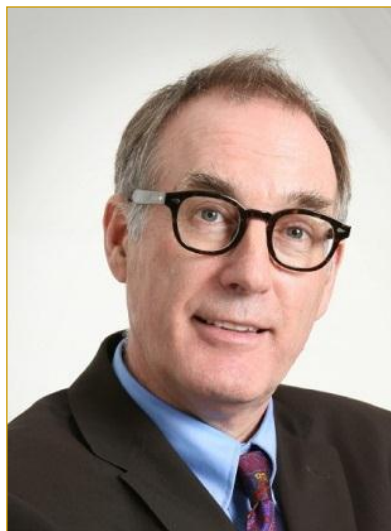


DECEMBER 2012 NEWSLETTER



*Published for the friends and clients
of Financial Advisor*

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Tax Free Savings Account

This year we can contribute \$5,500.00 to our TFSA's. This is a "must do" for most investors.

Market Review

The last quarter was challenging for equity investors with the S&P 500 down 0.97% and the TSX 300 up 0.94%.

The calendar year was positive with the S&P 500 up 13.44% and the Canadian market up 3.65%.

	<u>Dec.</u> <u>31/11</u> <u>Close</u>	<u>Sept.</u> <u>28/12</u> <u>Close</u>	<u>Dec</u> <u>31/12</u> <u>Close</u>	<u>90 Day</u> <u>% Gain</u> <u>(Loss)</u>	<u>1-Year</u> <u>% Gain</u>
S&P 500	1,257	1,440	1,426	(0.97)%	13.44%
TSX 300	11,995	12,317	12,433	0.94%	3.65%

The Canadian market had the dubious honour of being one of the worst performing major markets in the world. Other market results are below.

<u>Equity</u>	<u>YTD %</u>
S&P/TSX	3.65%
S&P 500	13.44%
DJIA	7.26%
NASDAQ	15.91%
DJ Stoxx 50	10.54%
Japan	22.94%
Hong Kong	26.46%
MSCI Emg Mkts	15.21%

2012 Results of Our Largest 25 Positions

<u>Position</u>	<u>Jan 3/12</u> <u>Open</u>	<u>Dec</u> <u>31/12</u> <u>Close</u>	<u>Dividends/</u> <u>Distribution</u>	<u>% Gain</u>
H&R REIT	23.30	24.10	1.25	8.80%
Royal Bank	52.30	59.88	2.40	19.0%
Manulife Bank Investment Savings Account	-	-	-	1.25%
RBC Investment Savings	-	-	-	1.25%
TD Bank	76.30	83.75	3.08	13.80%
Baytex 6.625% 2022	103.00	106.500	6.625	9.83%
Power Financial	25.70	27.24	1.40	11.44%
Innergex Renewable Energy	10.21	10.35	0.58	7.05%
Fairfax Financial Preferred I	24.41	25.00	1.25	7.54%
Riocan REIT	26.67	27.56	1.38	8.51%
Bank of Nova Scotia	51.20	57.46	2.28	16.68%
TD Cap Trust 7.243% 2018	119.264	124.130	7.243	10.15%
Vermillion Energy 6.5% 2014/2016	102.250	105.250	6.50	9.29%
Brookfield Renewable Energy	27.44	29.38	1.37	12.06%
Shaw 6.25% 2016	112.128	111.123	6.15	4.58%
Trinidad Drilling	7.89	6.88	0.20	(10.27)%
Sherritt 8% 2018	101.75	105.750	8.00	11.79%
Manulife Trust DIS	-	-	-	1.30%
Russel Metals 6% 2022	100.35	102.750	6.00	8.37%
Bank of Montreal	56.33	60.86	2.88	13.15%
Brookfield Asset Management	28.49	36.44	0.557	29.86%
Raymond James Financial	31.85	38.53	0.56	22.73%
RBC Cap Trust 6.82% 2018	116.601	120.192	6.82	8.53%
Manulife Financial	11.15	13.51	0.52	25.83%
Bombardier 7.35% 2026	100.00	104.50	7.35	11.79%
Average % Gain				10.57%

We are pleased that in spite of record low interest rates and subdued Canadian equity markets, our clients enjoyed respectable returns in 2012.

Canadian T-Bills and Bonds

	<u>June 29/12</u>	<u>Sept. 28/12</u>	<u>Dec 31/12</u>
90 day	0.87%	0.93%	0.94%
180 day	0.96%	1.01%	1.03%
1 year	0.98%	1.06%	1.08%
2 year	1.03%	1.07%	1.12%
5 year	1.25%	1.27%	1.36%
10 year	1.74%	1.72%	1.80%
30 year	2.33%	2.32%	2.36%

U.S. T-Bills and Bonds

	<u>June 29/12</u>	<u>Sept. 28/12</u>	<u>Dec 31/12</u>
90 Day	0.085%	0.095%	0.050%
180 Day	0.160%	0.125%	0.115%
1 year	0.22%	0.15%	0.140%
2 year	0.33%	0.23%	0.263%
5 year	0.73%	0.62%	0.729%
10 year	1.65%	1.62%	1.761%
30 year	2.75%	2.82%	2.951%

International 10 Year Bond Yields

	<u>June 29,</u> <u>2012</u>	<u>Sept 28,</u> <u>2012</u>	<u>Dec 31,</u> <u>2012</u>
Japan	0.84%	0.78%	0.79%
U.S.	1.64%	1.63%	1.75%
Germany	1.58%	1.44%	1.31%
Canada	1.74%	1.73%	1.79%
U.K.	1.73%	1.73%	1.82%
France	2.69%	2.18%	1.99%
Spain	6.33%	5.94%	5.26%
Italy	5.82%	5.09%	4.49%
Ireland	8.21%	8.21%	4.41%*
Portugal	10.16%	9.00%	7.01%
Greece	25.83%	19.49%	11.90%

*Nine-year bond

One should note that bond yields of the riskiest European countries have fallen, indicating confidence returning to the EU.

Over the last quarter I have found no corporate bond or debenture issues that appeared to represent even reasonable value.

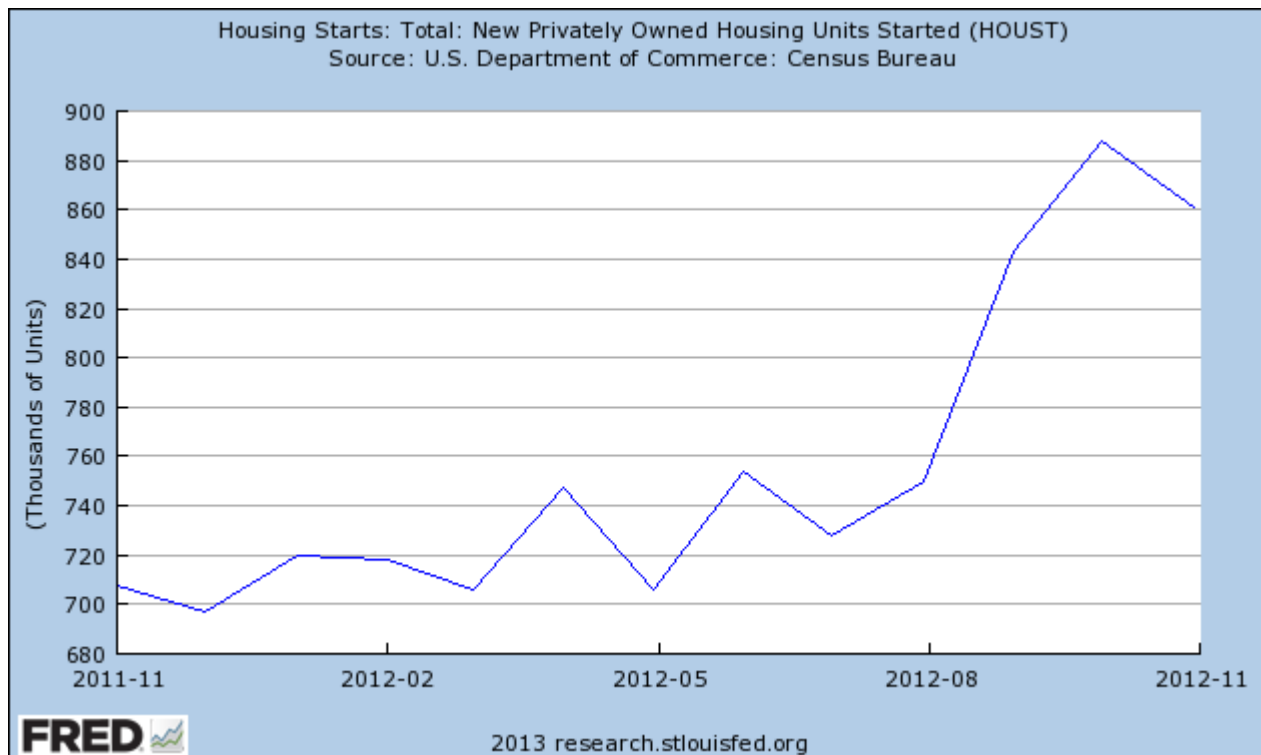
Example Nov 28 Costco U.S. pay bond issue

3 year	0.65%
5 year	1.125%
7 year	1.70%

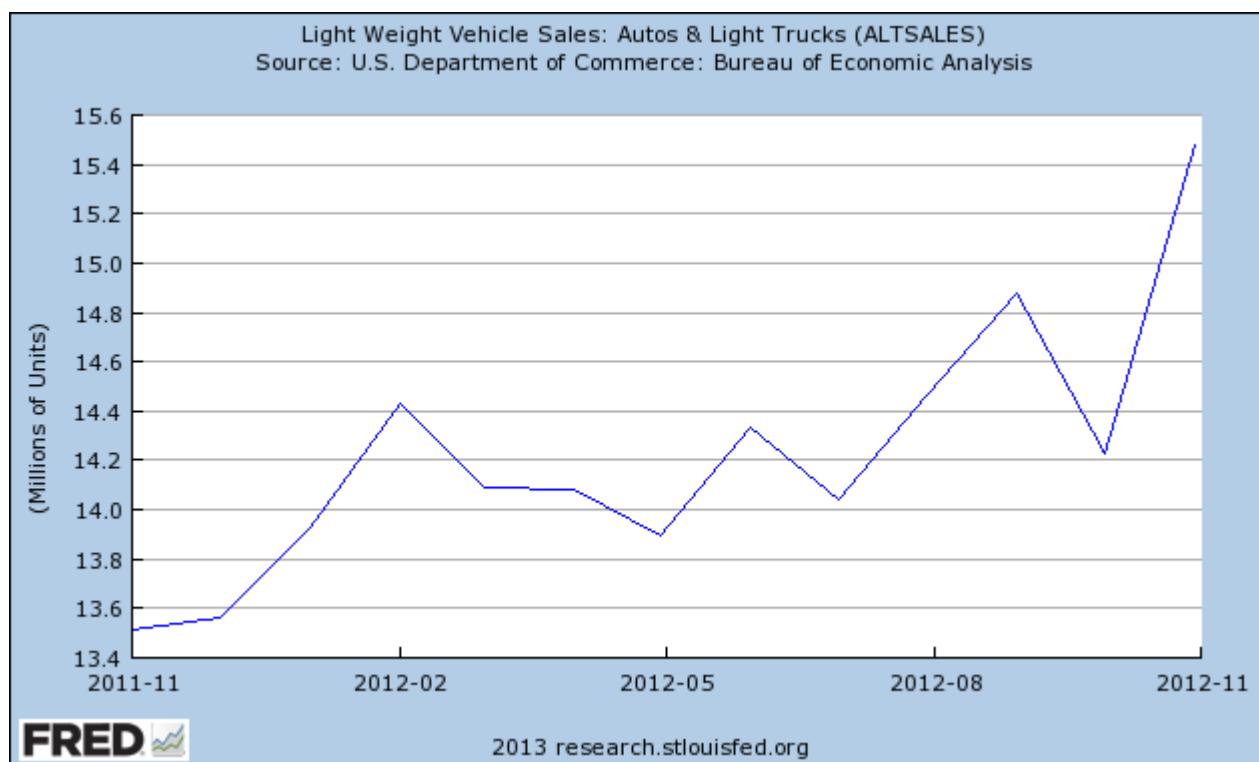
While Costco is an amazing company, I have yet to meet an investor who would be satisfied with the above rates. Likewise, who would be satisfied earning a 2.36% return over the next 30 years in a Canada bond? My conclusion is that investors who purchase long-term Canada bonds today are traders hoping to flip these bonds at a higher price in the future rather than long-term investors satisfied with today's yield-to-maturity. This looks like a high-risk strategy to me.

For this reason we have been accumulating cash in daily interest accounts rather than committing to bonds at today's levels.

U.S. Housing Starts



While it has been easy to see negativity in news headlines, the reality is that the U.S. housing starts have grown at 21.1% for the year. This has benefited Canadian forestry shares, U.S. homebuilders and U.S. retailers.



U.S. auto sales increased by 14.81% this past year, indicating a recovering U.S. economy.

Stocks We Wish We Owned Last Year

	<u>Jan 1, 2012</u>	<u>Dec 31, 2012</u>	<u>% Change</u>
Home Depot	47.46 USD	61.85 USD	30.32%
Canfor	10.92 CAD	16.58 CAD	51.83%
Interfor	4.30 CAD	7.99 CAD	85.81%
Acadian Timber	10.33 CAD	14.30 CAD	38.43%
Brookfield Residential Properties	8.08 CAD	17.69 CAD	118.94%
Wal-Mart	59.76 USD	68.23 USD	14.17%
Lennar Corp	19.65 USD	38.67 USD	96.79%

Clearly economy sensitive shares were the winners in 2012. I expect this to continue in 2013.

The Fiscal Cliff

While there are many valid and divergent opinions on the U.S. budget, balancing the budget with forced tax increases and forced spending cuts doesn't seem like all that bad of a long-term plan to me.

Should the political haggling last longer than expected, any pullback should be a good opportunity to buy U.S. stocks.

Changes at Raymond James Nanaimo

2013 will be active in our office. Barb is planning on retiring in July of this year and we are currently looking for a licensed assistant to take her place.

In addition I plan to hire an Associate Investment Advisor this year. My daughter Meaghan is currently doing a four month university co-op in our office to see if this is the right career for her. If it looks like a fit, I would expect her to start in the fall of 2013. Should she find greener pastures, I will be looking for another candidate.

All the best for 2013.



Ian Douglas
Financial Advisor



Barbara Holmes
Administrative
Assistant



Lindy Edgett
Receptionist



Meaghan Douglas
Co-op Student

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