	3.58%

U.S. T-Bills and Bonds

	June 30/10	Sept 30/10	Dec 31/10
90 Day	0.17%	0.15%	0.125%
180 Day	0.22%	0.18%	0.148%
1 year	0.30%	0.24%	0.27%
2 year	0.61%	0.42%	0.61%
5 year	1.78%	1.27%	2.02%
10 year	2.94%	2.51%	3.34%
30 year	3.89%	3.68%	4.39%

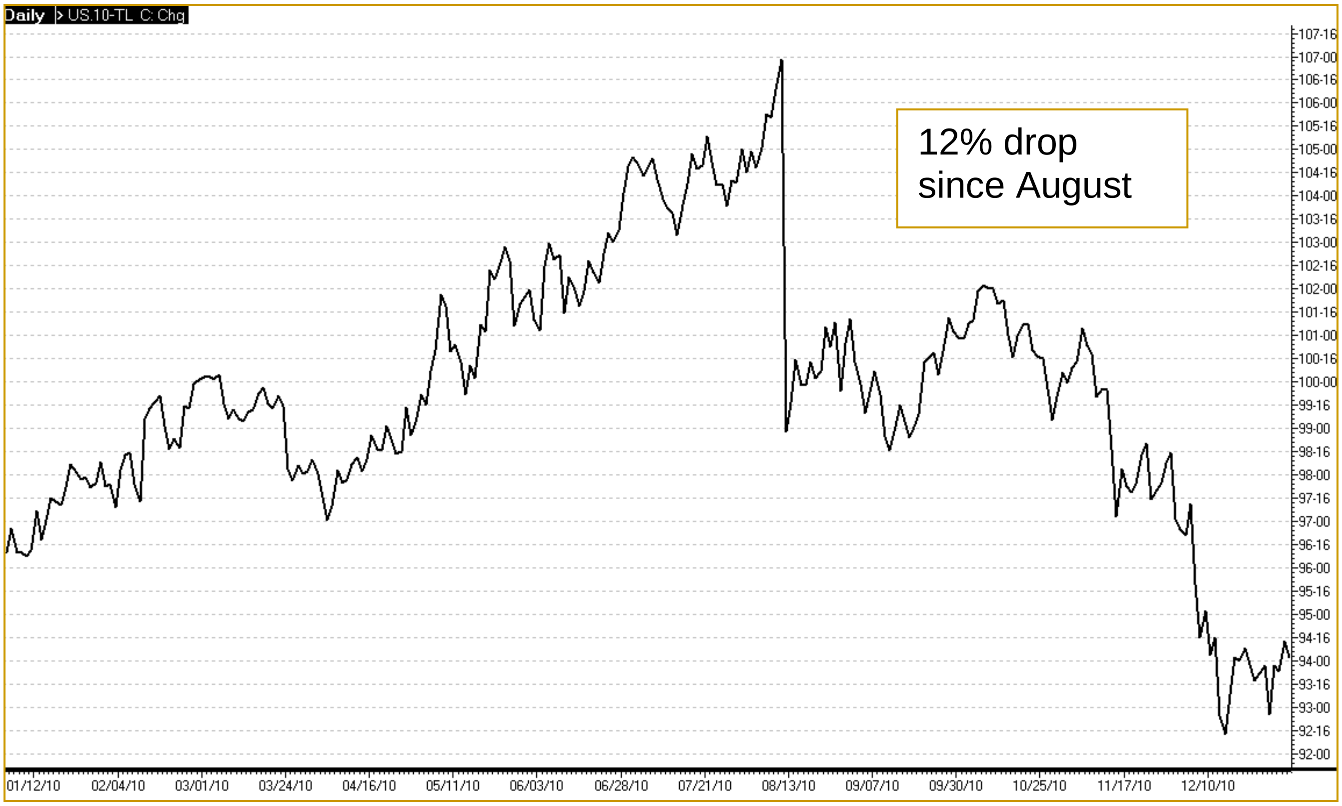
These charts indicate that the yields on medium and long-term bonds have risen sharply in the last quarter of 2010. This would have caused a capital loss for anyone owning these bonds. Bond mutual funds have been the most popular retail investment during the last year or two. These investors would have lost money in the last quarter and I expect they will continue to lose more money as rates continue to rise.

There are a number of reasons that leads me to believe that interest rates will rise. Firstly, China has an inflation problem and has been increasing rates to dampen real estate speculation.

Secondly, the rising U.S. stock market is telling us that the U.S. economy is gradually on the mend, creating more corporate and personal demand for credit.

Lastly, there is currently strong U.S. bi-partisan support to increase the federal debt they will leave for their children. This will continue to create a large supply of new bonds that must find buyers. These reasons all lead me to believe that long-term bonds yielding just over 3% do not have a good risk-reward relationship.

The chart below indicates how the recent increase in interest rates has affected the 10-year U.S. treasury bond.



U.S. 10 Year Treasury

Source: Thomson One

The Current Bond Market

In December 2010, there was a large number of new convertible debentures issued by various corporations in Canada. The medium quality ones yielded 5.75% for 8 years and the low quality ones yielded 6% for 5 years. 6% for 5 years doesn't sound that bad, but the underlying companies had stocks that were trading in the one to two dollar range and already had high levels of debt. I will continue to look for medium quality bonds and debentures, but I currently think that it is a sellers rather than a buyers market.

Attractive Yield Investments Today

Innergex Renewable Energy and Fairfax Financial 6 year reset preferred shares have 5% dividend yields. I believe that these have the best risk-reward relationship for taxable fixed income investors today.

Investments for Income and Growth

Genivar Inc. is an engineering company based in Canada. It is well managed and has a 5% dividend yield. This is in RJ's 2011 Canadian Best Picks List.

For investors that do not already have a 5% position, Royal Bank is down 16.8% from its April 2010 peak. The reasons cited for this under performance are poor results from its U.S. operations and lack of underwriting issues from its Canadian investment arm. Both of these problems could be mitigated by an improving U.S. economy. Royal Bank has a dividend yield of 3.82%, favourable when compared to the 10 year Canada bond yield of 3.11%.

Investments for Growth

CGI Group is also in RJ's Canadian Best Picks List for 2011. CGI Group does not pay a dividend, but it is trading with a relatively inexpensive P/E of 13.5x.

CGI Group is a global technology services company with offices in North America, Europe and Asia Pacific.

I also believe that small cap stocks in Canada and the U.S. will do well.

Tax Free Savings Accounts

We can now contribute $5,000 per person in 2011.

These accounts are a **'must have'** for taxable investors with unregistered (non RRSP

Trinidad Drilling Debentures

Trinidad Drilling 7.75% Debentures will be redeemed on January 19, 2011. While these have been an excellent income investment for us, it will be tough to replace this yield in today's income environment.

This holding is very wide spread among my clients and I will do my best to contact you in a timely fashion.

Capital Gains and Losses

Raymond James automatically sends a summary of dispositions to our clients. However, the reports that we produce in the office seem clearer than the official tax reports, so give us a call if you would like them. Please wait until April to ask for these, as by then the income trust ACB's will be calculated.

Investors will be pleased to know that now that the income trusts have converted into dividend paying stocks, our tax returns will be simpler beginning in the next tax year. REIT's will continue to have the more complex tax reporting.

Outlook for 2011

I expect 2011 to be another good year for equities, but a tougher year to get satisfactory results from the fixed income portion of our portfolios. I will be structuring our portfolios with consideration to this outlook, within the context of each clients' risk tolerance.

Not ~~20~~ ~~40~~ 50 Years Old Any More

Unfortunately, my body is not what it used to be and I am recovering from shoulder surgery to repair a torn tendon. As a result, I am unable to perform some activities such as driving, writing and tying my shoelaces. Fortunately Dale Rowe will be coming back from retirement to assist me in the office.

All the best for 2011!

Ian Douglas Financial Advisor	Barbara Holmes Administrative Assistant	Lindy Edgett Receptionist

Note: For those of you who would like to receive future newsletters electronically, please email Barbara at barbara.holmes@raymondjames.ca and she will put you on our email list.