

RAYMOND JAMES®



Published for the friends and clients of
Financial Advisor **Ian Douglas**
Raymond James Ltd.
#1 - 5767 Turner Road
Nanaimo, BC V9T 6L8
Telephone: **(250) 729-2830**
Toll free: **1-866-729-2830**

April 2010 Newsletter

2010 – A Modest Start

World markets had a correction from January 20th to February 8th, but markets have been positive for 2010.

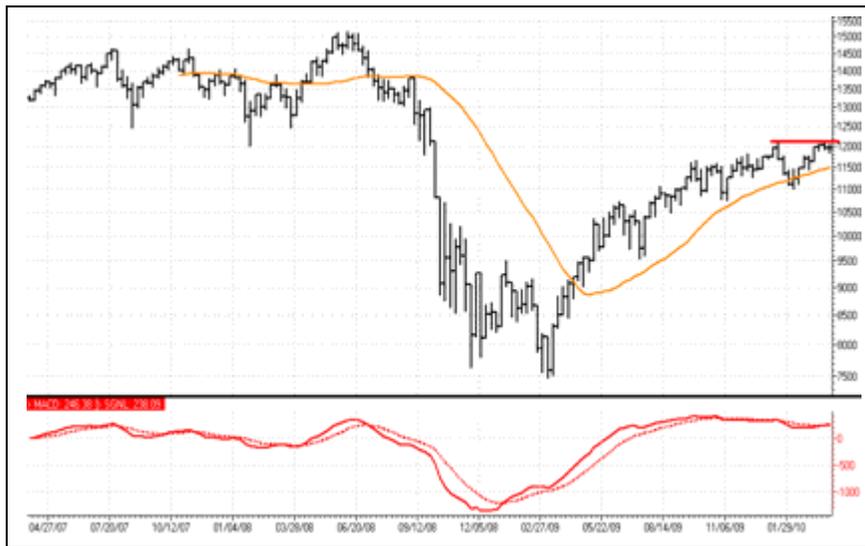
	<u>Dec 31/09</u>	<u>March 31/10</u>	<u>% Gain</u>
S&P 500	1,127	1,169	3.7%
TSX 300	11,754	12,037	2.4%

Of more importance to all of us is the last 12 month return.

	<u>March 27/09</u>	<u>March 31/10</u>	<u>% Gain</u>
S&P 500	815	1,169	43.4%
TSX 300	8,821	12,037	36.4%

Most of us are feeling much better about our finances than 12 months ago.

S&P/TSX Composite Index



Charts source: Thomson One

Heartbreak Hotel

Most of you own B.C. Gas 8% debentures, which we started buying in the summer of 2000. The good news is that we earned 8% for the last 10 years with very little fluctuation. The bad news is that these have been called @100 on April 19, 2010, and it will be hard to replace 8% debentures. I will be calling everyone who owns these to find the most suitable replacements.

Good News

Many of you owned Innergex Power Income Fund which has recently converted from an income trust to a dividend paying equity, Innergex Renewable Energy. The distribution will become a dividend, and will not change the cash flow. For every share of the old Innergex you now have 1.46 shares of the new Innergex.

Canadian T-Bills and Bonds

	<u>Sept 30/09</u>	<u>Dec 30/09</u>	<u>March 31/10</u>
90 day	0.22%	0.18%	0.26%
180 day	0.29%	0.28%	0.47%
one year	0.47%	0.66%	0.96%
2 year	1.18%	1.38%	1.73%
5 year	2.49%	2.70%	2.90%

10 year	3.24%	3.56%	3.56%
30 year	3.81%	4.08%	4.07%

U.S. T-Bills and Bonds

	<u>Sept 30/09</u>	<u>Dec 30/09</u>	<u>March 31/10</u>
90 Day	0.10%	0.07%	0.15%
180 Day	0.13%	0.15%	0.23%
1 year	0.33%	0.37%	0.37%
2 year	0.88%	1.02%	1.02%
5 year	2.21%	2.57%	2.56%
10 year	3.21%	3.76%	3.83%
30 year	4.00%	4.61%	4.71%

10 Year Canada Bond Price



Charts source: Thomson One

In Canada longer term rates have stayed steady, but short-term rates have crept up, particularly at the 2 year level. The fact that short rates are lower than the long rates indicates that monetary policy is still stimulative, but the government is taking its foot off the gas peddle.

In the U.S. the government is keeping short rates low, but longer term bond investors are demanding higher yields to stay in U.S. dollar bonds. Unless U.S. politicians manage to close their fiscal deficit I would expect long bond rates to continue to rise.

Corporate Bonds, Capital Trusts and Debentures

While I was strongly encouraging everyone to invest in corporate bonds last year, in hindsight I wasn't aggressive enough.

	<u>March</u> <u>27/09</u>	<u>March</u> <u>31/10</u>	<u>% Gain</u> <u>Including</u> <u>Interest</u>
Trinidad 7.75% July 31, 2012	74.00	103.25	50%

Today the panic has largely left the market and returns are much more modest.

Today's Favourites

Baytex Energy 9.15% August 26, 2016 – callable @104.58 August 26, 2012

@110.45 Yield to Maturity: 7.08% Yield to First Call: 6.17%

Baytex is an oil (80%) and gas (20%) producer in Alberta, Saskatchewan and North Dakota. They are profitable and have a market cap of \$3.8 billion. This is my favourite bond for RRSPs, RRIFs, and TFSAs.

Progress Energy Resources 5.25% October 31, 2014

@99.00 Yield to Maturity: 5.5% Conversion price: \$18.00

Progress Energy is a natural gas producer in BC and Alberta. Their market capitalization is over \$1.8 billion.

These debentures are the best that I can find in today's market. While they are a far cry from the 10 year 8% Royal Bank and TD Bank Capital Trusts that we recommended one year ago, they pay reasonable yields and are well run companies. I feel that they are appropriate for 5% each of a medium risk portfolio.

Today's Stock Opportunities

Over the next one or two years I expect stocks to outperform cash and bonds. Raymond James has a \$95 target for oil for 2011, so I would expect energy stocks to do well.

Small Cap ETF

With economic recovery small cap stocks should outperform large caps. XCS is an ETF of the TSX small cap index. This is a good way to own smaller companies without taking the individual stock risk.

Pat Yourselves on the Back

The chart below indicates how well Canadian balanced investors have done for the last 20 years. Note that the last 10 years have been less than stellar. U.S. and Global investors have done even worse, as the second chart indicates. Fortunately most of you have done much better than the average investor.

Canadian Balanced Funds

RBC Balanced			
Summary		Chart	
Fund Price: \$11.46 (as at March 31, 2010) 1-day chg:			
Returns as at February 28, 2010			
	Fund	Group Avg	Index*
1 month	1.97%	1.74%	1.74%
3 months	0.84%	1.14%	1.18%
6 months	3.40%	4.79%	4.67%
1 year	21.63%	24.24%	24.45%
2 year avg	-3.44%	-0.28%	-0.76%
3 year avg	-2.40%	-0.74%	-1.39%
4 year avg	0.39%	1.49%	0.98%
5 year avg	2.96%	3.16%	2.34%
10 year avg	3.32%	3.89%	3.18%
15 year avg	5.92%	6.49%	5.76%
20 year avg	6.62%	6.83%	6.47%
since inception	6.80%	-	-

*60% TSX. 40% Canadian Bond Index

Source: www.theglobeandmail.com

Global Funds

Trimark Select Growth			
Summary Chart			
Fund Price: \$11.95 (as at March 31, 2010) 1-day chg:			
Returns as at February 28, 2010			
	Fund	Group Avg	Index*
1 month	-0.85%	0.61%	0.27%
3 months	-0.72%	-0.46%	-1.40%
6 months	3.86%	3.61%	1.17%
1 year	18.74%	32.09%	28.55%
2 year avg	-9.46%	-7.33%	-5.79%
3 year avg	-15.56%	-9.17%	-9.43%
4 year avg	-6.90%	-3.94%	-2.89%
5 year avg	-4.99%	-2.00%	-1.33%
10 year avg	0.92%	-2.39%	-2.64%
15 year avg	4.01%	3.53%	4.34%
20 year avg	7.02%	4.79%	5.61%
since inception	6.81%	-	-

*MCSI World (Cdn\$)

Source: www.theglobeandmail.com

Some of my clients tend to earn higher returns than others. My most satisfied clients share the following characteristics:

- 1) Successful investors know their risk tolerance. Losing faith in the financial markets during bear markets and trying to catch up when things are great is a performance killer. Your asset allocation should be determined by your risk tolerance, your stage in life, and the amount of guaranteed income you have, etc, not by what the market did in the last 12 months.
- 2) My most successful clients realize that not all investment recommendations will look good in hindsight. Clients who focus too much on past investments that didn't work out are likely to miss today's investments that might be great.
- 3) Satisfied clients tend to be realistic about the rate of return they can expect. Today 2 year Canada bonds yield 1.72%. 5 year Canada bonds

yield 2.89%. If you expect to earn triple that with no volatility you are unrealistic.

- 4) My most successful clients make it clear to me where their risk tolerance is, but take the vast majority of my recommendations. It has always been an irony to me that 75 year old grandmothers with little or no interest in investments tend to have much better returns than some highly educated investors who are much better informed of economic news, but follow perhaps 1/3 of my recommendations.
- 5) Successful investors tend to live below their means. While it may seem unfair, investors who “don’t really need” their capital tend to do better than those who would need every penny of return to live. Investors who have more capital than they need tend to not feel compelled to jump on the bandwagon in hot markets and are less tempted to sell out when markets fall because they can afford to lose some capital. If you are retired already you have little control over your capital level and may have limited control over your expenses. If you are considering retirement I would not recommend retiring early if you will need heroic performance from your investments to maintain your standard of living.
- 6) While we have to periodically fine tune portfolios, my most successful clients don’t constantly jump in and out of the market. If Warren Buffett isn’t smart enough to do this chances are we can’t improve our returns with this strategy.
- 7) We all have some good and bad qualities regarding making investment decisions. Our challenge is to keep our fears in check when markets are terrible, and to keep our greed in check when markets are great.

Summary

Thank you for being great friends and clients.

All the best for the Spring.

Ian Douglas
Vice-President
Financial Advisor

Barbara Holmes
Administrative Assistant

Lindy Edgett
Receptionist

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