

# SEPTEMBER 2012 NEWSLETTER



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## Career Opportunity

Barb is planning on retiring in July of 2013.

If anyone knows of a candidate who may be suitable as a licensed administrative assistant please let them know that we are looking.

## Market Review

The last quarter was great for equity investors, with the S&P 500 up 5.72% and the TSX 300 up 6.21%.

Over the last year the S&P 500 is actually up 27.3% and the Canadian market appreciated by a more modest 5.97%.

	<u>Oct. 1/11</u>	<u>June 29</u>	<u>Sept. 28</u>	<u>90 Day</u>	<u>1-Year</u>
	<u>Open</u>	<u>Close</u>	<u>Close</u>	<u>% Gain</u>	<u>% Gain</u>
S&P 500	1,131	1,362	1,440	5.72%	27.3%
TSX 300	11,623	11,596	12,317	6.21%	5.97%

Most of the economic statistics that I follow indicate a gradually improving U.S. economy, and the European Union is showing some progress supporting the weaker economies while they gradually reform themselves.

While Chinese leaders have done an admirable job managing their economy over the last decade, there are signs that they may be entering a rough patch.

Capitalist economies by nature react to imbalances quicker than 'top down' command economies, so problems are discovered before they get too big.

China's economy may have a lot of problems under the surface that could flare up over the next few years. This has already affected Canadian resource companies, causing the underperformance of the TSX index.

## JP Morgan

Recommended in the June newsletter at \$35.73 the shares currently trade at \$40.48, a 13.29% return in 90 days. The shares still trade at 9.12 times earnings with a 2.96% yield.

These shares are still good value and investors looking for a more conservative U.S. bank may consider Wells Fargo at \$34.57 with a 2.54% yield.

## Canadian T-Bills and Bonds

	<u>March 30/12</u>	<u>June 29/12</u>	<u>Sept. 28/12</u>
90 day	0.91%	0.87%	0.93%
180 day	0.95%	0.96%	1.01%
1 year	1.06%	0.98%	1.06%
2 year	1.19%	1.03%	1.07%
5 year	1.53%	1.25%	1.27%
10 year	2.11%	1.74%	1.72%
30 year	2.65%	2.33%	2.32%

## U.S. T-Bills and Bonds

	<u>March 30/12</u>	<u>June 29/12</u>	<u>Sept. 28/12</u>
90 Day	0.075%	0.085%	0.095%
180 Day	0.135%	0.160%	0.125%
1 year	0.17%	0.22%	0.15%
2 year	0.33%	0.33%	0.23%
5 year	1.04%	0.73%	0.62%
10 year	2.21%	1.65%	1.62%
30 year	3.34%	2.75%	2.82%

## International 10 Year Bond Yields

	<u>March 30,</u> <u>2012</u>	<u>June 29,</u> <u>2012</u>	<u>Sept 28,</u> <u>2012</u>
Japan	0.99%	0.84%	0.78%
U.S.	2.21%	1.64%	1.63%
Germany	1.79%	1.58%	1.44%
Canada	2.11%	1.74%	1.73%
U.K.	2.20%	1.73%	1.73%
France	2.89%	2.69%	2.18%
Spain	5.35%	6.33%	5.94%
Italy	5.12%	5.82%	5.09%
Ireland	8.20%	8.21%	8.21%
Portugal	11.52%	10.16%	9.00%
Greece	21.08%	25.83%	19.49%

My observation from the above bond yields is that the wealthier countries have seen very stable bond prices over the last 90 days and the riskier countries have seen their bond yields come down as investors have more confidence that they will be supported by their wealthier European neighbours.

I expect a two step forward one step back process as politicians and their electorates wrestle with their considerable fiscal problems.

## **Outlook**

One year ago there weren't a lot of market strategists expecting the U.S. market to return a 27% gain over the next 12 months. The next year will undoubtedly deliver more surprises.

Canadian investors owning U.S. stocks don't get the dividend tax credit that we get on Canadian shares, but the U.S. has a much larger selection of companies to choose from. Of the major economic blocks in the world, the U.S., the Euro zone, and China, I feel that the U.S. economy has the least amount of risk.

For clients looking for dividend income there is a good selection of Canadian shares to choose from. If your objective is growth you should consider some U.S. shares to compliment your Canadian holdings.

While we will no doubt get bumps along the way I feel that stocks around the world continue to be very cheap when compared with cash, GIC's or bonds.

I will continue to look for income investments including corporate bonds, preferred shares and common shares that will help to grow your portfolios or provide retirement income.



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