

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations. We believe Knowledge Pays and we want our knowledge to help pay for you.

ECONOMIC TIDBITS AN INVENTORY OF NOTABLE DATA AND INFO

- Since our last newsletter, risk markets have traded marginally higher as European nations continue to pass additional austerity measures and as non-European economies continue to show strength.
- Markets cheered the announcements that the Greek and Italian prime ministers vowed to step down but remained volatile as bond yields on Italian and Spanish sovereign debt successively hit new Euro-era highs, raising the risk of a credit crisis type event. Many deem Spain and Italy as both too big to fail and too big to bail. See Fig. 1 for a chart of Italian bond yields.
- Despite a contracting Eurozone economy, the U.S., Japanese and Chinese economies grew in October with data pertaining to their manufacturing and service industries showing expansion. Commodity inflation pressures have subsided, providing room for upside in these economies which import a vast quantity of commodities.

LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Property REITs and low, long-term interest rates

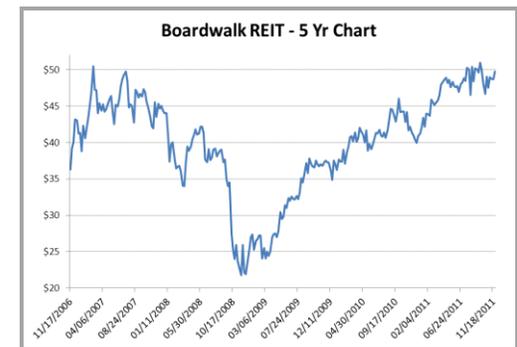
- Low rates mean a low cost of financing for REITs and large spreads between the dividend/distribution rates and GIC rates
- Property REITs tend to maintain high occupancy rates in recession
- **Boardwalk REIT (BEI.UN)** and **Canadian Apartment Properties REIT (CAR.UN)** are two investment ideas related to this theme:
 - Boardwalk REIT owns and operates residential and apartment properties across Canada but primarily in Alberta and Quebec. Real estate prices in these provinces are known to be reasonably valued relative to incomes and should fare well in recession. See Fig. 2 for 5-year chart.
 - Canadian Apartment Properties owns and operates residential and apartment properties across Canada but primarily in the GTA, greater Ontario and Quebec. Outside of downtown Toronto, real estate prices are reasonably valued relative to incomes. See Fig. 3 for 5-year chart.

Fig. 1



Data Source: Bloomberg.com

Fig. 2



Data Source: Market-Q

Fig. 3



Data Source: Market-Q

RIDING THE CURVE *A CATALOG OF OUR MONTHLY FIXED INCOME FAVOURITES*

Student Transportation Debenture B Maturing June 30th, 2015 (STB.DB.B)

- Student Transportation operates school buses in Canada and the US
- This is a 3.6 year debenture with a conversion price of \$7.25 (current price: \$5.90)
- This debenture yields 6.75% until maturity at a current trading price of \$100

Fairfax Financial Preferred I (FFH.PR.I)

- Fairfax Financial is a provider of reinsurance and property, casualty and life insurance
- The shares reset at 2.85% + the 5-year GofC bond on December 31st, 2015
- At \$23.80, the issue has a yield-to-retraction (soft) of 6.52% and is rated Pfd-3 (high)

Aimia (formally Group Aeroplan) Preferred A (AIM.PR.A)

- Aimia operates a loyalty management company in Canada and internationally
- The shares reset at 3.75% + the 5-year GofC bond on March 31st, 2015
- At \$25.50, the issue has a yield-to-retraction (soft) of 6.00% and is rated Pfd-3

THE BIG PLAN *PSYCHOLOGICAL INTERFERENCE IN PORTFOLIO PLANNING*

Psychological biases and heuristics related to investing can negatively affect investment decision-making and possibly limit your portfolio's long-term returns

Loss Aversion

- The tendency to feel more pain by losing money than you would feel joy in gaining an equal amount of money
- This can lead to an unjustifiably low risk tolerance and a preference for fixed income
- Higher than necessary allocations to fixed income can lead to underperformance

Confirmation Bias

- The tendency to look for, favour and be overly persuaded by information that confirms our initial impressions and avoid/dismiss information that does not
- This can lead investors to be overly optimistic (pessimistic) about bad (good) stocks

Recency Bias

- The tendency to associate more importance to recent events than non-recent ones
- Recent events often have the most emotional response, overly affecting behaviour

Anchoring and Reference Dependence

- The tendency to cling to a fact/figure that should have no bearing in decision-making

JEANNINE'S TIP O' THE MONTH *ENHANCING YOUR SWM EXPERIENCE*

As of December 1st, 2011, clients have the ability to sign up for paperless tax receipts in much the same manner as paperless statements and confirmations. Watch for more details to arrive with your November and December statements!

Current Rates & Data

Govt of Canada

90 day	0.72%
1 year	0.86%
2 year	0.92%
5 year	1.39%
10 year	2.14%
30 year	2.76%

U.S. Treasury

90 day	0.01%
1 year	0.08%
2 year	0.23%
5 year	0.92%
10 year	2.09%
30 year	3.15%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (Sept)

3.20%

U.S. CPI Y-o-Y (Sept)

3.90%

Exchange Rates

CAD/USD	0.983
USD/EUR	1.363
JPY/USD	77.00

This newsletter has been brought to you by Steele Wealth Management

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