Summer Newsletter 2008

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Hello,

Welcome to our first official eNewsletter! We hope that you find the information we're including helpful and enjoyable. Feel free to respond with any comments or ideas.

As more than half of our clients are now connected through email and have opted to save a few trees for communication purposes, we have designed our newsletter with them in mind first and are printing off and sending to our regular mail clients second. If you have not been added to our email list and would like to, please contact Gord at gordon_deck@scotiamcleod.com or call him at 876-3714.

Economic and Market Outlook

Recession, Depression, Hyperinflation, or Stagflation?

There seems to be no doubt that we are headed for harder economic times here in North America. Harder economic times can unfold differently; anticipating how they can be expected to unfold allows us to keep our eye on the ball as investors.

No one has a crystal ball, least of all me. But I do have some views about where I think we are most likely headed, and what we can do to protect ourselves and potentially benefit from what is expected to unfold.

My view remains that North America is going through a period of “stagflation”. Stagflation is characterized by both a weak economy (usually intermittent recessions and short periods of shallow growth) and increasing price pressures (rising inflation).

Stagflation is particularly difficult for the monetary officials to deal with. Classically, central banks cut interest rates and increase the money supply when they expect weakening growth and weakening price pressures. They raise interest rates and try to lower the money supply when they expect stronger growth and rising inflation. But when they expect a weaker economy and rising inflation – that paralyzes them. And that is where the Bank of Canada, the Federal Reserve Board of the USA, and the Bank of England find themselves now – “on hold” because price pressures are increasing even as the economy is weakening.

A stagflationary environment is a difficult one for investors as well, but not a hopeless one. It tends to be a volatile period, so of course being balanced is ever so important. There is a temptation, when “depression” fears are predominant, to go to all to cash, but with inflation, cash is actually falling in value.

The high volatility means that “timing,” which is a disparaged art during periods of sustained growth and price stability like we experienced in the 80's and 90's, becomes important. And picking the areas where investment and opportunity will be strongest is also important – there is no rising tide to lift all boats.

The last extended period of stagflation was in the 1970's. It was a period when America, the UK, and France were experiencing a decline in economic power relative to Japan and Germany, which were on the rise at the time, and the OPEC nations. Similarly today, America, Western Europe, and Japan are experiencing a decline relative to the "emerging-market" nations like Brazil and India, the oil exporting nations, and resource-rich first world nations like Canada, Norway, and Australia.

I see many other similarities to the 70's, as well as some key differences. But the 70's experience is a good starting point for some ideas as to what sectors are most likely to prosper over the next few years – and we will want to make sure we do not get shaken out of good investments in those sectors as the market inevitably swings from greed to panic to relief to greed to panic. In addition, we can simply look for investments in businesses which will survive or even prosper if the economy goes into recession, but can also survive or even benefit from rising prices (think pricing power) and/or rising interest rates (think strong balance sheet).

The great thing about investing with a stagflationary compass is that if a more extreme outcome develops – extreme inflation or extreme economic slowdown, you will have chosen an investment that will be buffered from the negative effects.

In future "Musings" I will be writing more about why I think "Stagflation" is the most likely outlook, and some of the areas where that view leads me to look for opportunities.

Chris's Corner

On September 28, 2008, Chris will again be running in the Scotiabank Toronto Waterfront Half-Marathon. This year Chris was happy to see that Autism Ontario is part of the Scotiabank Group Charity Challenge.

As most of you know, Chris started running last year and this marathon was his first ever half marathon. After that run, he decided to run in the Peterborough Half in February and the Hamilton Around the Bay Road Race in March. As last years focus was mainly to just finish the race, this year Chris is hoping to raise awareness and some money for Autism Ontario - Durham Region; A cause that is close to Chris's heart. (You can read more on that topic on our website under Chris's Corner)

He has set up a web page on the Scotia Waterfront website to help collect online donations. You can click on the this link if you would like to help him reach his goal of $500. All on-line pledges will receive an official electronic tax receipt. Pledges can also be made by cheque, payable to "Autism Ontario - Durham Region." If you are in contact with Chris in the next couple of months, be sure to wish him luck or as they say "Break a leg"!

In the Community

A Piece of Canadian History came to Peterborough Monday July 7th.The original van used by Terry Fox in 1980 has been refurbished made a stop in Peterborough to raise funds and awareness for cancer research!

As a proud sponsor of the Marathon of Hope, the Peterborough branch of ScotiaMcLeod held a Family Barbeque at Crary Park, where everyone had the opportunity to check out the van, enjoy a BBQ and enjoy some good music. Doug and Chris could be seen in the BBQ Tent grilling and serving some tasty burgers. Gord was helping entertain the crowds swinging away on his trombone in the L'Il Big Band. In total, we were able to raise roughly $2900 from this event.

Product Feature - C.I. Sunwise Elite Plus

You can have a good plan in place, make regular contributions to your retirement savings and allocate your investments prudently, but you may still have the misfortune to experience a market downturn around your retirement date. When you're in the retirement risk zone – the five to 10 years just before and after you retire – any short-term losses you experience with your investments may have negative long-term effects on your retirement plans.

That’s why we want to tell you about an important new product that can provide you with security and peace of mind in your retirement planning – SunWise Elite Plus. SunWise Elite Plus combines investments with insurance features to provide you with a predictable, sustainable retirement income for life. SunWise Elite Plus is backed by SunLife Financial, a leading international financial services organization.

SunWise Elite Plus uniquely offsets market risk before and after you retire. Prior to retirement, you are rewarded with a 5% annual guaranteed income bonus every year for the first 15 years without a withdrawal. This means for an investment made at age 50, by not making withdrawals in the first 15 years, the Lifetime Income from that investment is guaranteed to grow by at least 75% by age 65, no matter how the market performs. At age 65, you are guaranteed an income for life that will never decease and may even increase if your investment performs well.

SunWise Elite Plus is provided through a partnership between, Sun Life Financial and CI Investments, one of Canada’s largest investment management firms.

For more information on this product click here or go to www.sunwiseeliteplus.com
If you would like to talk to us about this product please feel free to call Doug or Gord.

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