Richmond | Goodman & Associates

TOUCHSTONE Newsletter

Leading the Way

January 2013

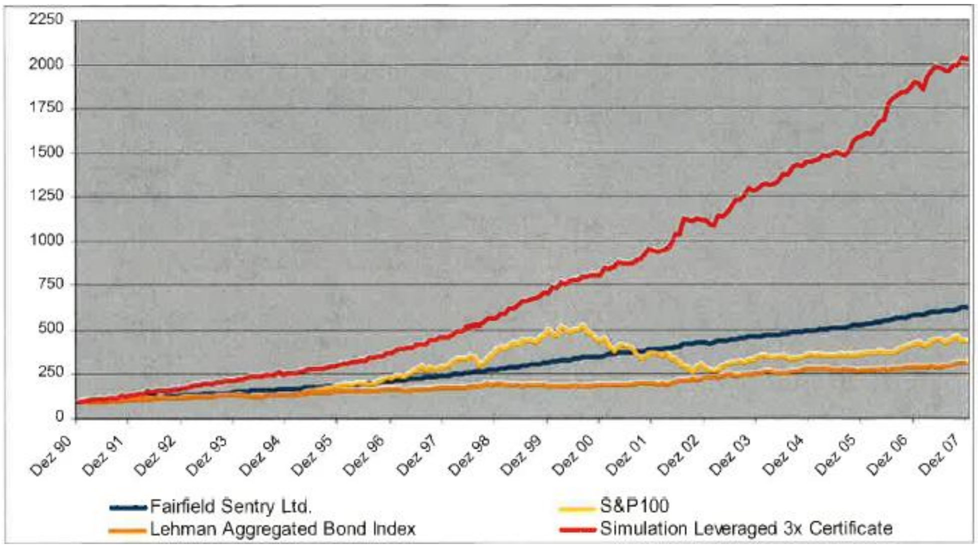
Anyone with an older *brother or sist*er knows the true meaning of leadership.

Most of us are 'experiential learners' so when we see an older sibling with their tongue stuck to an icy metal post – we mostly laugh. We certainly take note not to get caught in that situation ourselves. Younger siblings can avoid those pitfalls that beset their older family members.

It is, however, a two-way street. In particular, we recall a friend's account of his two older brothers encouraging him to 'pet a farm doggie' – which would have been harmless had the 'doggie' not in fact been a surly goat tethered to a post for bad behaviour. Our friend was happily able to father children. The experience shall forever be burned into *his* memory.

Experience teaches better than theory. It is the stuff of human nature – and the same reason why we see Depression Era children practice frugal and conservative fiscal habits. Those habits serve them well based on hard experience – yet may have precluded them from taking some modest and reasonable risks.

On our bulletin board at work, we have several reminders of experience. Not necessarily our experience. For example we have the chart shown below. It is a pristine example of investment performance that seemed too good to be true. Just look at that chart – the red line barely wavers despite being leveraged over 300% to the 'Fairfield Sentry fund'. Leverage is almost always a bad thing, and the situation was made only worse by the fact that the Fairfield fund was managed by Bernie Madoff. Again NOT our experience (or our clients) – but a good lesson just as well.



Source: www.fairfieldsentry.com

Philip Richmond CIM
Director, Wealth Management
Portfolio Manager
Investment Advisor
416.941.6711

Douglas Goodman CIM, FCSI
Director, Wealth Management
Portfolio Manager
Investment Advisor
416.941.6714

Tina Fattore
Associate Investment Advisor
416.941.6715

The second reminder we have is the chart shown below. This is a snapshot of Japanese interest rates market at a point not so long ago. We draw your attention to the circled data.

13:46 **JAPAN GENERIC RATES** Page 1 / 4

SECURITY	TIME	LAST	CHANGE	OPEN	HIGH	LOW	CLOSE
Generic Treasuries							
2) 3 Month	6:00	.109	--	.109	.109	.109	.109
3) 6 Month	4:06	.110	--	.110	.110	.110	.110
4) 12 Month	5:15	.110	--	.110	.110	.110	.110
Generic Notes/Bond							
Simple Yield							
7) 1 Year	6:00	.114	-.001	.113	.130	.113	.115
8) 2 Year	6:00	.128	+.003	.125	.132	.124	.125
9) 3 Year	6:00	.134	+.004	.128	.136	.126	.130
10) 4 Year	6:00	.179	--	.182	.182	.170	.179
11) 5 Year	6:00	.259	-.006	.265	.265	.248	.265
12) 6 Year	6:00	.339	-.004	.342	.342	.319	.343
13) 7 Year	6:00	.479	-.010	.488	.488	.458	.489
14) 8 Year	6:00	.589	-.015	.604	.604	.575	.604
15) 9 Year	6:00	.745	-.018	.759	.759	.736	.763
16) Japan 10 Year	6:00	.911	-.018	.929	.929	.905	.929
17) 15 Year	6:00	1.275	-.023	1.299	1.299	1.265	1.298
18) 20 Year	6:00	1.527	-.012	1.539	1.539	1.502	1.539
19) 30 Year	6:00	1.545	-.035	1.579	1.579	1.544	1.580
20) 40 Year	6:07	1.589	-.036	1.589	1.589	1.589	1.625

Source: Bloomberg

Since the Great Recession in 2008 we have heard some very intelligent credible people weigh in on where Bond rates will bottom out.

- 'Bonds should be sold with a warning label (2.8%)'
- 'When the 10 year bond hits 2.5% sell'
- 'When the 10 year bond yield gets below 1.75%: it is no longer an investment, it is savings'
- 'We see Bonds bottoming out at 1.9%'.

The 10 year bond in the US hit 1.5% recently and then bounced higher to 1.95%. The Japanese 10 year bond yield on our chart is 0.911%. Their past was riddled with similar predictions that rates would never get as low as they eventually did. Experience again may teach better than theory.

In many ways Japan is an older sibling to the US. They stuck their tongues to a cold banking crisis many years ago. They went deeper and deeper into debt, and pioneered Quantitative Easing into an art form. Japan is as one financial pundit states quite bluntly – 'A bug in search of a windshield'.

So we as Canadians are the youngest of three children with older siblings in the USA & Japan. We find ourselves watching as the second oldest sibling (USA) approaches the icy cold pole with *his** tongue out – DESPITE the fact Japan took the same path decades earlier. *(OK guys are probably more likely to perform this stupid act!)

Younger siblings can avoid those pitfalls that beset their older family members. They *can* – but no one really knows what it is like to stick your tongue to a cold metal pole – up until the very moment that we actually do it.

As stewards of your hard earned investment capital – we strive in earnest to learn from experience. We will add to our bulletin boards, avoid cold metal poles when we see them and:

"Expect the best. Prepare for the worst. Capitalize on what comes."
~ Zig Ziglar

As 2013 begins we see some constructive reasons to participate in stocks (with a bias towards dividend payers), with our circuit breakers in place. Our 'stable' of medium sized companies continue to be above average in both fundamental and technical measures. Our portfolio is balanced to mostly equal weights – but we don't preclude making adjustments down the road to capitalize on any opportunities.

The bond environment is less attractive than a year ago. Rates on 10 year bonds will likely move around a lot. We are positioned in good quality, shorter corporate bonds for the most part, which insulates us from this volatility. We don't think bonds are in a 'bubble' – the greater risk is with bond managers who will be tempted to apply leverage to lower yielding bonds. This is not our bailiwick – we will leave this to hedge fund 'geniuses'.

As always we appreciate your confidence, welcome your candid feedback and wish you and your family well in 2013.