



Question: *Some 40 years ago, the seeds of the "financial planning" profession began. Since then, mainstream media has seized the air-waves and has marginalized the advisor, the client and the life-goals addressed every day. The media keeps the focus on those daily items that ill-serve the average client. As an industry, how can we create a more balanced conversation, focusing less on the "apocalypse du jour" and more on the real-life decisions we help clients decide?*

Answer: I do not have any idea what we can or even should do; the question doesn't interest me. The mainstream media are the mortal enemy of advice and the advisor and of a long-term planning perspective. (They cover the news, which is antithetical to the truth.) This is a constant; it will never change. My advice is simply to man your oar. I don't care what "the industry" does any more than I care what the media do. The "industry" created sub-prime mortgages - need I say more?

Media speak untruth. You and I speak truth. There is no balance to be struck; you can't make a deal with the devil. My attitude toward clients, whenever the mainstream media take a position opposed to mine on any subject, was still essentially: *you can choose to believe them, or you can choose to believe me.*

1. I who know you and care deeply about you.
2. The media, which does not know you, does not care about you and only wants to keep you reading and watching it appears to be **anti-counseling**.
3. It is not my job to refute this, nor does my claim to your trust depend for its validity on my willingness or ability to refute it.
4. My claim to your trust is based on (a) my trustworthiness, (b) my knowledge of your financial goals and capabilities, and (c) my education, training and experience in solving financial situations like yours.
5. The choice as to which of us to believe is entirely yours, and I would not seek to influence your decision, beyond stating the truth. It is a total waste of precious time and energy to get worked up over the media.

Nick Murray, Advisor

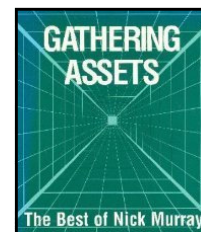
Fear Is Your Friend

"The financial world is a mess, both in the United States and abroad. Its problems, moreover, have been leaking into the general economy and the leaks are turning into a gusher. Headlines will continue to be scary. What should you be doing?"

"I've been buying stocks."

So wrote one Warren E. Buffett—the world's most admired yet least imitated investor—in a *New York Times* op-ed piece published on October 18, 2008, about a month into the post-Lehman Great Panic then engulfing the world.

For the record, October 18 was a Saturday; the S&P 500 had closed the night before at 940.55, on its way to 677 five months later. And every day in between, somebody or other blogged that the old man had finally lost his touch. As I write this article, the S&P is trading at 1285, and the Buffett-bashers are nowhere to be found.



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The point Buffett was trying to make is that periods of well-publicized economic and financial distress have historically turned out to be periods of above-average opportunity in equities. Such distress usually engenders widespread fear, which in turn leads to waves of panic selling, which in turn drives the prices of great companies down to very attractive valuations. In just that sense, fear is the true friend of the long-term investor. The corollary of that insight is that episodes when you are feeling the most fear—and everyone around you is reflecting that same sense of fear—*have historically been the worst possible times to give in to, and to act upon, that fear.*

No one is suggesting that you not feel fear, because it's a response that's hard-wired into all of us. We would simply not be human if we didn't feel some fear. The trick is, at the very least, not to act on the fear. The response to fear has been to recognize it as a breeder of opportunity—indeed, the greater the fear, the greater the opportunity has always been. The latter is precisely what Buffett was doing in October 2008 and again in August 2011.

BUFFETT ON GOLD

"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current gold prices, you could buy all - not some - all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have \$1 trillion of walking-around money. Or you could have a big cube of metal."

*Which would you take?
Which is going to produce more value?*

Housing Volatility vs Market Volatility

The average U.S. home price, measured from its bubble, is down about 30%. The majority still haven't sold - they still need a place to live. Long-term, a home's price will probably track its replacement cost... *But let your equity portfolio go down 30% - which the S&P 500 has done, on average, one year in five since the 1930s, and you're ready to jump out a window, if only to get away from doom-and-gloom-commentators, howling "It's different this time!"*

You have a choice. Believe the doomsayers, give in to the fear. Or choose to see fear as the driver of lower prices and therefore of increased values; a 30% off sale on the great companies. Fear is your friend...if you'll let it be. *"You may be feeling a lot of fear, but that doesn't mean you have to act on it."*



Mind The Megatrend: The Rise of the Middle Class Is A Defining Event

"In 2004, General Motors sold 10 cars in the U.S. for every one car sold in China; the ratio is now quickly approaching one to one, and soon China will be a bigger market than the U.S. for America's largest automaker. In 2008, Nokia, the largest cell phone maker in the world, had net sales of \$8.2 billion in China, more than three times its U.S. revenues." *Surjit Bhalla, Middle Class Report*

An Indian economist, Surjit Bhalla, found that the middle class's share of the whole world's population rose from one-third to over half (57%) between 1990 and 2006. According to Mr Bhalla's calculations, the number of middle-class people in Asia has overtaken the number in the West for the first time since 1700. *Surjit Bhalla, Middle Class Report*

There were fewer than 300 million middle class people in the developing world in 1980, according to studies by the United Nations and the World Bank.

Today there are over two billion, and by 2025 there may be as many as 3.6 billion. Global spending by the middle class, according to the OECD, was recently just over US\$21 trillion. It may be US\$35 trillion by 2020, and US\$55 trillion by 2030, with as much as 80% of the projected growth expected to come from Asia alone.

What must the long-term implications of these megatrends be for great businesses vs the volatility, the sheer day-to-day irrationality of the stock market?

The OECD, in its 2010 paper "The Emerging Middle Class in Developing Countries," estimated total spending by the world's middle class in 2009 at US\$21.3 trillion. It projected this spending to grow to US\$35 trillion by 2020, and to US\$55.7 trillion in 2030.

It expects 80% of this projected growth to come from Asia alone. 82% of Americans own a car, but fewer than 20% of Brazilians do. 88% of Americans own a cell phone, but only 30% of Indians do—and their population is four times bigger.

Inevitably, then, the reality is that American companies are finding more of their revenues and earnings outside the U.S.

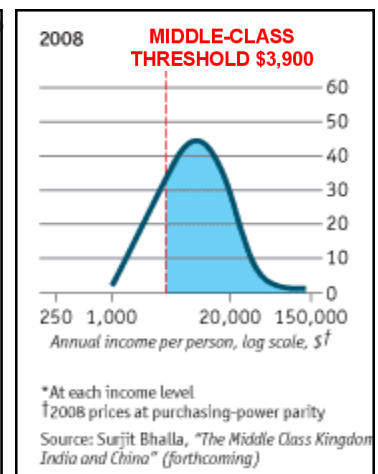
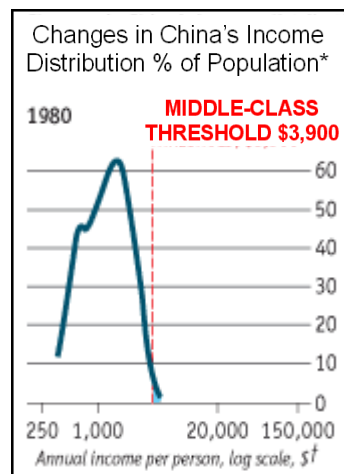
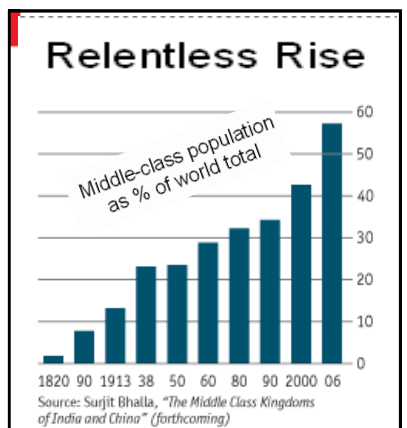
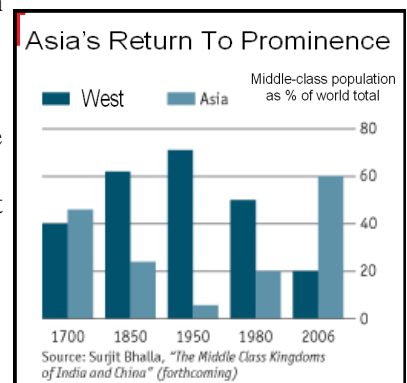


Chart of the Day: How the world might look by 2040

As observed by mining giant Rio Tinto, which produced this chart, we are in the middle of a 'momentous swing in economic power'. This chart actually shows three things:

1. how big economies will be in 2040 (the size of each bubble),
2. how fast each economy will be growing by then (shown along the bottom), and
3. how wealthy their countrymen will be (GDP per capita).

It appears to be a bit of a rough and ready graph, but that's no bad thing when we're looking some 30 years into the future. The predictions in the graph vaguely tally with what other economists expect: China becomes the world's biggest economy sometime around 2040, but by then its growth – as in other rising powers like India – will have slowed down significantly. India will become the fastest growing large economy. The predictions inherent in this graph do differ from others though, as they assume Chinese GDP per capita – used as a measure of population's wellbeing – will remain well below that of the US. Nobel economist Robert W. Fogel of the University of Chicago, for example, makes some bolder forecasts about China's 'economic hegemony'. He reckons China's per-capita income will be \$85,000 by 2040, which would put it at more than double Fogel's forecast for the European Union at that time.

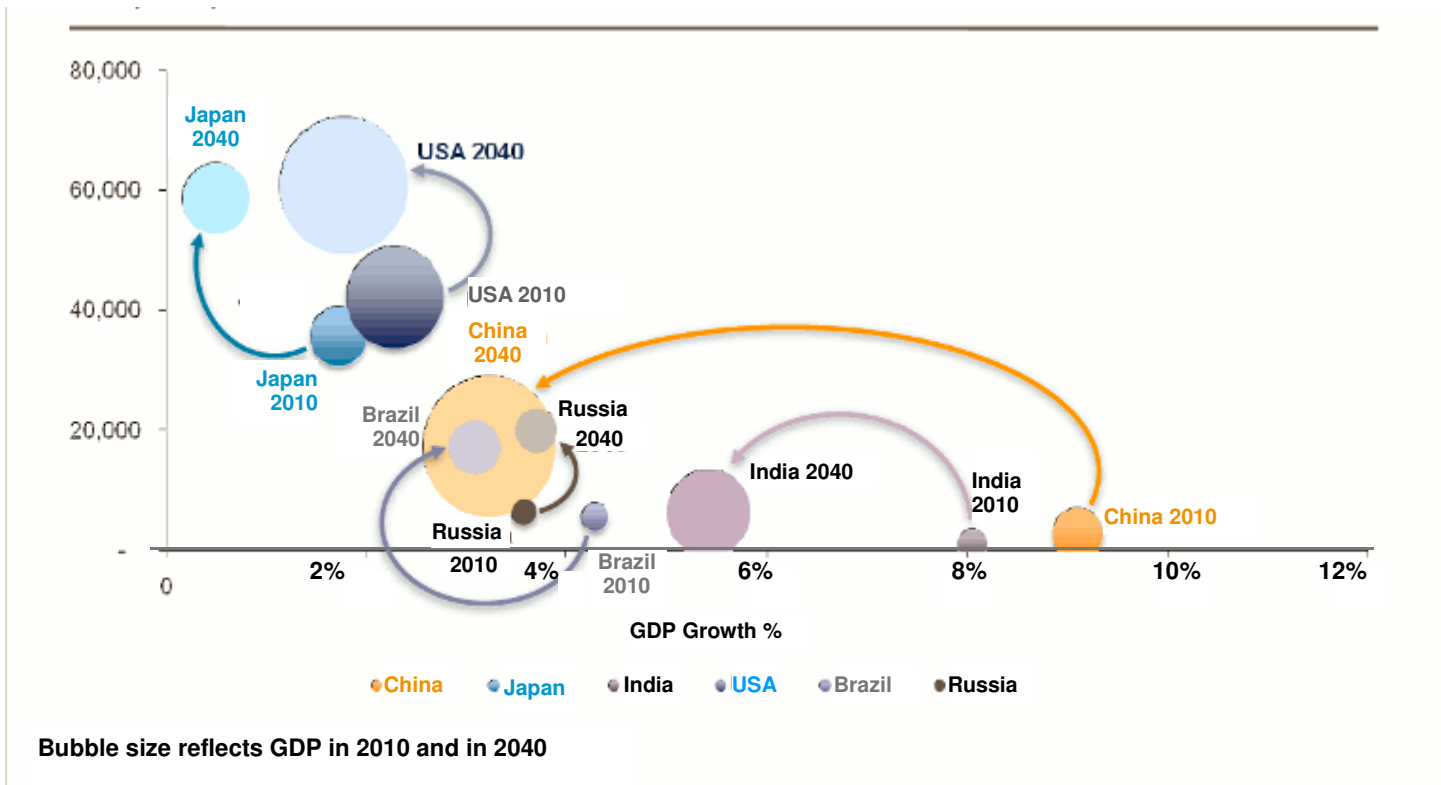
In other words, China would be prosperous as well as rich. A lot could happen by 2040, you might say. And we can't get economic forecasts right for this year, let alone the next decade. But as Boston University professor Laurence Kotlikoff says 'whether China reaches its destination more slowly or not, that destination is the world's largest developed economy'. And you can't knock multinational companies for keeping a close eye on the expansion of their major markets. The bigger question is whether China can expand this dominance beyond economic might and into political and military domination.

Our Conclusion

While it is nice to review past charts and past investment performances, one must also keep one eye on the future. For example, in the 1960s, John Templeton probably was the very first manager to invest in Japan. That is why it is so important to diversify your holdings to protect against the future unknown and why the investment industry puts out this disclaimer for all investments:

Mutual Funds are not guaranteed, their values change frequently and past performance may not be repeated. Mutual Fund securities are not covered by the Canada Deposit Insurance Corporation (CDIC) or any other government deposit insurer. Please read the fund prospectus carefully and seek professional advice before investing. Commissions, trailing commissions, management fees and expenses may be associated with mutual fund investments. There can be no assurances that the full amount of your investment in the fund will be returned to you.

A Momentous Swing in Economic Power GDP per capita US\$

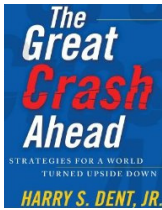


Source: Rio Tinto, Access Economics

Investors seeking an answer to the mystery of why the great companies in America and the world are performing so very much better than the domestic U.S. economy seems to be doing, should pay close attention to this phenomenon the exponential growth in the sheer numbers, not to mention the purchasing power, of the middle class outside of the developed world. Investors know, in a kind of vague way, that more and more of companies' revenues are coming from outside the U.S.

The enrichment of the developing societies is their emergence as consumers and *ultimately as investors*. It is this idea that tends to dawn on us rather more slowly.

The Harry Dent fallacy, which holds that the equity market in the United States must inevitably decline as the baby boomers retire and become net sellers of stocks is bogus. This assumes that the market for U.S. stocks is essentially limited to U.S. investors only, a notion which grows more patently absurd by the day. It is like saying the United Kingdom still rules.



Ned Davis Research firm calculated the 20-year returns (to 2010) of S&P 500 companies that were "more global" (i.e. got more than 50% of income from foreign operations) as against those which were "less global." The cumulative return of the "more global" companies was 802.96% vs. 611.62% for the "less global" equities.

We all grew up in the paradigm where the U.S. economy carried the world, and the U.S. consumer carried the American economy. Literally and figuratively: we're not in Kansas anymore.

Nick Murray, Advisor

Brazilian market place...

The crowd surges back and forth, hands above heads, mobile-phone cameras snapping one of Brazil's best-known samba bands. Casas Bahia, the country's largest retailer, is celebrating the opening of its first ever store in a *favela*. It is selling television sets and refrigerators in a place that, at first glance, has no running water or electricity.

Among the shacks, though, rise three-storey brick structures with satellite dishes on their tin roofs. In the new shop, Brazilians flock to buy on installment credit. In a country with no credit history, the system is cumbersome: the staff interview customers about their qualifications and get them to sign stacks of promissory notes, like post-dated cheques, before allowing them to take their purchases home. Messy but it works, more or less. This is the emerging markets' new middle class shopping.

Eduardo Giannetti da Fonseca, one of Brazil's most distinguished economists, describes members of the new middle class as "*people who are not resigned to a life of poverty, who are prepared to make sacrifices to create a better life for themselves.*"

China's market place...

Back in 1992 Lu Jian was a dissatisfied mid-level bureaucrat at China's department of transport and communications who became surplus. Taking advantage of government measures that encouraged such officials to go into business, he went off for a stint at China's first commodity-futures trading company. Soon afterwards he found himself designing the country's first ski resort, near the northern city of Harbin. Now, as chairman of the Nanshan Ski Village, in the desert hills near Beijing, he presides over the capital's main winter-sports recreation ground.

This season 3million Chinese will take up a sport that was unavailable in the country only 15 years ago. China has around 300 ski runs. "*When the Chinese first got rich,*" says Mr Lu, "*they wanted to go to Thailand and South Korea. Now they want to go skiing.*" Every weekend the resort is packed with IT executives and bankers. This is the emerging markets' new middle class at play.

BE DIVERSIFIED! STAY INVESTED!

Despite the best efforts of investment professionals, it is virtually impossible to guess in advance which investment will have the best return in any given year. Spreading your investment dollars between different asset classes is an important tool to manage your risk, especially in volatile markets

