

# RAYMOND JAMES®



Published for the friends and clients of  
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## October 2009 Newsletter

### Back to Normal

The third quarter of 2009 showed positive growth, albeit more subdued than the blistering rally in the second quarter. The debate now is not whether we will experience Armageddon, or how long the economy will continue to contract, but how strong the recovery will be. Most Canadian equities participated in the recovery.

|               | <u>All Time</u><br><u>High</u> | <u>Mar 6/09</u><br><u>Low</u> | <u>June 30/09</u><br><u>Close</u> | <u>Sept 30/09</u><br><u>Close</u> | <u>3<sup>rd</sup> Quarter</u><br><u>Recovery</u> |
|---------------|--------------------------------|-------------------------------|-----------------------------------|-----------------------------------|--------------------------------------------------|
| S&P 500       | 1,576                          | 666                           | 919                               | 1,057                             | 15%                                              |
| TSX Composite | 15,154                         | 7478                          | 10,374                            | 11,394                            | 9.8%                                             |

While markets are nowhere near their highs, the last six months have been very profitable.

### Guaranteed Investments

| Canada T-Bills | <u>March 31/09</u> | <u>June 30/09</u> | <u>Sept 30/09</u> |
|----------------|--------------------|-------------------|-------------------|
| 30 day         | 0.35%              | 0.18%             | 0.16%             |
| 60 day         | 0.36%              | 0.18%             | 0.18%             |
| 90 day         | 0.37%              | 0.19%             | 0.22%             |
| 180 day        | 0.47%              | 0.29%             | 0.29%             |
| one year       | 0.58%              | 0.50%             | 0.47%             |

| Canada Bonds | <u>March 31/09</u> | <u>June 30/09</u> | <u>Sept 30/09</u> |
|--------------|--------------------|-------------------|-------------------|
| 2 year       | 1.07%              | 1.20%             | 1.18%             |
| 5 year       | 1.74%              | 2.46%             | 2.49%             |
| 10 year      | 2.78%              | 3.36%             | 3.24%             |
| 30 year      | 3.58%              | 3.86%             | 3.81%             |

| GIC's  | <u>March 31/09</u> | <u>June 30/09</u> | <u>Sept 30/09</u> |
|--------|--------------------|-------------------|-------------------|
| 1 year | 2.05%              | 1.30%             | 1.50%             |
| 2 year | 2.35%              | 2.06%             | 2.00%             |
| 3 year | 2.80%              | 2.81%             | 2.50%             |
| 4 year | 3.05%              | 3.21%             | 3.00%             |
| 5 year | 3.30%              | 3.51%             | 3.25%             |

### U.S. Rates

| U.S. T-Bills | <u>March 31/09</u> | <u>June 30/09</u> | <u>Sept 30/09</u> |
|--------------|--------------------|-------------------|-------------------|
| 1 month      | 0.12%              | 0.15%             | 0.03%             |
| 3 month      | 0.20%              | 0.17%             | 0.10%             |
| 6 month      | 0.41%              | 0.32%             | 0.13%             |
| 12 month     | 0.53%              | 0.53%             | 0.33%             |

| U.S. T-Bills | <u>March 31/09</u> | <u>June 30/09</u> | <u>Sept 30/09</u> |
|--------------|--------------------|-------------------|-------------------|
| 2 year       | 0.80%              | 1.05%             | 0.88%             |
| 5 year       | 1.66%              | 2.51%             | 2.21%             |
| 10 year      | 2.66%              | 3.54%             | 3.21%             |
| 30 year      | 3.53%              | 4.33%             | 4.00%             |

We can learn a number of things from T-Bill and bond rates. T-Bills being short term are closely influenced by Government monetary policy. Clearly with these very low rates the governments are aggressively stimulating the economy.

Bonds are longer term and are less susceptible to government influence. Note that Canadian bond yields have been very stable over the last 90 days. In the U.S. the rates on 10 and 30 year bonds have fallen in the last 90 days. This indicates that bond holders are expecting a slow muted U.S. economic recovery rather than a strong one.

## Corporate Bonds, Capital Trusts and Debentures

| <u>Issuer</u>       |                 |                 |                 |                 |
|---------------------|-----------------|-----------------|-----------------|-----------------|
| <u>Bonds</u>        | <u>Maturity</u> | <u>March 31</u> | <u>June 30</u>  | <u>Sept 30</u>  |
|                     |                 | <u>Yield to</u> | <u>Yield to</u> | <u>Yield to</u> |
|                     |                 | <u>Maturity</u> | <u>Maturity</u> | <u>Maturity</u> |
| Royal Bank F/F      | June 2014       | 7.00%           | 4.50%           | 3.89%           |
| Bell Canada         | Feb 2017        | 6.00%           | 5.00%           | 3.91%           |
| Shaw                | Mar 2017        | 6.93%           | 5.57%           | 4.62%           |
| Communications      |                 |                 |                 |                 |
| Telus               | Mar 2017        | 6.11%           | 4.83%           | 4.24%           |
| Great West Life F/F | June 2017       | 9.17%           | unavailable     | 5.54%           |
| TD Bank F/F         | Dec 2017        | 8.30%           | unavailable     | 4.93%           |
| Suncor              | May 2018        | 6.52%           | 5.07%           | 4.67%           |
| Canada              | 2018            | 2.78%           | 3.36%           | 3.24%           |

### Capital Trusts

|                  |           |       |       |       |
|------------------|-----------|-------|-------|-------|
| Royal Bank       | June 2018 | 8.13% | 5.93% | 5.07% |
| TD Bank          | Dec 2018  | 7.58% | 5.89% | 5.37% |
| Bank of Montreal | Dec 2018  | 8.22% | 6.22% | 5.41% |

Clearly the risk premium on these corporate bonds has decreased, providing significant capital gains for investors that purchased them during the last year, particularly from January through June. The real win in my mind was locking in such attractive yields with high quality issuers.

### Last Newsletter's Favourite Bonds

Brookfield Asset Management 5.29% April 2017 traded at 87 for a 7.7% yield to maturity when recommended in my July newsletter. It currently trades at 91.2 for a 6.9% yield to maturity. I feel that these continue to be good value.

Trinidad 3 year debentures were recommended at 90 for an 11% yield to maturity in the July newsletter. They currently trade at 96.75 for a yield to maturity in excess of 8.75%. I feel that these are still good value.

## Today's Favourite Bonds and Debentures

Recently a number of mid-cap companies have been raising money through convertible debentures. The yields have been in the 5.25% to 6.25% range, but their conversion features provide upside potential should the underlying stocks go up. If you feel that you have too much cash on hand let me know and I can put you on the list for the next attractive issue.

## Today's Favourite Equities

It is likely the economy will improve, but not that realistic that we can count on interest rates going lower than they are now. For this reason economically sensitive companies should perform better than interest sensitive companies. For clients currently underweight equities I would consider:

- 1) The TSX Composite Index
- 2) Canadian Oil Sands Trust
- 3) Brookfield Asset Management

## Tax Savings

As the table below indicates, tax rates on dividends are sharply lower than that on interest. As a rule, if you want a diversified portfolio of stocks and bonds, the bonds should be in your RSP, RRIF, and TFSA (Tax Free Savings Account), and the dividend paying stocks should be in your taxable account.

| <b>British Columbia (BC)</b>                       |                                |                      |                           |                                 |
|----------------------------------------------------|--------------------------------|----------------------|---------------------------|---------------------------------|
| <b>Combined Federal &amp; Provincial Tax Rates</b> |                                |                      |                           |                                 |
| <b>2009 Taxable Income</b>                         | <b>2009 Marginal Tax Rates</b> |                      |                           |                                 |
|                                                    | <b>Other Income</b>            | <b>Capital Gains</b> | <b>Canadian Dividends</b> |                                 |
|                                                    |                                |                      | <b>Eligible Dividends</b> | <b>Small Business Dividends</b> |
| first \$35,716                                     | 20.06%                         | 10.03%               | -14.36%                   | 3.16%                           |
| over \$35,716 up to \$40,726                       | 22.70%                         | 11.35%               | -10.54%                   | 6.46%                           |
| over \$40,726 up to \$71,433                       | 29.70%                         | 14.85%               | -0.38%                    | 15.21%                          |
| over \$71,433 up to \$81,452                       | 32.50%                         | 16.25%               | 3.68%                     | 18.71%                          |
| over \$81,452 up to \$82,014                       | 36.50%                         | 18.25%               | 9.48%                     | 23.71%                          |
| over \$82,014 up to \$99,588                       | 38.29%                         | 19.15%               | 12.07%                    | 25.95%                          |
| over \$99,588 up to \$126,264                      | 40.70%                         | 20.35%               | 15.56%                    | 28.96%                          |
| over \$126,264                                     | 43.70%                         | 21.85%               | 19.91%                    | 32.71%                          |

Marginal tax rate for dividends is a % of actual dividends received (not grossed-up amount).

Source: [www.TaxTips.ca](http://www.TaxTips.ca)

In practice, sometimes when cash is available in your RSP a stock looks like the best value, and sometimes when cash is available in your taxable account a bond looks like the best value. Over time you can end up paying full tax on interest income outside your RSP, and missing the dividend tax credit on stocks in your RSP.

In order to make your accounts more tax efficient we can swap the stocks in your RSP or RRIF for an equal value of bonds from your taxable account.

If you are in this position please call and we can decrease your tax bill through these transfers.

## Asset Allocation

I feel that we are now in a “normal” market, which should have a general uptrend, interrupted by periodic corrections. As a result a “normal” asset allocation based on your risk tolerance is appropriate.

## Summary

We have had two solid quarters of market growth. Most investors should be doing “fine tuning” rather than making radical changes in their portfolios. Reducing “dead dogs”, accumulating more promising alternatives, and focusing on tax efficiency are good goals for the 4<sup>th</sup> quarter.

Have a great autumn!

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