

December 1st, 2012

Over the past three months a frequent question clients have been asking is, “how would AJFS’ portfolio strategies stack up if the fiscal cliff materializes in America?” The underline premise of all three of our strategies is that doom, gloom and bleakness loom large as economics sputter and stall adjusting to new global economic operating standards. Since the great recession of 2009, the economic climate has been filled with negativity. During that same period our strategies have seen client capital grow, received an uninterrupted monthly distribution of 6% annualized all while preserving capital. Our view is continued bleak market conditions filled with extreme volatility. I do not believe America will fail to find a solution in resolving the fiscal cliff but will only implement the least beneficial strategy having the bare minimum effect.

One thing is true the fiscal cliff is real and must be addressed. Fortunately, congress approved a partial fix taking effect January 2013. A dividend tax increase will only partially fund the deficit. A capital gain tax increase is being tabled with much opposition in congress. Even if and when the tax increases on capital gains is passed it will only close the gap further not fund the full deficit requirement. Do not get me wrong, I’m not hitting the panic button but some kind of accord must be reached sooner rather than later as no government economist wants a Kondratieff Winter economically.

Let’s look ahead to spring 2013. I firmly believe March will see the launch of the largest quantitative easing on a global level. If central banks around the world lower interest to near zero levels and print currency, two things would happen; 1) real interest rate earnings would be negative, 2) trillions of dollars of newly printed currency would have only one place to land in “equity markets”. Government economists as well as global leaders are keenly aware of the devastating nature of a Kondratieff Winter and understand a global effort must be executed to jumpstart economic growth.

Promising indicators are emerging from the EU showing that austerity planning has reached their limit. The EU just approved hundreds of billions in loans to Greece which was previously a sever chokehold on EU progress. Italy is emerging ahead and no longer represents a liability to the EU economically but an asset that greatly improves the Euro zones economic stance.

Even in America, despite the endless bickering GDP for Q3 2012 is at 2.7%. Unemployment is holding steady on a slow downward trend. Housing, the biggest hole in the economy is rebounding at very healthy rates.

I have said this many times before do not look to China. China’s economy is splintering. Additionally, China is not a net global consumer but a net seller of goods. As tension heats up in China, manufacturing will leave to friendlier shores bringing jobs with them. Many of these manufactures will

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move operation closer to high consumption markets due to rising shipping and fuel costs. A rebalancing will occur out of China and move to domestic market places bringing with it new jobs.

Countries affected by China's slow down will be resource rich nations like Canada, Australia, Norway, Sweden, African nations and a few Asian countries. Corporations in this sector will have to reduce operating costs to keep margins high as market growth diminishes.

Here in Canada we are already feeling the slow down as the TSX is losing upward momentum. Our stubbornly high Loonie has not just slowed manufacturing but is not putting Canadian commodities and energy to uncompetitive levels. Our Loonie must be deflated. By dropping interest rates near the levels of America, would do that. A drop in interest rates would see the Loonie fall, increase the sale of oil by as much as 25% due to currency drop. Western Canada's oil rich provinces have great influence in Ottawa making politicians very reluctant to attacking the premium made on Canadian oil due to our high Loonie. Economic times have changed since the institution of a 2% spread between Canadian and American lending rates. If Canada is to continue to be a strong economic player, the 2% handcuffs must be taken off and allow corporate Canada to gain market share globally.

In closing, I have prepared a synopsis on how Canada's 100 richest people invest. Canada's richest are big believers in Canada's economic potential as 86.82% of their investments are in Canadian corporations followed by 11.18% in foreign holdings most of which are in developed nations. The richest 100 index has beat the TSX since its establishment in 2007 every year. Sectors favoured by Canada's richest 100 investors; 30% consumer discretionary spending, 21% consumer staples, 19% financials, 13% telecom and IT, 11% energy and materials and 6% industrials.

Interestingly, this is the exact opposite mainstream media promotes as investment buys. On a go forward, close analysis on the performance and approach of Governor Mark Carney's successor will be top on the agenda.