MARCH 2012 NEWSLETTER

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Ian Douglas
Raymond James Ltd.
#1 - 5767 Turner Road
Nanaimo, BC V9T 6L8
Telephone: (250) 729-2830
Toll free: 1-866-729-2830

2011 Tax Receipts

The bulk of the tax slips for 2011 have now been issued and you should have received them either electronically or by mail.

Please note that our tax department has advised that there will not be a T5013A issued for 2011 for Brookfield Renewable Energy LPU as there were no distributions in 2011.

Equity markets had a good start for the first quarter of 2012, with the S&P 500 up 12% and the TSX up 3.65%.

As of March 31st, the one year return for the S&P 500 was up a respectable 5.9%, but the TSX was down 12.2%, weakened by the resource sector.

	Apr. 1/11 Open	Dec. 31 Close	Mar. 30 Close	90 Day % Gain	1-Year % Gain (Decline)
S&P 500	1,329	1,257	1,408	12.0%	5.9%
TSX 300	14,116	11,955	12,392	3.65%	(12.2%)

The U.S. market has been brutal to investors since March of 2000 when the technology sector collapsed, followed up by the 2007-2008 financial crisis, which decimated most of their financial sector's stock prices. The appreciation of the Canadian dollar from .6179 U.S. in January of 2002 to 1.01 U.S. currently magnified the pain for Canadian investors.

That painful history combined with the U.S. federal deficit, their political polarization and some of their foreign policy choices make it easy to eliminate U.S. investments as an alternative.

However if we look at individual U.S. companies, we have lots of reasons to be optimistic. Apple, Starbucks, Costco, Home Depot, Google, Amazon, Walmart, Colgate Palmolive, Johnson and Johnson, and FedEx are just a few examples of innovative global "winners" that are thriving in spite of the world news.

Other world markets have behaved as follows:

	1-Year Decline
DJ Stoxx 50 (Europe)	(15.64%)
Japan	(1.2%)
Hong Kong	(8.6%)
MSCI Emerging Markets	(13.16%)

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The U.S. market was a relative pillar of strength, with Europe, emerging markets and resource investments behaving the worst.

Our asset mix outperformed the Canadian market by a wide margin, due to our fixed income positions, REITs and utility trusts. The following are the results of our largest 15 positions.

Our Largest Positions	**1-Year Total Return (includes dividends)**
H&R REIT	12.8%
Royal Bank	0.0%
Manubank Daily Interest Savings	1.25%
TD Bank	2.0%
Baytex Energy 9.15% 2016 Bond	6.3%
RBC Daily Interest Savings	1.25%
Innergex Renewable Energy	15.8%
Power Financial	(1.0%)
Fairfax Financial 5-year Resetable Pref.	0.0%
Riocan REIT	11.6%
Bank of Nova Scotia	(2.5%)
TD Bank Capital Trust 7.24% 2018	12.1%
Shaw Communications 6.15% 2016	9.5%
Vermilion Energy 6.5% 2016	8.08%
Sherritt 8% bond	11.0%
Average Return	**5.87%**

Economy sensitive positions, including Trinidad Drilling, Genivar, Manulife, Canadian Oil Sands and Suncor pulled down the returns, but most of you have positive returns in the low single digits, far better than the TSX 12.2% decline.

Canadian T-Bills and Bonds

	Sept 30/11	Dec 31/11	March 30/12
90 day	0.81%	0.82%	0.91%
180 day	0.85%	0.92%	0.95%
1 year	0.84%	0.93%	1.06%
2 year	0.87%	0.96%	1.19%
5 year	1.39%	1.28%	1.53%
10 year	2.14%	1.94%	2.11%
30 year	2.77%	2.49%	2.65%

U.S. T-Bills and Bonds

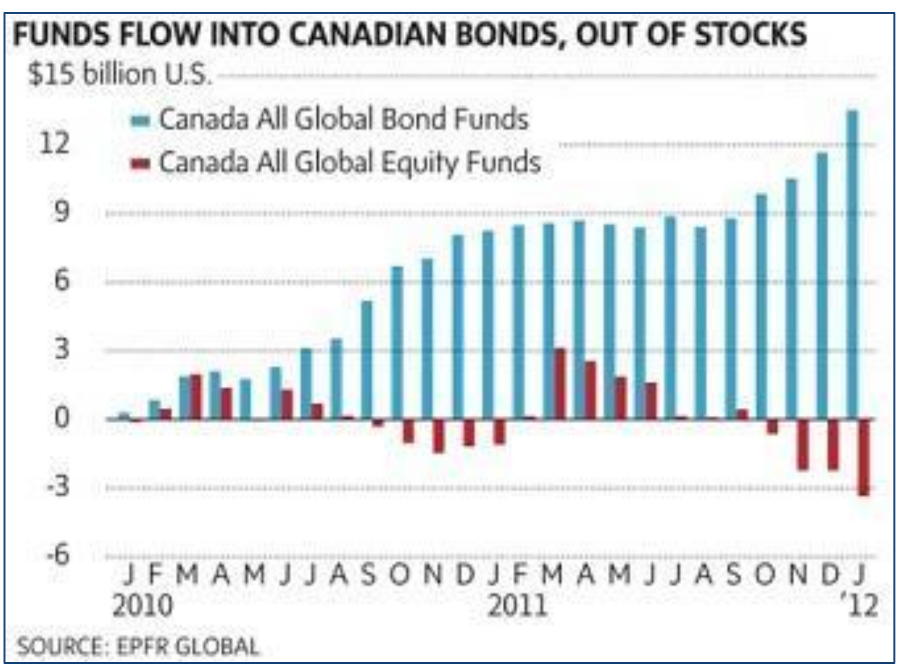
	Sept 30/11	Dec 31/11	March 30/12
90 Day	0.015%	0.02%	0.075%
180 Day	0.045%	0.07%	0.135%
1 year	0.10%	0.11%	0.17%
2 year	0.25%	0.25%	0.33%
5 year	0.95%	0.84%	1.04%
10 year	1.91%	1.87%	2.21%
30 year	2.90%	2.89%	3.34%

Yields on Canadian and U.S. bonds increased this quarter, as investors gained confidence in equity markets. Canada's Consumer Price Index for February 2012 was up 2.6% for the year, and the U.S. CPI was up 2.9%. Owners of Canadian and U.S. bonds of 10 years and less are currently willing to accept a guaranteed negative return after inflation.

What is the Average Investor Doing?

The following chart indicates where Canadian mutual fund investors are investing their money. Record inflows are going into bond funds, in spite of the current rates.

With Canadian bond fund MER's around 1.33% and Global bond fund MER's around 2.08% (average of 5 Canadian humongous banks) it is hard to imagine that bond fund investors will come out ahead over the next few years.



Note that Canadian retail investors are not net buyers of Global Equity funds, but did some buying last spring just before the market fell, and started being net sellers in October of 2011, just when the market bottomed.

It is a fine balancing act between buying what has been successful, and buying after all of the gains have been made.

International 10 Year Bond Yields

	Sept 30, 2011	Dec 31, 2011	March 30, 2012
Japan	1.03%	0.99%	0.99%
U.S.	1.90%	1.87%	2.21%
Germany	1.89%	1.83%	1.79%
Canada	2.14%	1.94%	2.11%
U.K.	2.43%	1.98%	2.20%
France	2.56%	3.15%	2.89%
Spain	5.13%	5.09%	5.35%
Italy	5.53%	7.11%	5.12%
Ireland	7.63%	8.21%	8.20%
Portugal	10.93%	13.36%	11.52%
Greece	22.68%	34.96%	*21.08%

* Greek bonds defaulted this quarter with investors accepting a loss of principal.

The creation of funding mechanisms in Europe have taken some of the pressure off distressed countries, particularly Italy and Portugal. The European stock index has improved by 10.3% so far in 2012, so there is a positive trend in both bond and equity markets.

What Looks Good Now?

Power Financial, our 8th largest position, looks like a good buy at today's prices. Power Financial's main assets are Great West Life, London Life, Canada Life, MacKenzie Financial, and Investors Group.

Here are some details:

1) Market Cap - $20.7 billion
2) P/E multiple – 12.07 times
3) Dividend yield – 4.77%
4) 2007 high - $42.69
5) Current price - $29.34

The following are the historic earnings per share:

	EPS	Dividend
2011	$2.43	$1.40
2010	$2.08	$1.40
2009	$1.92	$1.40
2008	$1.79	$1.33
2007	$2.79	$1.16
2006	$2.96	$1.00
2005	$2.28	$0.65
2004	$2.07	$0.5531
2003	$2.79	$0.4688
2002	$1.40	$0.3969

Source: www.powerfinancial.com

While the company's earnings fell during the 2008 financial crisis, they have been steadily improving since then, and they have done much better than their competitors in the life insurance business.

This business has been hurt by low interest rates and disappointing markets, but my judgement is that rates are more likely to go up in the next 3 to 5 years rather than down.

I feel that moderate risk investors should accumulate a 5% position, if they don't have one already. The high quality and 4.77% dividend yield makes this widely acceptable for most equity investors.

Spyder S&P 500 ETF Trust

As you have seen, the U.S. market has recently been outperforming most other markets, but the market is at the same level of November 1999. In Canadian dollar terms it is probably closer to 1997 or 1998 levels. This S&P 500 ETF owns the 500 largest companies in the S&P 500. The largest 10 positions are:

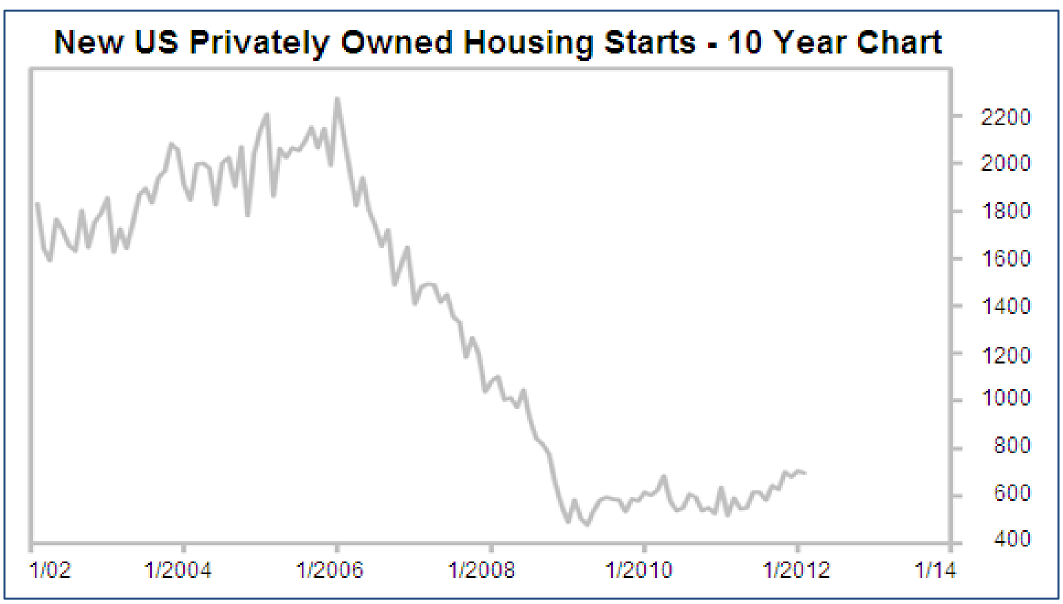
1) Apple
2) Exxon Mobil
3) IBM
4) Microsoft
5) Chevron
6) General Electric
7) Proctor and Gamble
8) AT&T
9) Johnson & Johnson
10) Wells Fargo

The U.S. market includes important industries that are not strong in Canada, including technology, healthcare, and consumer discretionary and staples.

The current yield is 1.87% and there is no dividend tax credit for U.S. companies, so this is only appropriate for the growth part of a portfolio. The total expense ratio is only 0.1%, so this is a very cost effective way to get diversified U.S. exposure.

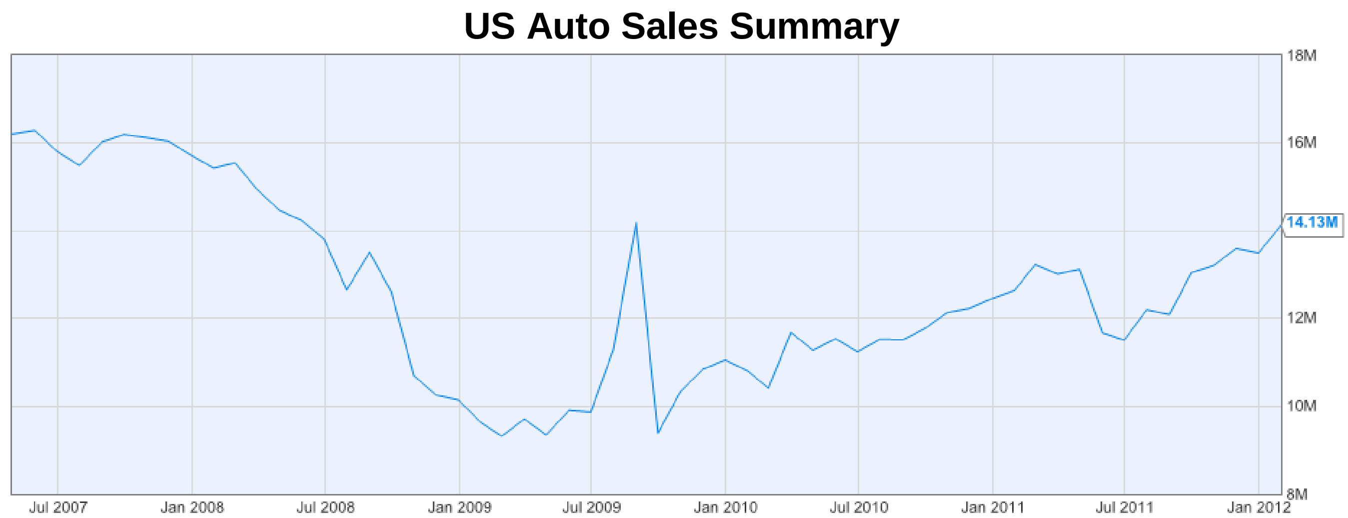
Doomed?

Below is a chart showing U.S. privately owned housing starts. In February 2011 there were 479,000 starts. In February 2012 there were 698,000 starts, a 45% increase. While this is far below the historic average of perhaps 1,400,000 starts, the trend is in the right direction.



The above chart plots monthly New US Privately Owned Housing Starts. Measurement is in Thousands of Units (seasonally adjusted annual rate). Updated Monday, March 26, 2012. Source: http://www.forecast-chart.com

Below is a chart of U.S. auto sales. The January 2011 sales were 12.64 million cars and light trucks. The January 2012 level was 14.13 million, an 11.7% increase. I expect the positive trend to continue, as the average car in the U.S. is 11 years old, and current models have significantly better gas mileage.



Source: http://ycharts.com

The housing and automotive statistics show an improving U.S. economy, and this is probably at odds with the sentiment of the average investor. (Many who are putting their money in bonds paying 1 to 2%.)

Recommendations For The Rest of 2012

I feel that the best growth opportunities are in the unloved U.S. market. The Spyder S&P 500 ETF is an efficient way to participate. Those of you with no position or a small position in Power Financial should consider accumulating shares of this company for the attractive dividend and potential growth.

All investment ideas should only be purchased if they are within your risk tolerance and asset allocation limits.

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Kilimanjaro

All of our group of 5 made it to the top of Mount Kilimanjaro. Thank you for your understanding that every couple of years I like to leave the office for a few weeks to spend time in hiking boots in some crazy part of the world.

All the best for the rest of 2012!

Ian Douglas	Barbara Holmes	Lindy Edgett
Financial Advisor	Administrative Assistant	Receptionist

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