STOW THE LIFE JACKETS

In late January, those brave enough to face the elements were treated to an Ottawa investment presentation by analysts from Midland Walwyn. Speakers were Dr. Mark Mullins, Chief Economist, and Dr. Michael Graham, Director Private Client Investing.

(Excuse the divergence from timely topics such as RRSP's. The well-publicized RRSP message has not changed: make those RRSP contributions; make them as early in the year as possible; and, contribute as much as you can. NOW!)

.....getting back to the topic at hand. Last spring this space outlined Mark Mullins' address to a Gloucester service club. He said that the recession in Canada was coming to an end; concluding that a spectacular recovery was not in the cards. He did emphasize that the Canadian entrepreneurial spirit was healthy; a cause for optimism.

Late in this winter of 1992 Dr. Mullins took a less orthodox approach by offering some insights into the linkages between economies and financial markets. They are worth sharing as guidelines for forecasting the economic future.

Point 1: The economy is cyclical - we are North Americans. Peaks and troughs can be charted as respective highs and lows of economic activity. The key is to spot the turning points to growth or to recession.

Point 2: Consumers, Services and Manufacturing dominate the Economy - we are open to World Trade. Trade for Canada is roughly one-third of its economic activity. Only about seven per cent of the activity is resource based!

When the US sneezes the breeze is felt Up North. Each country is the other's largest trading partner. Strikingly, about two-thirds of each country's economic activity is driven by the spending that you and I do. Ponder this. The Canadian economy is based on cities, manufacturing and, particularly, services. These elements will be keys for economic activity in the 90's according to Dr. Mullins.

Point 3: The Bank of Canada (and Financial Markets) hate inflation. Keep an eye on the US Broad market influences affect interest rates. Most of all, inflation governs interest rates. It is no surprise that the Bank of Canada is maintaining its battle to permanently deaden inflation.

Point 4: The Stock Market is Cyclical. High inflation means high interest rates. In turn, bond and stock markets decline. Lowering inflation means lower interest rates; a boost for bond and stock markets. A second major ingredient is the expectations for corporate earnings.

Point 5: Expectations Drive the Dollar. The difference between US and Canadian interest rates (the spread) is a key element. Financial markets look ahead. Canada cannot afford to have a booming economy. Rather, a stable economy is a must for the next five years. That means relatively high interest rates within a long term trend of interest rate decline.

Point 6: Financial Markets Discount the Future. Related to Point 4.

Point 7: International Events Act as Swing Factors. Countries are not islands unto themselves. Economies are interrelated. Inflation and interest rates know no borders. The prices of off-shore raw materials and worldwide growth affect economies. Canada could outperform in resources.

Dr. Mullins indicated that his studies forecast average annual changes of key indicators as follows:

		1991	1992	1993
Gross Domestic Produce:	Canada	-1.0%	3.5%	1.6%
	USA	-0.6%	3.0%	1.9%
Unemployment:	Canada	10.3%	9.6%	9.0%
	USA	6.8%	6.0%	5.4%
Inflation:	Canada	5.7%	2.5%	3.4%
	USA	4.2%	3.9%	4.5%
T-Bills:	Canada	7.4%	8.0%	6.8%
	USA	5.1%	5.8%	6.4%
Canadian Dollar:		86.4	88-91	85-89

In general, Dr. Mullens' forecast for Canada is positive.

How does an investor adjust his portfolio to maximize returns with an acceptable level of risk? This is where Dr. Graham took the podium. Essentially, he reiterated continuation of a strategy that has worked well for the past five quarters.

The strategy is a combination of: maximizing yield for RRSP and other non-taxable holdings: maximizing after-tax returns for taxable holding; and, maximizing yield while allowing for captial returns on a total return basis.

Michael Graham emphasized key investment actions to be executed NOW. Extend term NOW. Lock in yields NOW. Utilize the tax advantages of dividend income NOW.

For the private investor, Dr. Graham outlined some specific equity investments such as straight preferred shares, US dollar pay preferreds and convertible securities. He recommended specific Canadian common stocks for income and total return. Cyclicals that are showing promise in the recovery were noted. Appealing growth companies, both Canadian and US were highlighted.

Commenting on the daily doom and gloom that we have settled for, Dr. Graham aptly remarked that Canadians are about to "snatch defeat from the jaws of victory"! It was refreshing to hear about the restructuring taking place in Canadian consumer, service and manufacturing sectors. A Canada ready and able to do business.

By the way, the presentation wes entitled: Canada at the Crossroads - Economic Opportunities.

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