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## Steve Kelman presents - a view on the economy

By George Perdue,  
B.Sc., P.Eng.

Last Thursday night's seminar at the Knowlcrest Conference Centre proved to be most informative. Steve Kelman, Vice-President of Dynamic Fund Management, spoke on the economy and how professional money managers navigate through these uncertain times to produce superior return on investor's money.

Mr. Kelman told an audience of more than 40 people that "being in the right assets at the right time yields maximum returns. With low interest rates, most people cannot meet their financial objectives with GICs or money market investments. So, what are the alternatives?"

Canadian equities, foreign equities, government bonds and government treasury bills were the asset classes mentioned as primary ingredients for a portfolio.

The pending Canadian election causes uncertainty which is magnified by the specter of a minority government with the balance of power potentially in the hands of the Bloc Quebecois or the Reform Party. Since investors do not like uncertainty, the Canadian dollar is affected and the short term interest rates are sent up.

Mr. Kelman expects that things will return to normal after the election, but the time required for this settling effect may lengthen depending on the election outcome. He also expects interest rates to bottom shortly and begin to rise modestly in 1994. For this reason, he explained, he does not favor Canadian Bonds. Rather, he favors foreign bonds or equity as the preferred investment.

The concept of asset allocation between treasury bills, bonds and equities was discussed on the basis of the preferred investment principle. He explained that the preferred investment changes through four phases of a business cycle. We are coming from the interest driven part of the recovery from recession into the earnings driven portion. This explains the current popularity of equities. It contrasts the popularity of bonds from 1990 through 1992 and the popularity of treasury bills or GICs in 1989. Mr. Kelman believes that the equity market will be strong for the next 12 to 18 months and that Canadian equities will out-perform American equities.

Europe, he believes, is where Canada was two years ago. He expects equities to make impressive

gains there in the coming months. In the short term in Europe, he feels there is still room for an interest decrease and that is why foreign bonds are in favor at this time.

The Canadian dollar is predicted to continue to be weak. This means that companies with export markets will prosper. Other strong sectors include gas and oil and forestry since demand is straining the supply.

When the discussion came around to gold, Mr. Kelman told the story of how his book "Investing in Gold" came to be written.

"Gold has not performed for years. When we were doing analysis two years ago, we began to see potential shortfalls in demand. The Chinese were beginning to earn more than they spent, but the capital markets were not developed so gold became the choice for parking excess income with a currency risk.

Mines have been closing, general consumption has been increasing, and most countries have already dumped excess stocks of gold on the market as a way to decrease deficits. So gold should increase in value."

Mr. Kelman finished by saying "when this book on

gold becomes a best seller, sell your positions in gold". He recalled the last run up in gold prices when gold sold for more than \$800 an ounce and large lineups at gold traders filled the street.

"When gold ran out, the people bought silver just because they were buying in a herd." By this time, it was too late to profit and the prices fell. "The same thing just occurred in real estate in Toronto."

Mr. Kelman proceeded to answer individual questions before the seminar broke up.



Money Concepts welcomed special guest speaker Steven Kelman (centre) to Georgetown last Thursday for a special financial seminar. Mr. Kelman is flanked by George Perdue (left) and Peter Chaperlin, both of Money Concepts. HHTW photo

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