Subject: The Signature Line - A Classic "V-Shaped" recovery is taking hold
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Conversation: The Signature Line - A Classic "V-Shaped" recovery is taking hold

Signature FINANCIAL SECURITY

The Signature Line

Your Quarterly Update on the Markets and how it Affects You!

April 2010

IN THIS ISSUE

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Dear Michael,

Spring is in the air! Hopefully many of you were able to get away this spring for a little R&R. Mireille and I were down in the Napa Valley this spring and since I can't stop thinking about business, I was chatting with a lot of the locals, and those in the tourist industry, and they told me that tourism was generally up and that consumer sentiment was generally positive -certainly more so than it was one year ago. This echoes what I'm hearing from many of you here in Calgary who are mostly feeling quite positive about the next few years to come.

As I mentioned in the last edition of *The Signature Line*in January, I'm quite excited about this year as I really do expect things to be positive for the economy and for your business (and mine), and as you will read in my overview for Q1 below, so far so good. The recovering economy has also translated into a positive climate for the stock market, which is helping to restore investor confidence, which was badly smashed in 2008.

Before getting to the outlook for the economy and the markets, take a read of the brief section below regarding pending inflation. Most of you are already positioned to handle the effects of inflation, but I haven't yet spoken to too many of you regarding the opportunity in real estate. Take a read and let me know if you want to chat further -I'm always glad to sit meet, even if it's just a friendly coffee!

Good luck for the rest of 2010 and I'll be sure to get you our Q2 review and Q3 outlook in July. Please feel free to contact me any time if you have any questions or concerns.

Regards, Mike Robinson
www.signaturefs.ca

Are you prepared for inflation?

Raise your hand if you think inflation might become a problem in the next year or two ...

I thought so. With the tremendous amount of stimulus put into the world economy during 'The Great Recession,' there aren't many people who don't foresee inflation creeping into the system later this year or into next.

What does it mean for you as a saver?

It means rising interest rates are likely coming, which puts downward pressure on bonds and other income vehicles, and it means that NET investment returns, after inflation, may start to shrink. What looks good on the top line may not look so good on the bottom line.

So what should we do?

To help battle rising interest rates, we need to consider a tactical and fluid investment mandate on the income side of your portfolio using an investment manger who is an expert in generating income with not just government bonds but corporate bonds, high yield bonds, preferred shares, trusts, and other income-generating securities. You should also consider real return bonds, which are adjusted for inflation. Many of you are already doing so already but it's good to be aware.

On the equities side of the portfolio we are starting to look towards investments with a positive correlation to inflation, such as **infrastructure assets and real estate**. Infrastructure assets refers to things like toll roads, railways, utilities and other businesses that raise prices to keep pace with inflation and pass the cost on to consumers.

With real estate I'm talking about investing in a fund that directly owns and manages property, like downtown office towers, apartment buildings, retail and industrial buildings. **I'm talking the stuff that pension funds invest in, not the stuff you hear on the radio!**

One of the best funds available is the GWL Realty Advisors Canadian Real Estate

Fund. This is a great way to earn equity-like returns with bond-like volatility and hold assets that are correlated with inflation. [For more information on the fund, click here].

A Classic Recovery

Economic recovery in Canada appears to be taking a normal "V-shape" as better-than-expected economic data suggests that real GDP in Canada could rise at a 5% annual rate through Q1, which is quite significant. This recovery is being supported by continued fiscal stimulus and easing monetary policies. The recovery is quite broadly based with gains being made in the retailing, manufacturing, construction and resource-related sectors, and unemployment claims are falling and the housing market remains robust.

In the US recovery is also underway, although perhaps not quite as strong as in Canada. Personal spending rose during Q1 leading to estimates of 3.0 - 3.5% annualized growth for the first quarter. Although there remains a lot of excess slack in the labour market, payroll employment rose in March for the third consecutive month, which is in line with expectations. Service companies, which represent almost 90% of the economy, expanded the most in more than three years in March and pending home sales jumped 8.2% in February, the biggest increase since October 2001.

The optimism in the economy, although cautious, has translated into positive stock markets. The current bull market is now 13 months old (having began on March 9, 2009), and bull markets that follow severe bear markets, like the one we just came out of, tend to be very strong both in duration and growth.

The Toronto stock market, as measured by the S&P/TSX, has risen 60.9%, and the New York Stock Exchange, as measured by the S&P 500, has risen 76.5%, both from their respective lows last spring. For Q1, the S&P/TSX in Toronto is up 3.14% and the S&P 500 in New York is up 4.9% in US Dollar terms, although due to the rise in the Canadian dollar of 3.6% against the USD, the returns on the S&P 500 when converted to Canadian Dollars is somewhat muted.

While equities have recovered quite well, we have not yet returned to previous highs, although those highs are expected to be taken out down the road. Stock valuations remain attractive given strong earnings growth expectations for 2010 and 2011, combined with an environment of historically low interest rates. Stocks will clearly outperform bonds over the next two years as corporate profits and dividends grow and bond yields rise due to inflationary concerns.

Although we are into what is expected to be a strong bull market, there will, of course, be corrections during this new bull market (which we may be experiencing now). During a correction the market may pull back 5% to 15% of its value, lasting from a few days to a few weeks. These corrections are not a concern as they are a normal part of stock market dynamics, and are typically great buying opportunities.

What does this all mean to you?

It means that during the first part of this year your investment portfolios will have edged up with decent returns from Canadian equities but with more modest returns from US and international equities. Bond yields have moved up in anticipation of rising interest rates, which means bond and other fixed income returns were a bit negative in the quarter.

Moving forward we continue to expect decent returns from Canadian stocks, and US & international equities should do well also, as most (but not all) of the gains in the Canadian dollar are probably behind us. Interest rates are expected to move higher in anticipation of the Bank of Canada raising interest rates to fight inflation. This will put pressure on your fixed income holdings and it's time to start being more tactical with fixed income investments and looking at other income producing vehicles apart from just bonds. Real return bonds and other inflation correlated assets classes should also be considered at this time.

The key to success in this environment is to maintain a defined and disciplined investment strategy. Tweaks to your portfolio may be needed from time to time but should remain consistent with your original investment strategy.

If I can answer any questions, or be of any assistance at all, please don't hesitate to call or e-mail me at any time.

Call me at (403) 226-0321 or e-mail me at mike@signaturefs.ca.

Enjoy your summer!

Mike Robinson

Forward email

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