RAYMOND JAMES®

Published for the friends and clients of
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January 2010 Newsletter

2009 – A Great Year

Investors entered 2009 feeling like we had too much risk in our portfolios, but from March 6th it felt like we didn't have enough risk in our portfolios.

	Jan 1/09	Dec 31/09	% Gain
S&P 500	931	1,127	21.0%
TSX Composite	9234	11,754	27.2%

Other than Tiger Woods and people who sold out their portfolios last spring, most investors had a good year.

RRSPs

The maximum RSP contribution for 2009 is $21,000 and for 2010 is $22,000. The deadline is March 1, 2010. Unfortunately we don't have the smorgasbord of bond opportunities like last year, but we can still find select bonds with good quality and reasonable returns. The sooner you make your contribution the longer the money will be tax sheltered.

Tax Free Savings Accounts

We can now contribute $5,000 per person for 2010. While these accounts start small, so did RRSP's. These accounts are a "must have" for taxable investors with unregistered (non RSP or RRIF) investments.

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 ACBs will be calculated.

Guaranteed Investments

Canada T-Bills	June 30/09	Sept 30/09	Dec 30/09
30 day	0.18%	0.16%	0.14%
60 day	0.18%	0.18%	0.14%
90 day	0.19%	0.22%	0.18%
180 day	0.29%	0.29%	0.28%
one year	0.50%	0.47%	0.66%

Canada Bonds	June 30/09	Sept 30/09	Dec 30/09
2 year	1.20%	1.18%	1.38%
5 year	2.46%	2.49%	2.70%
10 year	3.36%	3.24%	3.56%
30 year	3.86%	3.81%	4.08%

U.S. Rates

U.S. T-Bills	June 30/09	Sept 30/09	Dec 30/09
1 month	0.15%	0.03%	0.04%
3 month	0.17%	0.10%	0.07%
6 month	0.32%	0.13%	0.15%
12 month	0.53%	0.33%	0.37%

U.S. T-Bills	June 30/09	Sept 30/09	Dec 30/09
2 year	1.05%	0.88%	1.02%
5 year	2.51%	2.21%	2.57%

10 year	3.54%	3.21%	3.76%
30 year	4.33%	4.00%	4.61%

What this data indicates is that short term rates are still almost zero, with governments flooding the system with cash.

Long term bond yields have crept up a bit, as investors are seeing improving economic data.

Corporate Bonds, Capital Trusts and Debentures

Issuer Bonds	Maturity	June 30 Yield to Maturity	Sept 30 Yield to Maturity	Dec 30 Yield to Maturity
Royal Bank F/F	June 2014	4.50%	3.89%	3.96%
Bell Canada	Feb 2017	5.00%	3.91%	4.20%
Shaw Communications	Mar 2017	5.57%	4.62%	4.64%
Telus	Mar 2017	4.83%	4.24%	4.24%
Great West Life F/F	June 2017	unavailable	5.54%	unavailable
TD Bank F/F	Dec 2017	unavailable	4.93%	4.46%
Suncor	May 2018	5.07%	4.67%	4.68%
Canada	2018	3.36%	3.24%	3.56%
Capital Trusts				
Royal Bank	June 2018	5.93%	5.07%	4.96%
TD Bank	Dec 2018	5.89%	5.37%	4.97%
Bank of Montreal	Dec 2018	6.22%	5.41%	4.89%

The big returns on these high quality corporate bonds were earned from December 2008 to September 2009. Since then investors have earned the coupon, but the "big money" has been made.

Last Newsletter's Favourite Bonds and Debentures

Trinidad 3 year debentures (now 2 ½ year) were recommended at 90 for an 11% yield in my July newsletter, and again at 96.75 in my September newsletter for a 8.25% yield. They currently trade at 102.60.

A number of convertible debentures (Crombie, Nal Oil and Gas, Parkland, and Progress Energy Resources) were available last fall with yields between 5.25% and 6.25% for 5 years. These were in very limited supply and are now up about 4% on average.

Corporate Bonds Today

As much as I enjoyed investing my clients' funds in high yielding corporate bonds last year, the party is almost over. With corporate spreads back to normal levels and likely rising interest rates, it is getting harder to find 6% plus yields with decent credit quality. The opportunities I will find will likely be in lower rated issuers in small quantities.

The Economy and the Stock Market

Tailwinds

1) ADP National Employment Report (U.S.)

	Jul	Aug	Sept	Oct	Nov	Dec
Private Sector	-	-	-	-	-	
Payrolls	347,000	267,000	220,000	178,000	145,000	-84,000

   Clearly the rate of private sector job losses is rapidly diminishing. The decline in December was the smallest since March of 2008. The economy is improving.

2) In general last year's fear of financial collapse is behind us. Corporations can now finance their projects with very reasonable financing. Now it is a seller's market for bonds, rather than last year's buyer's market.

3) Many investors continue to hold large cash balances, earning almost nothing. This provides good support for the market due to lack of alternatives.

Headwinds

1) Interest rates are extremely low on a historical basis, and long bond yields are rising with the improving economy. If investors see respectable returns from fixed income they may do less buying on the equity side.

2) Governments around the world have been running deficits to appease their voters. Eventually taxes will have to be increased to balance the budgets. This will put headwinds on growth.

   If Governments delay the raising of rates and taxes we will have a stronger market in the short term, but more trouble in the long term. If budgets are balanced soon we will see the market rally peter out sooner with less of a correction.

Today's Stock Opportunities

Due to potentially rising rates and last year's fabulous performance, bank shares will likely be subdued this year, perhaps only returning the dividend yield.

The best returns will likely be in riskier economically sensitive shares. As these are not appropriate for all investors, the TSX index may be a good way to get exposure to these without taking too much risk.

Stocks that look good to me now include:

1) Manulife Financial
2) Trinidad Drilling
3) Forestry shares (not for everyone!!)

Asset Allocation

With a very limited supply of attractive bonds available, investors may let their cash positions build up. Investors owning safe dividend producing stocks should be content with the dividend and not expect much growth for 2010. Investors hoping to maximize return should either look at the TSX index or the TSX Energy Index. For 2010 I feel that only investors willing to take a lot of risk will beat the index.

Summary

Most investors will be busy this quarter investing their Tax Free Savings Accounts and RRSP contributions. As this happens all at the same time for everyone I'll do my best to contact you in a timely fashion.

All the best for 2010!

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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.
