

*“If you don’t know where  
you are going, you might  
wind up someplace else.”*  
Yogi Berra

The David Miner  
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In August, Dorinda and I went to Chicago. It was our first time in the Windy City, if you do not count the many times we have changed planes at the Chicago O’Hare Airport. We visited Chicago because Fidelity Investments hosted an advisor conference at the Chicago Four Seasons. (To avoid conflict of interest, these conferences under regulation require that advisors pay all costs of transportation, accommodation, and companion expenses.) Chicago is the third largest city in the United States and slightly bigger by population than Toronto.

While I spent several hours absorbing the information offered by the Fidelity team, Dori and I did manage to spend some time exploring this beautiful city. The waterfront, the museums, and the restaurants are exceptional. A personal favorite spot was the House of Blues. We also loved the River Architecture Tour in Chicago, which is a must-do for anyone new to the city.

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Dorinda & David celebrating Thanksgiving over the  
long weekend

At the end of August, my eldest daughter Amelia finished her last course at University of Toronto to complete her undergraduate degree. She became engaged to Kiran Naidoo in August. She has also accepted a position with Manulife Financial in the U.S. group retirement area. Congratulations, Amelia! Younger daughter Victoria has started her final year in Social Work at Algoma University in Sault Ste. Marie and is planning ahead to life after graduation. Graduate school maybe? As Amy and Vicki reach new stages in their lives, it is an important reminder to me of the influence of family. As we look to a comfortable future through savings and investment, we are often thinking not only of ourselves, but the people close to us.

And not least of all, Mark Brownell who has been working in our office for the last two years has just got licensed, which will enable better coverage and service, especially if I am not immediately available.



David enjoying the beautiful Chicago skyline in August

### Climbing the Wall of Worry

Here’s a summary of global market performance in 2012 to the end of September, all in local currency.

2012	Canada	U.S.	Europe	Emerging Markets	Global Returns
Q1	+5%	+13%	+8%	+11%	+12%
Q2	(6%)	(3%)	(4%)	(5%)	(4%)
Q3	+7%	+6%	+7%	+6%	+6%
2012 to Date	+5%	+16%	+11%	+11%	+13%

Source: MSCI returns including dividends, all returns in local currency

Despite global angst over Greece, the Middle East, U.S. debt, China, etc., - most stock markets are up in 2012. The bond market, as measured by the DEX Universe Bond Index, is up 3.3%. The world has some problems and the bad news often overshadows the good. That’s actually a big part of behavioral psychology in the market. Investors tend to focus way more on the bad than the good – and then miss opportunities to buy low/sell high.

*“If a window of opportunity appears, don’t pull down the shade.”*

Tom Peters

I have been licensed advisor for almost thirty years. When I started in the early 1980’s, the DOW Jones in the U.S. was below 1000. At the end of September, it is 13437. On other words, less than \$1000 invested would have grown to well over \$13,000 and that is before we add the thousands of dollars of dividends earned. During that time, I have experienced first-hand the Crash of 1987, several bear markets, recessions, 9/11, a tech bubble collapse, popping resource bubbles, Y2K, the sub-prime melt-down of 2008, and much more. Nevertheless, simple investment in the stock market has returned several times greater than what has been realized in bonds, real estate, term deposits, and savings accounts. It is for that reason that large employer sponsored pension plans generally have the bulk of their portfolio in stocks over all other asset classes combined.

From the table, we can see that global diversification pays – both to enhance return and to reduce portfolio volatility. Canadian equities account for less than 5% of world equity markets and are skewed to the resource sector. While we like to have some investment in Canadian securities, it is a mistake to not have exposure to the larger global universe of stocks. For years, I have taken guidance from the large institutional pension plans, which in many instances have more non-Canadian stocks than Canadian stocks. And as always, a bond component to a portfolio is what I refer to as the “heavy keel on the boat” which serves to reduce portfolio volatility.

### **The Silver Lining in the United States**

Corporations in the United States are carrying approximately \$2 trillion in cash on their balance sheets. Furthermore, on-going cash-flow generated from U.S. public corporations is at a high level relative to underlying stock prices. Strong cash allows businesses to weather tough times more easily. More important, that cash, as it is deployed into investment and hiring, will fuel economic expansion and allow dividend increases for years.

There is also about \$2 trillion in U.S. money market funds earning a fraction of 1 percent annual return. Bank savings accounts in the U.S. are paying about 0.1 percent annually and U.S. term deposits are paying approximately 0.3 percent. Imagine depositing \$10,000 for five years in a U.S. term deposit and knowing from the beginning that your total cash return before tax over that 5 year time will be only about \$150! Inflation and taxes actually erode more than is earned in that scenario.

In a nutshell – public corporations are healthy and have the cash to hire, to invest in plant and equipment, and to pay (and increase) dividends. There is huge quantity of investor cash on the sidelines, which is the fuel to move stock prices higher. Even though the S&P500 has almost doubled since its lows of 2009, the best growth potential for investors remains in equities.

## Strategy versus Tactics

After being a broker and then spending several years as a partner in an investment counsel, I have fully embraced the concept of managed money. Using a broker or doing yourself does not compare to having a team of professionals on your side. Funds offer economies of scale. Most clients with whom I work, for example, own over 1,000 stocks in their portfolios, even though their statements show only a few fund positions. Through funds and wraps (i.e. funds of funds) we get the large scale -- and the economies to go with it. And most important, the right professional managers can best manage risk, which means better “peace of mind”.



David & Dorinda at a reception at the Rotman School of Management, University of Toronto

Fidelity Investments offers one of the highest standards of professional management in the world. I have been working with Fidelity since the firm started doing business in Canada twenty-five years ago. With professionals and offices around the world, Fidelity is able to provide the highest quality of domestic and global security management.



Dorinda, David, and colleague Marianne Knibbs celebrating her 20 year anniversary as a financial advisor.



Please let us know at your earliest of any changes to your address, phone, email, or employment. Thank you!

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