

# The Investment **EDGE**

Summer 2008

## Market Commentary



### The Mellow, Schooley & Richardson Group

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### The Last Word

You can never appreciate the shade of a tree unless you sweat in the sun.

-- Author Unknown



### Markets

As we write this summer edition of the Investment Edge, markets around the world are well off their October highs, with the US market down 20%, the MSCI world index down 18% and the Chinese Hang seng down over 50%. Only the Canadian TSX, so heavily weighted in energy and other commodities (energy and materials now represent 48% of the TSX benchmark index) is up 1.25% year to date. This commodity leadership continues to dominate providing a very narrow opportunity for positive returns in the short run. Such narrow performance makes disciplined value investing a challenging exercise to say the least! Where there is momentum there is little value, and where there is great value there is little momentum.

Without the use of a crystal ball we will stay out of most debates such as peak oil theory, bear vs. bull markets, or the next major trend. What we do know is not one single investment style will work all the time, but sticking to a sound investment discipline that places emphasis on strong fundamentals works well over the long term.

### Central bank policy

Currently, most inflation seems to be limited to food and energy. You don't have to go far to find inflationary pressures, just look at the price of gas at the pump or the price of meat, dairy products and bread the next time you're at the grocery store. But is it spreading? Central banks are facing a tough balancing act by having to battle both declining Gross Domestic Product (GDP) growth and rising inflation. On the one hand, increasing interest rates will tame inflation but eventually lead to slower economic growth, while cutting rates will have the opposite effect.

During the last Federal Open Market Committee (FOMC) meeting on June 25<sup>th</sup>, more emphasis was placed on inflation risks versus downside risk to growth. In our opinion, the Federal Reserve has little room to raise rates because of US debt levels and the current banking crisis. What we *need* is for oil to go down.

### Oil... Wow!



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## The US Strategic Petroleum Reserve

The Strategic Petroleum Reserve (SPR) is now nearing full capacity, reaching 702.7 million barrels of crude in storage in the nation's salt domes scattered across the South and Southwest. According to the US government, the SPR's full capacity is 727 million barrels, and the average price paid for the crude in storage is now \$28.42/barrel. In other words, the US government has a paper profit of approximately 78.5 billion using the current price of \$140/barrel. If the US government is so concerned with energy inflation, would it not be an easy solution to sell some of this extremely profitable trade – flood the market with supply – thereby lowering the price?

## Tax-Free Savings Accounts

Undoubtedly, the biggest treat for investors in the 2008 federal budget was the introduction of a new savings vehicle that will allow Canadians to save money, not just for retirement but also for any purpose, on a completely tax-exempt basis.

Starting in 2009, Canadians will be able to contribute to a tax-free savings account (TFSA). Everyone who is at least 18 years old will begin to accumulate \$5,000 (to be indexed annually, rounded to the nearest \$500) of TFSA contribution room. This TFSA contribution room will be cumulative and will be carried forward indefinitely for future years.

Perhaps the most interesting twist in these rules is that, unlike the RRSP system, any amounts withdrawn from your TFSA in a particular year will be automatically added to your TFSA contribution room for the following year, allowing individuals who withdraw TFSA funds to re-contribute an equivalent amount in a future year.

Further information about the TFSA is available on the Canada Revenue Agency website:

<http://www.cra-arc.gc.ca/gncy/bdgt/2008/txfr-eng.html>

## Wilfrid Laurier Event

**Saturday, September 20, 2008**

It's almost that time of year again for our 4<sup>th</sup> annual VIP tent in the end zone at the Wilfrid Laurier University Homecoming football game. Come out and watch in comfort as the Golden Hawks stomp the Windsor Lancers.

Please contact Carol Cadeau if you are interested in attending.

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## Personalized Financial Solutions

The Mellow, Schooley & Richardson Group prides itself on being able to provide personalized financial solutions for each of our clients. No cookie cutter solutions here. In order to be able to take full advantage of all that we can offer you in terms of service and expertise, it is imperative that you keep us abreast of any major life changes.

Examples of major life events that can impact your financial solution are:

- Age or lifestyle stage (e.g. Post-School to Age 30, Early-Career, Mid-Career, Late Career, Retirement)
- Divorce
- Marriage
- New addition to the family
- Care giving of a parent or other relative
- Career change
- Inheritance or other newly acquired assets
- The passing of a spouse

## The Terry Fox Tour of Hope

Come see the van that Terry travelled in from St. John's to Thunder Bay!

The Terry Fox Foundation wishes to bring the van (which has been restored courtesy of Ford Canada), across Canada to thank Canadians for their support and to let us know that, "until Cancer is beat the Terry Fox Foundation will be raising money and awareness." Terry Fox's brother, Darrell Fox, has asked ScotiaMcLeod to help organize and host the summer long tour. The van will make it's way here on Friday July 18<sup>th</sup>! It will be in front of Kitchener City Hall between 2:30pm to 4:30pm.

## One Final thought:

"Summer afternoon - summer afternoon; to me those have always been the two most beautiful words in the English language."  
- Henry James

