

Sentiment and perception always challenge the human psyche. Is the glass half-full or half empty? Many would say it is a reflection of your state of mind supported by experience. You could also argue investing is just as much about economic fact as it is about perception, sentiment or state of mind.

Canada has been showing some darling performance even as the oil sector weakens both at home and abroad.

The state of mind on global events and prosperity is indicating glass half full. Economic data and facts point to a definite glass half empty in the Euro zone. Even wearing rose coloured glasses will not support a 'glass half full' daydream.

America as always has been the pendulum swinger for the global community. During such dire states of mind, economic facts and data are amplified in value to reflect the overall psyche.

This week the glass half full is extended to America due to three key points of economic data released:

1. Unemployment had a slight uptick so reported by the Labour Department.
2. The institute of Supply Management Index showed activity in manufacturing fell more than expected.
3. The Philadelphia housing sector Index tumbled 4.9%

Additional banking stocks tumbled again as reflected in the KBW Bank Index down 3.5%. Weakness in oil, gas, and electronic storage and network services persisted. Gold on the other hand bucked the trend.

Do this week's lacklustre economic numbers mean 'the glass is half full' in America? No, but at times sentiment trumps logic. America is on a path of recovery. It is illogical to expect growth to be consistent and uninterrupted.

Strong negativity will persist after Greece is resolved. The fundamental issue for the Euro zone is the lack of an established central monetary reserve. By now, I sound like a broken record playing for the last 24 months but this is what evokes so much concern about EU solvency. So far, EU members have enjoyed a prosperous and extravagant engagement. The time has come to solidify this engagement into a full economic union. The wedding should have been during prosperous times, which would have been celebrated wildly. The ten-year anniversary was celebrated by few and regretted by most. The unravelling of the EU would do more harm to the key economic nations in the G8 than those in the EU.

June 2<sup>nd</sup>, 2012



America's subprime lending is widely blamed as the primer for the great recession. When you examine the banking activity of the French, Spanish and Austrian financial institutions, it becomes clear easy lending to subprime governmental projects and corporate entities was occurring on a much grander scale. Unlike in America, Euro bankers were engaging in government back debt with the notion governments never fail. Well it has come time for governments to make good on funding those guarantees. France is the biggest player in all this debt debauchery. The French are neither willing nor prepared to bail out the unbridled greed and speculation of their biggest banks and endure a lost decade or two similar to Japan.

On the other hand, Germany has since 2008, quietly behind closed doors been forcing reform among the biggest abusers of improper lending. German bank lending focused mainly on real estate lending. Fortunately, Germany did not have a real estate boom like many other developed nations. France has done nothing hoping their banks will power their way though by generating gargantuan profits to wash away their bad loans. Spain a country too big to fail meaning that Spanish banks are so insolvent it would bring down many financial European institutions, all of which engaged in speculative lending. If America is to blame for sowing the seeds of speculative lending then Euro banks repackaged and market an economic deadly strand of virus lending infecting not just individual wealth but corporations and the very back bone of the nations they call home. Just like any contagion spreading, the first visual signs appear at the periphery. Fortunately, the heart, soul and mind of the EU reside in Germany.

My role as advisor is to have in deployment strategies not only to protect wealth from such extremes but ways to prosper under such conditions.

As I stated in the last update, the EU is mandated with a resolution. Will it be what everyone has hoped? No. Will it be a quick recovery? No. Will there be economic fallout? Yes. Who will be the winners? Nations that stayed out of the EU and nations ready, willing and able through their corporations to rapidly absorb the slack left behind.

In all this turmoil, one fact stands out; quality premium nations are fewer and fewer each day. Contrary to what many believe, Canada has not peaked. Our country is entering a great expansion due to the premium value placed on strong stable economically sound countries. Nations in a similar boat as Canada will prosper due to the premium factor.

June 2<sup>nd</sup>, 2012



My update on China and India will be brief; China has entered the initial phase of an economic crash landing with no potential for a sudden last minute avoidance maneuver. India is labelled for the near future by capital markets as “Stay away! Do not enter at any risk”.

Canada has been showing some darling performance even as the oil sector weakens both at home and abroad. In economic news, despite our persistently strong dollar, Statistics Canada reported real gross domestic product rose 0.5% in the first quarter just as it did in the last quarter of 2011. On a month-to-month basis, real GDP by industry edged up 0.1% in March. Business investment contributed the most to the first quarter in GDP growth.

Domestic demand grew by 0.3%. How do other developed nations compare?

In America, the Labour department reported the economy only added less than 69,000 jobs in May far lower than 150,000 expected. Unemployment ticked up from 8.1% to 8.2% in May.

The Euro zone manufacturing deteriorated at its fastest pace in nearly three years. The purchasing managers' index performance indicator fell to 45% in May. PMI contracted for the tenth consecutive month. Unemployment in the EU as per Euro stat is at 11%. About 17.4 million people are unemployed. Those looking for work grew by 110,000 last month.

Why is Canada growing as others stall, shrink or fade away economically? Business investment in Canada is at historic levels and growing.

Capital investment is not just from abroad but Canadian corporations are pouring money back into the economy to grow their companies and meet current demand.

Wage inflation will create a second wave of reinvestment as low skilled jobs will be automated which pushes the demand and competition for advanced skills. Wage inflation has been consistent in Canada over the last three years and is expect to climb.

Wage inflation usually drives real estate prices upward. The cities and communities, which will benefit the most, are the ones that provide jobs, easy transit solutions and room for expansion. Western Canada has been booming for more than a decade while manufacturing in Ontario continues to suffer under a strengthening Loonie.

As indicated by Stats Canada, Ontario and manufacturing as a whole are seeing prosperous times once again.

June 2<sup>nd</sup>, 2012



Consumer spending is strong and very healthy across Canada as indicated by record sales for cars and trucks compared to a poor year in 2011. Despite all the turmoil globally and in the market, Canadians spent big on the second largest ticket item.

Toyota recorded the largest percentage gain in sales over last year at 64.7%. Nissan was up 36.9%. Ford increased by 27%. Kia had their best year ever in Canada at 21.1%. Chrysler sales rose by 7%. Hyundai also sold more, up 4.7%.

Get ready for our region to be in the global spot light again. June 20<sup>th</sup> through 24<sup>th</sup>, the LPGA classic will take place at Grey Silo in Waterloo.

Lastly, I have been asked many times to comment about the impact of RIM's transformation. Our region has been successful in transforming itself during great and difficult economic periods. Firstly, RIM put this region on the technology map. Secondly, thanks to RIM's star power it has attracted the best and brightest in the world. Many people are choosing to stay in KW and are being hired quicker than the ROE's are mailed out. Our region is still very much starved for talent. As RIM regrettably lets its talent pool go our region's talent void will shrink.

As always, change brings opportunity. How we harness changes determines our level of success and prosperity. Talented people are flung out into a new reality only to find they have skills and talents unknown even to them.

Here are the closing numbers:

Canadian dollar	\$0.9621 US down \$0.60
TSX	11,361.20 down 152.02
DOW	12,118.57 down 274.88
Oil	\$83.23 US a barrel down \$3.30
Gold	\$1,622.10 up \$57.90