JUNE 2012 NEWSLETTER

Published for the friends and clients of Financial Advisor
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Newsletter by Email

A number of you have already signed up to receive our quarterly newsletter on-line.

For anyone else 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.

The bears were roaring in the second quarter of 2012, with the S&P 500 down 3.27% and the TSX down 6.42%.

The S&P 500 has still squeaked out a profit over the last 12 months, up 3.18%. The TSX is down 13% over the same period.

	July 1/11 Open	Mar. 30 Close	June 29 Close	90 Day % (Loss)	1-Year % Gain/ (Decline)
S&P 500	1,320	1,408	1,362	(3.27%)	3.18%
TSX 300	13,330	12,392	11,596	(6.42%)	(13.0%)

The elephant in the room this quarter has been the European crisis, with Greece and Spain receiving bailouts. The challenge to Europe is that the electorates of the wealthy countries resent bailing out their free spending neighbours, while the electorates of the recipient countries are extremely resistant to reforming their economies, which requires considerable belt tightening.

The biggest culprits holding back these economies are usually powerful special interest groups who will fight tooth and nail to preserve their monopolies and privileges.

Other negatives this quarter included the bungled Facebook IPO and the JP Morgan trading loss.

Facebook

Facebook, or 'Faceplant' as it is known to the investors who participated in the IPO, is a well-known social media company and the IPO was greatly anticipated.

The problems with the IPO were that the size and price of the issue were increased due to the popularity, and there have been allegations that large favoured investors were warned off the deal by the underwriters.

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Compounding the confusion was that the extreme (62 million shares per second) trading on the first day exceeded the capacity of the Nasdaq to report the transactions in a timely manner.

The $38 IPO traded at $45 on the opening day, on May 18, bottomed at $26.62 on June 6th, and currently trades at $30.77.

While the jury is still out whether this company can grow into its lofty valuation, the bungled IPO sapped the confidence of the markets.

JP Morgan

JP Morgan is one of the few large U.S. financial institutions to emerge relatively unscathed through the U.S. mortgage crisis. The CEO, Jamie Dimon was highly regarded and was the voice on Wall Street pushing back against the Dodd-Frank financial regulations.

On May 10th Mr. Dimon announced that a transaction originally designed to be a hedge morphed into a speculative call on the market and that a loss of at least $2 billion was expected. This is by no means catastrophic for JPM, which earned over $17.5 billion in 2011 and has shareholder's equity of around $189 billion. This embarrassing trading loss has been used politically by Dodd-Frank supporters, and may lead to counter-productive government over-regulation.

The shares, which traded above $46 in March, dropped below $31 on June 5th, and have since recovered to $35.73. Trading at 7.94 times earnings and 76% of book value I think that JPM is a good buy.

Canadian T-Bills and Bonds

	Dec 31/11	March 30/12	June 29/12
90 day	0.82%	0.91%	0.87%
180 day	0.92%	0.95%	0.96%
1 year	0.93%	1.06%	0.98%
2 year	0.96%	1.19%	1.03%
5 year	1.28%	1.53%	1.25%
10 year	1.94%	2.11%	1.74%
30 year	2.49%	2.65%	2.33%

U.S. T-Bills and Bonds

	Dec 31/11	March 30/12	June 29/12
90 Day	0.02%	0.075%	0.085%
180 Day	0.07%	0.135%	0.160%

1 year	0.11%	0.17%	0.22%
2 year	0.25%	0.33%	0.33%
5 year	0.84%	1.04%	0.73%
10 year	1.87%	2.21%	1.65%
30 year	2.89%	3.34%	2.75%

International 10 Year Bond Yields

	Dec 31, 2011	March 30, 2012	June 29, 2012
Japan	0.99%	0.99%	0.84%
U.S.	1.87%	2.21%	1.64%
Germany	1.83%	1.79%	1.58%
Canada	1.94%	2.11%	1.74%
U.K.	1.98%	2.20%	1.73%
France	3.15%	2.89%	2.69%
Spain	5.09%	5.35%	6.33%
Italy	7.11%	5.12%	5.82%
Ireland	8.21%	8.20%	8.21%
Portugal	13.36%	11.52%	10.16%
Greece	34.96%	21.08%	25.83%

The challenge today for all investors is that the risk free rate of return (based on 5 year Government bonds) is less that 1.25% in the "safe" countries. With risk free money paying 1.25% and stock markets experiencing lots of volatility, there are no perfect investments that satisfy investors return expectations.

Enduring General Power of Attorney

While many people retain complete brain function as they age, a percentage of the population develops Dementia, Alzheimer's disease or other cognitive impairment. It is important to protect ourselves in case we "lose our marbles".

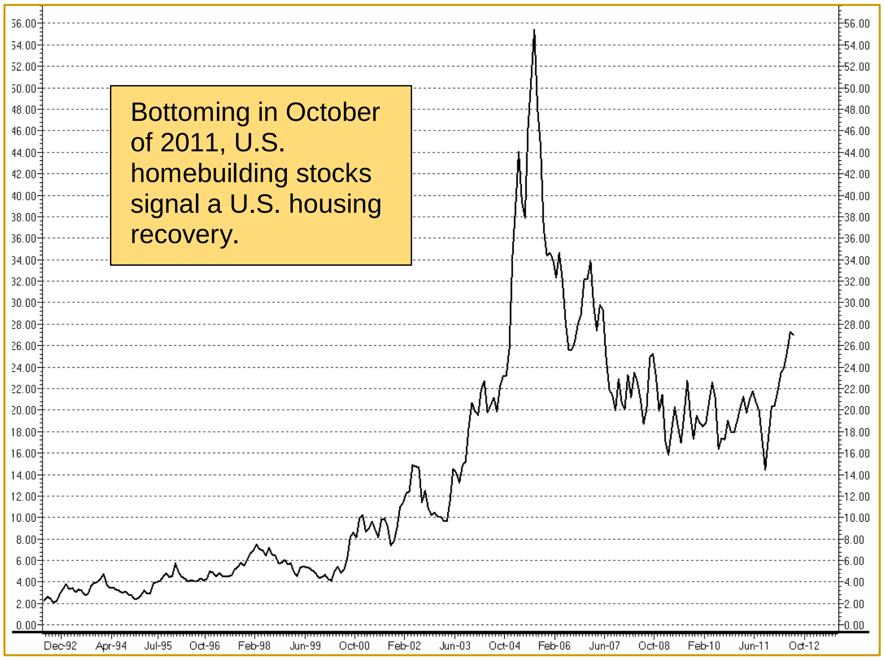
If you haven't already, I recommend that you visit your lawyer to have an Enduring General Power of Attorney prepared. While every family has unique circumstances, having a spouse and child as GPAs can ensure that a trusted person will manage your affairs should you become unable to.

Light at the End of the Tunnel

While it is easy to "throw in the towel" after watching the news from Europe, there are signs of recovery in the U.S.

Toll Brothers, Home Depot and Walmart's fortunes are tied to the recovery of homebuilding and consumer spending. These shares have been performing well lately, as the charts indicate.

Toll Brothers – U.S. Homebuilder



Source: Thomson One

Home Depot

Source: Thomson One

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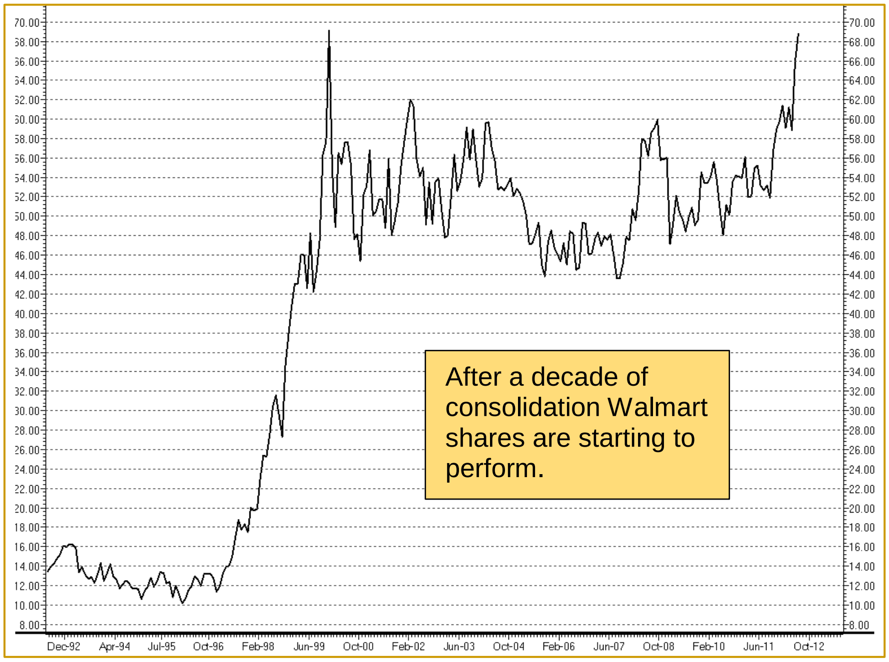
Walmart



Source: Thomson One

What Do We Do Now?

One of these days the recovery occurring in the U.S. will start to overshadow the negativity in Europe and the dark clouds over China. At that time we will likely see a strong market rally. In the meantime the best way to create income is likely a diversified portfolio of high quality dividend paying shares, in combination with carefully selected high yield bonds and preferred shares and higher than usual cash reserves.

High quality companies with good yields include:

	P/E Multiple	Yield
Genivar Engineering	11.7	6.7%
Power Financial	9.98	5.5%
Royal Bank	12.18	4.37%
BCE	14.23	5.16%
H & R REIT	20.76	4.9%
Brookfield Infrastructure	36.75	4.39%

Source: ThomsonOne

The interest sensitive shares (BCE, H&R and Brookfield) have performed well last year, but are more expensive then the economy sensitive shares (Genivar, Power Financial, and Royal) that look cheaper, but have performed poorly for the last 15 months.

Summary

If you have questions about your portfolio please call. While none of us have a crystal ball we will get the best long term results if we stick to the asset allocations that let us sleep at night and make small periodic adjustments to sell lost causes and pick up oversold opportunities.

Have a great summer!

Ian Douglas	Barbara Holmes	Lindy Edgett
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