

Perspectives



MAY 2011

WHAT'S HAPPENING IN THE MARKETS

The short answer – digestion problems! Such as European and US debt uncertainty, commodity inflation, divergent central bank policy paths, populist uprisings, earthquakes, and the list goes on. Through it all, major stock markets are mildly positive on the year and bonds are hanging on in the face of negative press. Global Economic Growth is beginning to show signs of renewed deceleration as the US succumbs to \$4.00 per gallon gasoline and Europe continues to fumble its way through the debt crisis (we believe restructuring is inevitable). Additionally China is showing it is serious about cooling inflation. Bond markets are picking up on these inhibitors to growth with corporate bonds beating many stock markets.

WHAT ARE WE DOING ABOUT IT

Equities:

We expect stocks to be even more volatile. They should not be expected to significantly outperform bonds for a period of at least three to six months. This will be resolved (positively or negatively) as the growth outlook becomes clearer later in the year.

Fixed Income:

Canadian government bonds will face significant cross currents in the next few months. The Bank of Canada must resolve its stance on rates. We expect bond prices to rise slightly.

Currencies:

Commodity prices are clearly causing some indigestion globally and the US policy referred to as QEII has exacerbated that. The Canadian dollar will remain range bound between 98 and 1.05, held down by a weakening picture for growth and commodities, and held up by the Bank of Canada policy which should begin to normalize rates. Although there is disdain for the US dollar, it will remain stable as the US ends QEII. The EURO has risen 6% against the US dollar, which is exactly what the Europeans don't need as they deal with austerity measures and debt problems. Over time it will fall back reflecting the underlying weakness of the European situation.

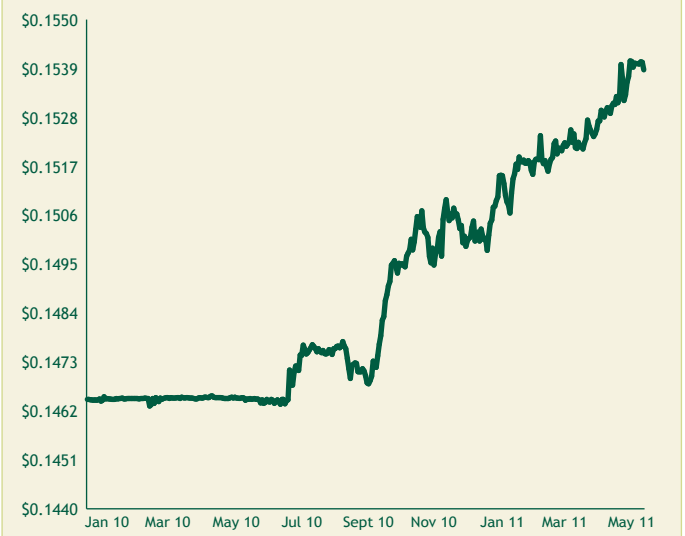
HOW HAVE THE MARKETS PERFORMED

For the period ending May 13, 2011	3 Month Return	1 Year Trend
Canadian Stocks	-3.3%	↑
Canadian Bonds	+2.4%	↑
CAD/USD	+2.1%	↑

Canadian Stocks: TSX total return in CAD; Canadian Bonds: DEX Universe total return in CAD; Bank of Canada monthly closing rate

FEATURED CHART

Chinese Yuan exchange rate vs. US dollar



Source: Bloomberg

What This Chart Indicates

- Over the past year China has allowed its currency to appreciate over 5% against the US dollar
- China is using the currency as one means to control rising domestic inflation
- We expect the Chinese Yuan to continue rising but we do not expect a large one-off revaluation versus the US dollar
- China will shift gradually to a more balanced economy supporting domestic consumption at the expense of exports

AN EXPERT IN THE SPOTLIGHT

Lloyd Rowlett – Canadian Equity Manager



Q: How do you define your value approach to Canadian investing?

A: Value is in the eye of the beholder and cannot be determined by ratios alone. It is defined in its purest form as the price you pay for something. When we value a company, our valuation is not predicated on that business achieving over-sized growth indefinitely. Our models assume that growth over time will normalize, and we derive a long term valuation for the company based on those normalized earnings. Today the economy and the markets are not operating in a normal environment. Companies are usually worth more despite the fact that news and media will push emotions one way or another as markets strive toward normalcy. In the interim, maintaining discipline and being well diversified is vital.

Q: With the current focus on the volatility of commodity prices, how is your portfolio positioned within the materials sector?

A: The Private Client Canadian Value portfolio is overweight in fertilizer and chemicals companies and underweight in base metals. As a result, when the markets are euphoric with respect to base metals, the Value portfolio will lag in performance. Our concentration on fertilizers, however, is based on the growth of the global economy and emerging markets. Food inflation in countries like China and India is a focus both of the media and the central banks of these burgeoning economies. Food inflation is offset simply by growing more food. Arable land is a finite resource; therefore, increasing food production is best achieved through escalating crop yield. Yield can be enhanced by better irrigation or better fertilizing and fertilization is a cost effective solution that leads to greater demand for fertilizers. Agrium and Potash Corporation of Saskatchewan, two of the world's largest producers of potash (a key component of fertilizers), are major holdings within the Private Client Canadian Value portfolio. A shift in market focus from base metals, and recognition of food inflation and production will lead to better relative returns for the portfolio.

Q: How does the Canadian/US dollar exchange rate affect your portfolio?

A: A number of Canadian companies have significant revenues tied to the US dollar. With a strengthening Canadian dollar these revenues are obviously worth less to us. While we have a view that the Canadian dollar should strengthen compared to the US dollar going forward, we use the current exchange rate in valuing companies. A second consideration is the renewed interest in Canada from US companies now that earnings from Canadian operations are worth a lot more to them. This has changed the current and potentially future competitive positioning of a number of companies and needs to be factored into valuations.

Interview by Darin Thompson

FOCUS ON INDIVIDUAL PENSION PLANS (IPPs)

Andre Morris recently met with one of our advisor partners and asked some key questions about IPPs:

Q: What exactly are Individual Pension Plans (IPPs)?

A: IPPs are defined benefit pension plans for small groups and business owners. They allow the plan member to accrue retirement income on a tax-deferred basis.

Q: Who do you think benefits most from this kind of plan and how is it different from an RRSP?

A: With IPPs the plan sponsor (the corporation/business employing the member) benefits because all costs associated with the plan are tax deductible as a business expense and contributions to the plan do not attract payroll taxes. The plan member benefits because they can accumulate up to 50% more assets than with an RRSP. IPPs are also indexed to inflation so we can calculate the exact income at retirement and possibly make up for market shortfalls. This is an integral part of an IPP.

Q: In the last budget certain changes have been suggested for the structure of IPPs; what do you think the impact is?

A: We feel the proposed rules are discriminatory towards those who were disciplined in their savings, and would reward those who have been lax in planning for retirement. The funding of past service will first come from the RRSP versus a tax deductible contribution from the company, reducing some of the tax benefits associated with the plan. We are confident that the government will remove the proposed changes once the implications are fully understood.

Q: Are there any other advantages to this kind of program?

- IPPs provide estate planning opportunities for family run businesses
- With safer investment rules and limitations, IPPs enhance creditor proofing
- IPPs allow the company to make additional tax deductible contributions if the rate of return on the plan assets is less than 7.5% a year



WHAT'S NEW AT CC&L PRIVATE CAPITAL LTD.

We are pleased to announce that Yulia Rosenberg has joined CC&L Private Capital as Vice President in our Toronto office.

Yulia brings over eight years of wealth management and investment banking experience advising corporate executives, entrepreneurs and governments on structuring transactions and raising funds in the capital markets. She is a Director of the Art Gallery of Ontario Corporate Membership Board, as well as the Canadian Stage Company Visionary Board. Yulia is also a nationally-ranked fitness competitor and a nutrition consultant.

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