ISSUE 19 | NOVEMBER 2012

Taking Stock with Steele

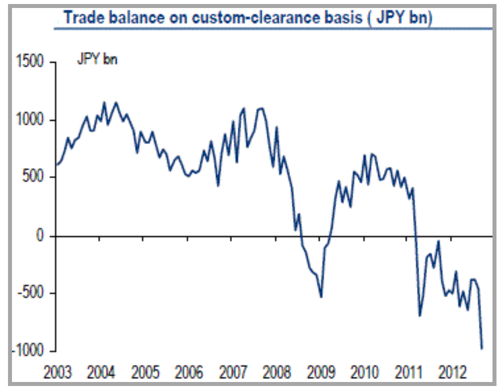
Your Monthly Newsletter

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, equity markets have performed poorly, particularly in the United States. The reelection of Barack Obama hammered shares in the Financials, Energy, Defense, Health Care and Materials sectors as he is seen as being less supportive of these sectors than Mitt Romney. Gold and gold shares rallied as Obama's reelection ensured that Ben Bernanke's "easy money" policies will continue as he retains the position of Federal Reserve Chairman.
- Growth of the global service sector slowed after hitting a 6-month high in September. The contraction of the global manufacturing sector continued to moderate in October. The Eurozone continues to show weakness even while the U.S., China, India and Brazil showed healthy rates of economic expansion. Trade between the world's 2nd and 3rd largest economies remains suppressed (down over 10% year-over-year) as the dispute over the Senkaku Islands continues. As a result of the Eurozone crisis and Senkaku dispute, Japan's economy contracted in Q3. Anxiety is growing over Chinese-Japanese trade as a prolonged decline could have a major impact on global investment and growth. *See Fig. 1 for chart of Japan's Trade Balance.*

Fig. 1



Data Source: Japanese Ministry of Finance

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

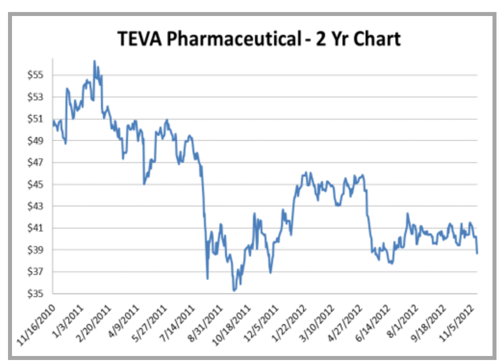
Value Stocks Look Attractive After Selloff Spares None

- The combination of a heightened risk aversion, tax rate uncertainty and inflation worries compelled investors to pick on value names
- Most companies in the Consumer Staples, Health Care and Utilities sectors have the ability to pass on inflation to customers over time
- Long-term trends drive prices in these sectors more so than other sectors, trends which are widely believed to be in force
- **Shopper's Drug Mart (SC)** and **TEVA Pharmaceutical (TEVA)** are two investment ideas related to this theme:
  - Shopper's licenses retail drug stores in Canada under the banners Shopper's Drug Mart and Pharmaprix. *See Fig. 2 for 1-year chart.*
  - TEVA is the world's largest generic drug company. It also has a short lineup of patented drugs. *See Fig. 3 for 2-year chart.*

Fig. 2

Data Source: Market-Q

Fig. 3



Data Source: Market-Q

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

Atlantic Power Debenture B Maturing June 30th, 2017 (ATP.DB.B)

- Atlantic Power owns and operates power and infrastructure assets in the U.S.
- This is a 4.7 year debenture with a conversion price of $18.10 (current price: $12.28)
- This debenture yields 5.60% until maturity at a current trading price of $100

Dundee Corp Preferred B (DC.PR.B)

- Dundee Corp is a diversified asset management company with a significant portion of its assets invested in Bank of Nova Scotia common and preferred shares
- The shares reset at 4.10% + the 5-year GofC bond on September 30th, 2014
- At $26.15, the issue has a yield-to-retraction (soft) of 4.12% and is rated Pfd-3

INVESTMENT PLANNING ALL ALLOCATION DECISIONS ARE EXPLICIT MARKET CALLS

Over the past few years, investors have grown to accept the conventional wisdom that interest rates are going to rise and investors need to get prepared. Many, if not the vast majority of seasoned fixed income fund managers have **vastly reduced their exposure to interest rate risk** by buying short-term securities. Almost every pundit questioned on business news television will warn of the impending doom awaiting all investors exposed to even a smidgen of interest rate risk. We challenge this wisdom.

The issue with this stance is that those who reduce their interest rate risk to near-zero are settling for incredibly low yields while they wait for the eventual doomsday to occur. **We find it strange that the conventional wisdom is to attempt timing the market** today as well as the resulting need to time it following a rise in interest rates. It appears that both amateur and professional investors have forgotten the golden rule of investing (diversification) and **are letting fear govern their investment decisions**.

A fixed income investor possessing zero long-term bonds, debentures or perpetual preferred shares is betting that interest rates will rise immediately. **Every day that passes before interest rates rise makes the bet the wrong one** and the portfolio will underperform a diversified basket of fixed income securities. Since even the world's best investors are not consistent market timers, we think it's prudent to maintain a diversified fixed income (and equity) portfolio at all times.

We recently compared a perpetual preferred share (WestCoast Energy Preferred J, aka W.PR.J) to a 5-year GIC. We found that over five, ten and fifteen year periods, W.PR.J can be expected to perform in line with a GIC on an after-tax basis when 30-year bond yields rise by 1%, 3% and 5% over those periods, respectively. Should rates rise by less than those amounts, W.PR.J should outperform. For this reason, **long-term investors should continue to hold long-term securities like W.PR.J in taxable accounts**.

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

Look for Tax Selling Opportunities – The end of the year is fast approaching. This is a good time to review your portfolio and identify those investments where capital losses can be used to offset gains.

Current Rates & Data

Govt of Canada

90 day	0.97%
1 year	1.03%
2 year	1.10%
5 year	1.34%
10 year	1.76%
30 year	2.35%

U.S. Treasury

90 day	0.09%
1 year	0.17%
2 year	0.27%
5 year	0.68%
10 year	1.67%
30 year	2.81%

Canada Prime Rate

3.00%

U.S. Prime Rate

3.25%

Canada CPI Y-o-Y (Sept)

1.20%

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

2.00%

Exchange Rates

CAD/USD	1.007
USD/EUR	1.297
JPY/USD	82.40

This newsletter has been brought to you by Steele Wealth Management

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All rates mentioned within this newsletter are as of November 23rd, 2012, unless otherwise stated.