

RAYMOND JAMES®



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July 2009 Newsletter

Recovery and Relief

The second quarter of 2009 was one of the best in decades for world financial markets. While many sectors of the economy are experiencing pain and adjustment, the banking system in Europe and the U.S. held together with government assistance and the Canadian banking system was sound and conservative enough to weather the storm with their own equity, boosted by market issues of common and preferred shares.

The billionaires including Warren Buffett, Prem Watsa and Li Ka Shing, who became bullish in October of 2008, have benefited from the recovery. The professional “doom and gloomers” had their day in the sun from October to March, but missed the recent rally.

	<u>All Time</u> <u>High</u>	<u>Mar 6/09</u> <u>Low</u>	<u>June 30/09</u> <u>Close</u>	<u>%</u> <u>Recovery</u>
S&P 500	1,576	666	919	38%
TSX Composite	15,154	7478	10,374	38%

SPX Now



Guaranteed Investments

Canada T-Bills	<u>March 31/09</u>	<u>June 30/09</u>
30 day	0.35%	0.18%
60 day	0.36%	0.18%
90 day	0.37%	0.19%
180 day	0.47%	0.29%
one year	0.58%	0.50%

Canada Bonds	<u>March 31/09</u>	<u>June 30/09</u>
2 year	1.07%	1.20%
5 year	1.74%	2.46%
10 year	2.78%	3.36%
30 year	3.58%	3.86%

GIC's	<u>March 31/09</u>	<u>June 30/09</u>
1 year	2.05%	1.30%
2 year	2.35%	2.06%
3 year	2.80%	2.81%
4 year	3.05%	3.21%
5 year	3.30%	3.51%

U.S. Rates

U.S. T-Bills	<u>March 31/09</u>	<u>June 30/09</u>
1 month	0.12%	0.15%
3 month	0.20%	0.17%
6 month	0.41%	0.32%
12 month	0.53%	0.53%

U.S. T-Bills	<u>March 31/09</u>	<u>June 30/09</u>
2 year	0.80%	1.05%
5 year	1.66%	2.51%
10 year	2.66%	3.54%
30 year	3.53%	4.33%

There are two conclusions I draw from these rates. Firstly they are unacceptably low for the expectations of most investors.

Of equal importance, the yield on government bonds has increased. This means that the value of longer term government bonds has decreased. Investors buying long government bonds expecting deflation and Armageddon are now losing money as the financial markets recover.

I continue to believe that long government bonds at these rates are a poor investment, as governments print more money and run deficits.

Corporate Bonds, Capital Trusts and Debentures

Examples are:

<u>Issuer</u> <u>Bonds</u>	<u>Maturity</u>	<u>Jan. 2</u> <u>Yield to</u> <u>Maturity</u>	<u>March 31</u> <u>Yield to</u> <u>Maturity</u>	<u>June 30</u> <u>Yield to</u> <u>Maturity</u>
Royal Bank F/F	June 2014	8.0%	7.00%	4.50%
Bell Canada	Feb 2017	7.2%	6.00%	5.00%
Shaw Communications	Mar 2017	7.6%	6.93%	5.57%
Telus	Mar 2017	7.0%	6.11%	4.83%
Great West Life F/F	June 2017	8.6%	9.17%	unavailable
TD Bank F/F	Dec 2017	8.3%	8.30%	unavailable
Suncor	May 2018	7.0%	6.52%	5.07%
Canada	2018	2.83%	2.78%	3.36%

<u>Issuer</u>	<u>Maturity</u>	<u>Jan. 2</u>	<u>March 31</u>	<u>June 30</u>
<u>Capital Trusts</u>		<u>Yield to</u>	<u>Yield to</u>	<u>Yield to</u>
		<u>Maturity</u>	<u>Maturity</u>	<u>Maturity</u>
Royal Bank	June 2018	9.3%	8.13%	5.93%
TD Bank	Dec 2018	9.3%	7.58%	5.89%
Bank of Montreal	Dec 2018	9.6%	8.22%	6.22%

Note that the yields are sharply lower than those quoted in my January and April newsletters. The good news is those investors that bought these have locked in great rates and made very nice capital gains. The bad news is that these high quality fixed income investments no longer pay spectacular rates for new purchases. For now I would hold these bonds but don't think that they are a compelling buy now.

My Favorite Bond Today

Brookfield Asset Management 5.29% April 2017 currently trading around 87 for a 7.7% yield to maturity.

Brookfield Asset Management is made up of about 32% commercial property, 28% hydro dams (146 of them) 4% hydro transmission lines, and the other 36% in more economy sensitive assets such as homebuilding, timberland and farmland.

It has an A- credit rating (the same as Bank of Montreal Capital trusts, Enbridge, TransCanada pipelines; better than Telus, BCE and Shaw, not as good as Canadian Bank Bonds).

The value of Brookfield bonds and preferred shares have been rising since December, and should continue to rise so long as credit markets continue to improve.

*Trinidad Drilling Debentures also look good if you don't have too much already. They yield over 11% for 3 years.

Asset Allocation

September 08 through March 09 gave us all some lessons about our risk tolerance. If you were ready to jump out the window in March you might consider selling some of your worst performing positions now for higher quality ones.

On the other hand, if you have huge cash positions waiting for the end of the world, you might consider adding some corporate bonds and equities to participate in the recovery.

Equity with Income

The following stocks were recommended in my January and April newsletters.

	<u>Jan 2/09</u> <u>Price</u>	<u>March</u> <u>6/09 Low</u>	<u>March</u> <u>31/09</u> <u>Price</u>	<u>June</u> <u>30/09</u> <u>Price</u>	<u>Current</u> <u>Yield</u>
Royal Bank	\$36.98	\$28.82	\$36.78	\$47.87	4.2%
TD Bank	\$44.09	\$32.37	\$43.46	\$60.09	4.06%
Bank of Nova Scotia	\$33.28	\$23.99	\$31.07	\$43.42	4.51%
Power Financial Corp	\$24.33	\$14.66	\$20.58	\$27.65	5.06%

While these will have periodic corrections, I feel that they are good investments for income and growth.

Summary

While recovering from the very low levels of March 09, the TSX is still 31% off its August high.

After the recent 38% market rally a 5% to 10% market correction seems very possible, but my view is that the twelve to eighteen month direction of the market will be up.

Now is a good time to review your portfolios to ensure that you are participating in the recovery while staying within your risk tolerance.

Have a fabulous summer!

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