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June Client Information

Returns for our investment category mandates have slowed down for 2014. After a strong 2013, this is a healthy pause because capital markets have a nasty habit of over-reacting on both good news, and on bad news.

	<u>2013</u>	<u>2014 (ytd*)</u>
Paid To Wait (income/yield) Strategies	8.5%	5.1%
Canadian Equities	16	6.3
Global Equities	30	4.3
Alternative Strategies (hedged, private equity)	14.5	4.6

**Year to date (ytd) to April 30/14*

Over-Reacting on Both Good and Bad News...

Markets move in the short term based on the two primary emotions of fear and greed (*anyone remember irrational market exuberance?*).

“Irrational exuberance” is a phrase used by then-Federal Reserve Chairman Alan Greenspan in a speech during the Dot-com bubble of the 1990s. The phrase was interpreted as a warning that capital markets might be somewhat overvalued.

*“...But how do we know when **irrational exuberance** has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?”*

It is largely for this reason that our core holding managers have a value focus in security selection. This can be simply described as buying assets at a significant discount to fair market value, creating a margin of safety. Value managers may lag a strong bull market run but are more appreciated during bear markets when stock prices are declining.

Value managers seek to provide downside protection during periods of market volatility.

From an investment advisory perspective, a smoother ride is preferable during the accumulation phase and also during the spending years.

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Although markets (equity/bond/currency, commodity...) may all be pushed around in the short term by the emotion of the day, longer term fundamentals will normally prevail in supporting fair market values.

Further to our April communication, we do expect volatility or an inevitable correction in the equity markets.

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We follow the views expressed by investment managers who have proven skills and a history of success...

"I don't know of another time when every country in the world was printing money..."

"It's only a matter of time before currencies lose value and inflation rises..."

"I want to own assets that are inflation proof..."

"More bullish on gold than I have ever been..."

Ned Goodman
Founder and CEO/Dundee Corp.
Financial Post 8/13

Ned Goodman has been referred to as Canada's Warren Buffett. Specifically, Goodman owns select equities (yes he considers himself a value investor), gold and precious metals, real estate, **infrastructure**, and energy.

Infrastructure as an Asset Class

Infrastructure can be defined as the essential facilities and services that the economic productivity of a community depends on. Infrastructure includes:

Transportation assets: toll roads, bridges, tunnels, airports, railroads

Communication assets: broadcast towers, cable, satellite networks

Regulated assets: electricity, gas/oil pipelines, water

Social infrastructure assets: schools, hospitals, prisons, courthouses

Infrastructure assets have a return profile similar to real estate. A significant component of the total return is cash yield, with modest capital appreciation. Infrastructure assets tend to hold monopolistic market positions and can provide stable and predictable returns.

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Imagine sharing in the monthly revenue of the 407 Toll Road, the Ambassador Bridge in Windsor/Detroit (Warren Buffett was outbid for this in 1980 by Michigan native Manuel 'Matty' Moroun!), and the Sydney Airport in Australia.

Infrastructure is one component of our Paid To Wait (income/yield) Strategy.

Investors may also invest in pure infrastructure asset portfolios that have provided strong risk adjusted returns. Similar to Ned Goodman, we believe this strategy not only provides attractive yields today but should also be a good hedge against inflation in the future.

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We have three excellent articles in our office that offer further insight:

Infrastructure: A Growing Real Return Asset Class/ JPMorgan Asset Management

Canadian Pension Plans Provide a Good Model/RBC Investor & Treasury Services

Potential Impact of Rising Interest Rates on Global Listed Infrastructure Companies/RARE Infrastructure Limited

Please call our office to receive any or all of the above.

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Behind the Scenes at BFI

This segment of our newsletter is new and going forward, we will provide regular communication on a variety of topics that take place in delivering our services to you!!

Our first topic (with more to follow) is an ***'intangible service'*** that is worth understanding...

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Net Asset Value (NAV) Calculation

All professionally managed portfolios **publish daily net asset values (NAV)**. Investment companies, banks, and insurance companies employ teams of accountants who calculate the value of assets held by an investment pool and divide this by the number of shares/units outstanding to produce a NAV.

Alternative strategies will often publish weekly or monthly net asset values as the assets held are not always priced daily.

When markets are open, one of our daily office procedures is to update our computer system with new pricing files to reflect the changes in the NAV's of our various portfolios.

These daily computer file updates also reflect purchases, distributions, and withdrawals in finalizing up to date client statements.

Significant resources are devoted to the ongoing maintenance to ensure BFI statements are accurate and that they **'mirror'** the information provided by the underlying investment companies.

If you have signed up for 'E-delivery', this allows us to post your quarterly statements to your online account and this statement information is stored **for up to seven years**...if you have not yet signed up, please contact our office to do so.

The production of accurate client statements and reporting is of the utmost importance to us at Banwell Financial & we pay serious attention to it!

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As always, we are available to answer any questions and/or review your investment accounts at your convenience and consider it a pleasure to do so. In the spirit of summer, our office closes at 4:00pm on Fridays until after Labour Day weekend.

FROM THE ENTIRE TEAM AT BFI, WE WISH YOU A SAFE AND ENJOYABLE SUMMER.