2013 Market & Economic Update
Transcript of a round table discussion in January 2013

Mark Neill: Welcome, and thank you for joining us. My name is Mark Neill, I'm President of PH&N Investment Services. Today I'm pleased to be here with four of our portfolio managers and the Chief Economist of RBC Global Asset Management, for what I know will be an informative discussion on the markets, the economy and the outlook for 2013.

Over the last few years we've seen a lot going on in the global economy and plenty of volatility in the markets as a result. This past year was no exception. Today we're going to dig into what's happening in global markets, what we see happening going forward, and hopefully provide you some advice and tips along the way.

I'm your moderator today, so let's start by meeting our panellists. Firstly, Eric Lascelles, Chief Economist for RBC Global Asset Management. He will help us interpret how issues relating to the global economy might affect investment returns.

Kevin De Sousa is a portfolio manager who specializes in fixed income mandates. He's here today to speak to us about what's going on in the world of fixed income.

Next up, Andrew Sweeney. Andrew is a portfolio manager with responsibilities for Canadian portfolios with an emphasis on Canadian income-oriented equities, and he will tell us what's happening in the Canadian markets and what we expect for the coming year.

Carl Lytollis is also here today to talk to us about U.S. equity markets. Carl is head of U.S. equity research at Phillips, Hager & North Investment Management.

And last but not least, Jenny Witterick is here to speak to us about overseas equities. Jenny is the founder of Sky Investment Counsel and manages international equities for Phillips, Hager & North Investment Management. Thank you all for being here today.

So we have a lot to cover. I think it makes sense to start with the big picture, so I'm going to kick it over to you, Eric. Perhaps you can talk to us a little bit about what's happened in the global markets over the last year, as well as what we expect to happen over the coming year.

Eric Lascelles: Sure, happy to. You know, I see two obvious developments, and the first is that the global economy is running a little bit less quickly than it was a year ago, and so that's not great news, though there's evidence a bit of a rebound is occurring. Equally though, and perhaps even more importantly, is the idea that the risks in the world seem to be shrinking. And so when I think of the big risks out there, the things that could go wrong, I tend to think about Europe, I think about China, I think about fiscal excesses in the U.S., and on each count we have seen some measure of improvement. Europe is looking to some extent more manageable, China seems to be managing that soft landing that we were all looking for. And the U.S. is sorting certain fiscal items out, though there is much more work to go.

And so as we look to the future, we can take some solace in the fact that the risks are shrinking. We can take some solace in the fact that the economy seems to be moving a little bit more quickly. And when I think about where the weakness came from over the last year, it came mostly from two places. It came from emerging markets and it came from Europe. And emerging markets are indeed rebounding to some extent, and so that's very welcome news. Europe is a little bit less favourable right now, at least economically. Europe is still very much in a recession. 2013 is likely to be a less bad recession, but probably still recessionary. But even there we're seeing important progress occurring, and so I don't think all hope is lost by any means.

Mark Neill: Excellent. So with that backdrop in mind, Andrew, how did Canadian equities perform over the last year?

Andrew Sweeney: Yeah, I mean the interesting thing, as Eric talked about, is there's lots of news in terms of the economy, but the reality is that the Canadian equity market, and in fact most or all global equity markets actually did quite well. And in fact, Canada was really in the middle of the pack in terms of returns, both U.S. and many international markets did even better than Canada, and I think the reason is that, you know, lots of countries have balance sheet issues, but companies around the world are in great shape. And it's companies that are obviously driving the stock market.

Mark Neill: So Andrew touched briefly on the U.S. market, Carl, what would you add to that?

Carl Lytollis: Well I say the good news is certainly that the U.S. market and the U.S. economy are doing a lot better than U.S. politics. But what we see in America is the slow, plodding recovery, we see evidence that GDP is beginning to accelerate, albeit from very low levels. And the unemployment picture has been continuously improving. And as Andrew indicated, it's the dichotomy between the country or the fiscal situation and what we see at the individual company level. And there it's quite encouraging.

Mark Neill: It's really a bit odd, you know, with all the problems in the U.S., the U.S. actually was one of the better performing markets last year. Is that what you're saying?

Carl Lytollis: Yeah, it certainly was, and it's been that way for a couple of years. And I guess that's the opportunity that sometimes the bad headlines, all the negativity can give you, so yeah, that's been the case, Mark.

Mark Neill: And Jenny, what was the story in the international markets last year?

Jenny Witterick: Well you wouldn't expect with all the headline news on Europe being so negative and the slowdown in China and all the concerns, that you would have thought the international markets would have done poorly. And I think a lot of people didn't expect that it would be as strong as it ended up being last year, which was high double digits. And so I think that sometimes it's important to separate the news from the valuation.

And what we had in Europe were stocks that were selling at 20-year lows. And these are sometimes very good companies that are multinationals, yet because of the negative news, were affected that way. So I think that with Europe not falling apart as some people would have feared and as Eric you've said, the news less bad, maybe not great, but less bad. Valuations came back quite strongly, so the Europe and international markets in general did quite well.

Mark Neill: That's good. So turning away from equities to fixed income, Kevin, how did fixed income markets fare in the last year?

Kevin De Sousa: Fixed income did reasonably well in market. It was interesting to see that there were buyers of fixed income. Fixed income has actually done well for the last number of years, but reasonably well last year. There are really two broad flavours in terms of what was driving that.

One of them was risk aversion. So when you see the concerns of what you saw taking place in Europe or Jenny talked about emerging markets as well, but particularly in Europe you say this a lot where if you imagine for a moment that you're the manager of a German pension plan, or you're the manager of a Saudi sovereign wealth fund, and you worry about what's happening in Italy and Greece and Spain, then you want to run to safety. You run to areas or countries where you think you're likely to get paid back again. So certainly it's Germany, it's the Swiss, it's the Danes, it's the Australians, the U.S. Treasury, and it's Canada. Canada is one of these countries that's been a recipient of fund flows into our bond markets, so that's certainly one flavour.

And the other part of it is this reach for yield that we've been seeing, so certainly individuals see it, like RSPs don't work very well when bond yields are two percent, people want to pay for their income. But similarly pension funds, insurance companies don't work very well with very low bond yields. And so there has been this reach for yield, people reaching out to go out and buy corporate bonds, buy high-yield bonds, even emerging market at that, and this reach for yield has also put in some demand for the fixed income asset class generally. And so there's really been a couple of drivers for fixed income doing reasonably well.

Mark Neill: Great. So in summary then, not a bad year in the markets last year overall. Eric, clearly we would not be where we are today without the action of the central banks and the policy makers. Are we expecting that they are now done, that they'll roll, they'll move to the sidelines, or is there going to be more intervention required to keep us on the path that we're on?

Eric Lascelles: As the starting point, central banks have been enormously, massively busy over the past few years. And indeed over the past year I think back and I think of a U.S. Federal Reserve delivering another round of quantitative easing, in some ways a more exciting round than what we've seen in the past. I think of the European Central Bank that's finally stepped up to the plate, willing to act as a lender of last resort, something it was reluctant to do in the past. I think the Bank of England that continues to trot away at additional stimulus, and the Bank of Japan perhaps on the cusp of doing some fairly exciting things as well.

So there is a lot of stimulus delivered. I would posit that has helped the global economy to some extent, though I think we need to emphasize there is a limit to what it can accomplish. So stimulus does some good. It can smooth over the potholes, but it can't permanently elevate growth to a higher trajectory. And so I think policy makers have done a good job of smoothing over those potholes, but we need to recognize the limits of what they can accomplish.

And as it stands right now, many policy makers seem to be pretty self-satisfied. They think they've managed to restore the economy to a reasonable starting point, and broadly they're right. But I would suggest that if we look back over the past few years, history has suggested that if anything the odds are we could see more stimulus, not less. And so as we hear some of these policy makers talk about unwinding stimulus in 2013, certainly it's possible. I suspect it might stick around a bit longer than they're saying right now.

Mark Neill: And there's been a lot of discussion around whether rates will rise and how long they'll remain low. What are the factors that are keeping rates as low as they are today?

Eric Lascelles: Right, when I look at where rates are right now, unbelievable low maybe is the observation. A few things are keeping them that low. The classic economist answer would be, the economy's not running too quickly, inflation seems to be relatively contained, and central bank rates are low, and that explains part of the reason why they're so low. But I'd argue they're even low in that context, since you need to add a few other factors on top.

And one factor is simply that central banks are doing some unorthodox stimulus. They're buying lots of bonds, and so they're administering longer dated yields to a lower level, and they've largely been successful. And you can even maybe begin to argue that there is a shortage of safe assets out there. There are fewer countries in the world rated triple A, fewer triple A rated bonds in the world, and still an enormous amount of appetite for those products. And so that combination has resulted in very low bond yields.

Mark Neill: So turning to our fixed income team, to put you on the spot, Kevin, how long do we expect rates to be as low as they are today?

Kevin De Sousa: We think it's going to take a little while. I mean for all the reasons that Eric just talked about, Carl talked about it as well, where there's positive economic growth, but it's not robust. We're not at gangbuster growth, we're not seeing concerns in the market yet in terms of inflation. You can visually see what the bond market's expecting in terms of future inflation, and it's in no way out of hand. You've got the Federal Reserve targeting an unemployment rate, something in the neighbourhood of six-and-a-half percent. We're a ways to go yet, so expectations are that yields stay somewhat low.

And I think one of the things to keep in mind as well is that for a bond investor, one of the things we want to think about is that there's not just one interest rate, there's a number. And the central banks control, for the most part, very short-term interest rates. So the federal funds in the U.S. or the overnight rate in Canada is what the Bank of Canada controls. And literally it's that, it's an overnight rate, it's a one-day interest rate.

And for fixed income investors that are investing in fixed income funds, something like our bond fund, they own things that are much more like a nine or a ten year average maturity. A ten year Canada yield, which you read much less about, but that's ultimately a far more important interest rate there. And while we see that going up, we're not talking about getting back to five and six percent yields any time soon. We do see some upward pressure on yields, but we don't see yields really leaving this "low interest rate environment" for some time.

Mark Neill: With that in mind, especially for investors who rely on yields to fund their retirement or to cover the costs of living, what other ideas can we suggest in terms of ways to improve the yield performance of their portfolios?

Kevin De Sousa: You know, there's a lot of things that we're doing already in the portfolios to address exactly that, Mark. Where we see specifically the lowest yields are in the sovereign countries. So like a Government of Canada bond yield, where we can go out and we can invest in Provincial bonds. Where instead of a ten-year Canada bond, we can get almost a full percentage point more to lend money to one of the provinces. That's a good starting point.

Corporate bonds, investment grade high-quality corporate bonds, that's another area where we're looking. And in fact those two would be the biggest, biggest weights in most of our funds, with Government of Canada bonds actually being very little. So those are certainly very good starting points.

The other areas that we look at would be high-yield, or emerging market debt. These other areas where we can try and build yield in the portfolio to try and add to the returns, but also the other element as well is that we want to be positioned against this rising interest rate environment. Again, not gangbusters huge rate increases, but positive rate increases are what we worry about. If you think about the environment where rate increases will take place, it's probably because the economy's doing reasonably well, and in that environment corporations will do well. So corporate bonds will outperform government bonds in that environment. We want to have some exposure to corporate bonds.

And all things being equal, if you think in terms of bonds being like a lever, that is as interest rates go up, the price of a bond goes down, but a longer bond moves more than a short bond. All things being equal, we want to have shorter term bonds in general. These are a couple of things that we're doing in the portfolio. And certainly high-yield and emerging market debt fit those characteristics as well.

It's interesting, actually, in that high-yield historically if you look over periods of rising interest rates, because that tends to be correlated with positive economic growth, high-yield historically actually has positive returns in periods of rising interest rates. So there are things we can do to both try and generate yield in our portfolio, as well as protect against a rising interest rate environment.

Mark Neill: Well I'm glad you mentioned that, because that's one of the questions we get a lot from clients and from investors. I think people are expecting when rates start to rise, when the world economy hits that mark where it's improved enough to justify higher rates, that rates are going to move up quite quickly, and as a result their returns on their fixed income portfolios are going to be negative. What I hear you saying is that doesn't necessarily need to be the case.

Kevin De Sousa: It doesn't necessarily have to be the case. So is rising interest rates a head wind or a tail wind? It's a head wind for sure. But there are areas that we can look at to try and mitigate that damage. So again, shortening the duration of the portfolios, owning very few of the bonds that will be most heavily impacted, like Government of Canada bonds, building yield on the portfolio, provincial bonds, corporate bonds, high-yield emerging market debt. All these are areas that are tools that we can use to try and help, certainly in that environment.

Mark Neill: Great. Thanks, Kevin. And with low interest rates we've certainly seen a tremendous amount of growth in the housing market. We've read that the housing market is cooling a little bit, partly because of some of the changes that have been made to the rules around buying houses. But are we concerned about a Canadian housing bubble, Eric?

Eric Lascelles: Yeah, well, we're certainly watching the Canadian housing market. It's one of the main variables in play from an economic perspective. I'd say it's fairly clear we are already seeing housing activity weakening to some extent. Activity is down fairly notably in some cases over the last year. Home prices are flattish, they're down in some parts of the country, they're up a little bit elsewhere. But it does look as though that trend probably continues. It is an open question, because, again, we don't know with perfect precision when and if interest rates go higher, and that certainly will be a catalyst for more of that type of behaviour. But in the meantime, as you alluded to, we've seen policy makers do a fair bit of tightening in other ways, and that is cooling the market.

And so my suspicion is we will continue to see some form of moderate correction in the Canadian housing market. Certainly enough to slow the Canadian economy to some extent. Nowhere near a recession in my mind, but when you have construction coming off, when you have home prices coming down and limiting people's ability to spend out of that wealth, there is a palpable effect. And so as I think about the Canadian economy, I still think of a growing economy. I think of one in which unemployment rates are still relatively low and fairly attractive compared to the rest of the world. But one in which maybe for the first time in several years the Canadian economy is growing a bit less quickly than the U.S., as opposed to the other way around. And a big part of that is the U.S. has a weak housing market that's getting better. The U.S. has done most of its private sector deleveraging; Canada just hasn't gotten there yet.

Mark Neill: So Andrew, I think that's a natural segue back to you in terms of looking ahead of what we expect to happen in the market over the coming year. With what Eric's saying, how are we positioning our portfolio? What do we expect to happen in Canadian equities over the coming year?

Andrew Sweeney: So in terms of Canadian equities overall, we're quite positive. We're actually constructive on all equities. I would say that as much as we like Canadian equities, I think the opportunities among U.S. and international equities are even better, but we'll leave that to Carl and Jenny to talk to.

In terms of Canada specifically, some of the issues that are happening in our market are, in the same way that fixed income investors have been chasing yield, you've seen the same thing in the Canadian equity market. And so we've seen areas like real estate, so the REITs, and things like utilities, those stocks have been bid up quite aggressively by investors. And so we don't see tremendous opportunities in that segment of the market.

Where we do find the opportunities are in lower yielding companies, but companies that have the ability to grow their dividend yields. And so these would be companies like industrials or consumer discretionaries. These are companies that are going to benefit from an ongoing economic recovery and be able to give you modest dividend growth on a go-forward basis.

So we think that's really the most interesting segment of the Canadian equity market. But Mark, one of the wild cards, whenever you think of Canadian equities and the Canadian equity market, so much of our market is driven by resources. So the energy and materials stocks represent almost half of the TSX, and so you really have to look at commodity prices. And if you're looking at commodity prices, you really have to look at what's happening globally and specifically China. China's a very big influence on what might happen in the Canadian equity market through 2013.

Mark Neill: Jenny, you must have some interesting perspectives on what's going on in China.

Jenny Witterick: Absolutely. I think that just to dial back to talk about the fear in Europe, people don't realize it really is China that drives the engine of growth for the world. And the stats are such as Asia grows a Germany every three-and-a-half years. And if you think about how Germany is supposed to save Europe, but Asia grows one of these every three-and-a-half years, that sort of gives you some perspective. And within Asia, China is half. And within China, investment is half.

So investment spending in China is what is going to drive commodity prices, is what's going to drive, to some extent, the Canadian equity market. And our studies have shown that China has pretty much over-invested in the last five years, double digits every single year. And so you have over-capacity right now in China. And as a result of that over-capacity, I think it's going to take some time to absorb and so the investment spending in China I think will be more moderate than it has been in the past. And this will likely have a dampening effect on commodity prices and to some extent on the Canadian equity market as well.

Mark Neill: And that's a point you would agree with, Andrew?

Andrew Sweeney: Absolutely, absolutely. We're very much on the same page.

Mark Neill: So let's turn to our neighbours to the south briefly, Carl. So, you know, the election is over, the fiscal cliff has been dealt with, kind of. We know the U.S. market had a good year last year. What's the outlook for this coming year?

Carl Lytollis: Well I think, you know, when we look at the U.S. market, we do think about the market in a sense that certainly the economy is reasonable. Valuations are good, and to that extent that we'll probably give us some pretty reasonable returns from the U.S. market, if not perhaps as good as last year, certainly quite good in the context of world markets.

I think one area where we see opportunities in several areas though within that market, really three areas. The first one gets to a lot of the stuff Eric was talking about, the cash rich nature of companies in the U.S. market. That leads you directly, really, to technology companies. That many of which are 20, 30 percent of their share prices reside in cash, all trading at pretty attractive levels.

The second level relates directly to U.S. housing. Eric had mentioned the negative kind of wealth effects that you might see in Canada just a little bit as housing declines, but in America you're looking at quite the opposite situation after four or five years of very difficult times. You're starting to see quite a turn in the U.S. market, and to that extent there is a wealth effect that, you know, we believe you'll see right through a number of regional banks that will certainly do better. And also auto stocks very well correlated to the housing market.

And I think the final piece really reflects a lot of what Kevin was saying in terms of a slowly rising interest rate environment there, in the event we do see that, there is a certain number of stocks that have sensitivity to that. And one of the prime beneficiaries in those areas would be the life insurers. An area that has done far better in Canada, but it still remains very depressed in the U.S. market. There's a lot of opportunity there, a lot of reasons to be positive about what we see south of the border.

Mark Neill: Eric, are we seeing improved consumer confidence out of the U.S.? Because you would think that, you know, this improvement in the housing market must be resulting in some confidence. And we know that we've heard from time and time again how cyclical, you know, businesses want to see improved consumer confidence for them to invest the gobs of cash they've got into the economy. Are we seeing improved consumer confidence?

Eric Lascelles: Yes and no, if that's possible.

Mark Neill: Yeah.

Eric Lascelles: In general on a trend basis, I would say consumer confidence has been coming up over the last couple of years. And the work I've done suggests that the deleveraging by the U.S. household sector has probably done, so there's some capacity for spending out there. But, in the short run, consumer confidence has taken a bit of a hit from all of the fiscal wrangling that's been going on.

Mark Neill: Right.

Eric Lascelles: And equally, one of the outcomes from the fiscal cliff, as much as it was resolved, if not perfectly tidily, is that the payroll tax holiday is eliminated. That means that the average consumer has lost a percentage point to two percentage points off their income. So for the next little while, we're probably not going to see wonderful consumer spending numbers. But I suspect over the full span of 2013, as we work beyond that, we can start to talk more seriously and even more optimistically about consumer spending playing an important role.

And a similar story perhaps applies to business investment. If the consumer gets going, if the businesses are able to deploy some of that cash that Carl mentioned, we can talk, I think, with a straight face, about a U.S. economy that's looking about as good as it's looked, I should say, since the financial crisis struck. And I can tell you that when I look around the world, the one place I've been revising my growth forecast higher as opposed to lower, has been the U.S. So something is going on there that's maybe not happening in the rest of the world.

Mark Neill: So turning to global markets, Jenny, we haven't heard much from you so far. Where are you finding opportunities right now in the global markets?

Jenny Witterick: Well we're a bottoms-up, so we're really looking for good companies around the world, rather than saying let's be in this region or that region. But that said, there are many good companies in Europe right now that are very low prices. And if you look at the price-to-book ratio, which is a measure of valuation, it's at two standard deviations. That means that it's really low relative to history. And what we think is that there are certain things that you can't refute, and one is demographics. People are getting older in the developed world. So you can find great pharmaceutical companies. These are based in Europe, but they're international global companies that are very, very strong franchises and have strong balance sheets and have things that people need. As you get older, you just need more help. And so pharmaceuticals are not a bad place to be. These companies also have lots of cash, so they give you a great dividend, about four percent.

And also in agriculture we think this is another area. And we think there is something happening to our climate, you know, you're seeing erratic weather patterns all around the world, and this plays havoc on agriculture and supply of food. And so we think that if we can buy great companies that are in this field of agriculture all around the world, and that will also be perhaps, you know, in a good place. So we're not so geographically oriented, because companies today operate all around the world, and where they're headquartered may not mean as much as where they do business.

Our initiative, or our focus, is can we buy great companies that give people what they need and that provide goods and services that people use every day? And can we buy these companies at low prices that have great dividend yields? So that's our focus. And we are finding quite a few of them today in the international market.

Mark Neill: And specifically about emerging markets, you know, we hear a lot about emerging markets. They seem to have steered clear of a lot of the issues that a lot of countries are dealing with, because they've already dealt with all of those issues.

Jenny Witterick: Right.

Mark Neill: Are you finding specific opportunities there as well?

Jenny Witterick: We're finding specific opportunities in emerging markets as well, and in China I would say, we would look more for companies that supply goods and services to the consumer, because we think the investment side is going to be weaker. And we also think that because of our view on China not being as strong as it has been in the past, many countries that would be commodity driven, like Brazil for metals and mining, and Russia for oil, we're not as enthusiastic about.

And so we're, again, similar to how we deal with developed markets, we're opportunistic looking. Now, one actually indirect way to participate in emerging markets is to buy a developed market company that sells at a very low valuation, but has great emerging market exposure. And so we've invested in some companies in Europe that have great emerging market exposure, but because they're based in Europe, sell at a very low price. So this is another strategy that we've used.

Kevin De Sousa: I think one of the things that Canadian investors are less familiar with is emerging market debt. And if you think of, you know, there's cyclicality in term of crises and the last time we saw an emerging market crisis was back in 1998. And at that time if you look at the governments there in terms of how they are rated by credit rating agencies, less than 10 percent of them were rated investment grade. If you fast-forward to today, it's closer to two-thirds are rated investment grade.

If you look at the amount of debt that's outstanding in the developed world, we hear this again and again in Europe, you hear it again and again in the U.S., and to a lesser extent in Canada, where on average debt-to-GDP, so the amount of debt outstanding relative to the size of the economy, on average is 100 percent or higher for the developed world. In the emerging market world it's less than 40 percent debt-to-GDP. They don't have the same level of debt that the developed economies have accumulated over a number of decades here.

So there is a case in terms of taking a look at those areas as well within the emerging markets.

Mark Neill: So an argument could be made for investing in emerging market corporate debt, maybe not as much risk, but you get a better yield as a result.

Kevin De Sousa: Yeah, and certainly there are risks, like all asset classes there are risks for sure, but it's a different set of risks as it's a diversifier within a portfolio. There's emerging market corporates, there's emerging market sovereigns, different currencies that they issue in. And certainly there's a case to be made for some portion of a fixed income portfolio at least being aware or including a component of that.

Mark Neill: Right. So in an attempt to bring this all together, perhaps I can put each of you on the spot to make a few comments about your area of expertise and any tips you might have for investors for the coming year. Maybe we'll start with you, Carl.

Carl Lytollis: Well I think the one thing is that right now the U.S. market offers a wide range of global quality companies trading at attractive levels. And particularly reflecting something Andrew talked about earlier, sustainable yields at very reasonable levels, which will be quite helpful in terms of setting up people's portfolios going forward.

Mark Neill: And my sense is that a lot of investors, because of the doom and gloom in the U.S., are likely very underweight in their portfolios in U.S. Would now be the time to be looking at whether to start to creep that higher?

Carl Lytollis: Well, absolutely. I think it's important to look past the politics and look past a lot of the headlines that we've seen, and simply go right to the fundamentals and the companies individually. So I would say, yeah, at this point it would be an excellent opportunity.

Mark Neill: And how about you, Jenny?

Jenny Witterick: Well, just those fund flows are absolutely correct. Money has been coming out of stocks and going into bond funds for probably the last five years. But we started to see a little bit of that turn in the fourth quarter of last year, meaning that people are less pessimistic. And similar to what Carl has said, the best dividend yields are actually outside of Canada and the U.S. The U.S. is higher than Canada, but international is even higher than the U.S. And that tells you that stocks are probably the cheapest in the international areas. But also, the issues are the most serious, probably in terms of how to resolve them in the international areas. So there is always a balance there.

That said, the valuations are so low today that unless you have something severe and catastrophic happen, I think if you have a longer term view, these stocks are offering tremendous value today and we focus on the best companies with strong leadership positions in their industry that have global trends working in their favour, and that have strong balance sheets that can withstand tough times. And so we think that perhaps in a diversified portfolio, you might have some room for that longer term perspective.

Mark Neill: And Andrew?

Andrew Sweeney: I would echo both Carl and Jenny's comments that there are opportunities in the equity markets as we look forward. And I think in most people's portfolios, equities are an important asset class. People really should build diversified portfolios, but they really shouldn't forget about equities which have been an asset class that maybe haven't done as well as fixed income has over the last five or six years, really, if you go back to the financial crisis. So I think it's important to think about equities.

The other element is because of where bond yields are today, you can actually find quite attractive yields within the equity market. And so whether it's owning an international fund or owning a dividend or income fund within Canada, you can actually look to equities to give you some income in terms of your portfolios. So don't forget they are equities, there is volatility, it's not the same as owning a bond. But you can get a fair amount of income from an equity portfolio.

And maybe the last thing I think I would mention and I think this is just as important for investors and for our clients, is that I think people often get spooked by what they read in the headlines and read in the newspapers or see on TV. And in fact sometimes those negative headlines in fact are the best investment opportunities. And so I think that people have got to, you know, not get too worried about what they see in the headlines. And if you think of the fiscal cliff, there was lots of gnashing of teeth and all these headlines through December, and in fact that turned out to be a pretty good investment opportunity for those with a little bit longer time horizon.

Mark Neill: Right. Kevin?

Kevin De Sousa: I think for me as I listen to conversations that we have like this, the challenge for the investor is to say, well, you know, that's great, but what do I do with this information? And I think there's a couple of things that come to mind for me on that, which is, one is to think of a couple of things. One, what is the role of the various components that you're putting into the portfolio? What's the role of the equities? What's the role of the fixed income? And really the role of the fixed income largely is to be a shock absorber in your overall portfolio, that when you see the volatility in equities, and we've seen significant corrections in equities over the last 12 years, that you want to have... again and again what we've seen is that equities decline and bonds go up at that same time and it acts as a shock absorber for the portfolio. So I think the one caution would be you don't forget that. So it's about having some balance in the portfolio.

I think the other element is that if we step back and say, well what would I own as an investor in my portfolio? How much in stocks versus bonds if I was indifferent as to the outlook for all these different asset classes? Maybe it's 50-50 stocks and bonds, or some other number.

That as we go through a conversation like this and we think ourselves in terms of what we think are likely to happen for the markets, it's well what do I do with that information? Do I throw that out the window and go 100 percent in one asset class or another? And I think the answer is no, that there is limits. It's difficult to try and predict the future, and that's ultimately what we're talking about here. And there's limits then in terms of our confidence to place our portfolio and our convictions of our ability to predict the future. So to tilt the portfolio more towards one area or more towards another that's entirely appropriate, but just be careful or limit in terms of how much we do that, because of the difficulty of trying to get exactly all of these predictions correct.

Mark Neill: Okay. Last word to you, Eric.

Eric Lascelles: Right, okay. Well on the economy I would say this, which is I'm very cautiously optimistic. Less because growth is great. Growth isn't great. But because I'm seeing important healing occurring. And I think back to Europe most importantly. So here is a region in recession and so not doing great economically, but really healing in an important way and creating the infrastructure and the systems necessary to really be a viable going concern for the future, creating banking unions and fiscal unions, creating lenders of last resort, bailing out countries as needed. And starting to work their way towards perhaps what is a more sustainable position.

And so I feel good about that. And the one tip I could give is just this, which is, over the past few years we have seen financial markets trade practically in lock-step. And that is to say, when the world feels good, stocks go up, bond yields go up, commodities go up, the Canadian dollar goes up. They all go up together, and sometimes they go down together. And it seems to me the world is starting to change, and investing in the future is going to be less on the basis of what central bankers do and what the next piece of headline is, and more on the basis of individual companies and their merits. And that's something that this firm does very well. I think it's exciting to look to the future and see that skill set is becoming more relevant and more important again. And I think it's a very promising fact for the future.

Mark Neill: Thanks, Eric. Great discussion everyone. Thank you very much. Lots of things for investors to think about.

Just a reminder, you're not on your own to figure out how to apply what was discussed today to your own portfolio. If you have any questions, our Investment Funds Advisors are available to review your portfolio, give you advice or answer market-related questions at your convenience. Our toll-free number is listed on our web site at *PHN.com*. Thanks very much for joining us today.

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