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Beyond the maestro and the technological advances, there are also musicians...

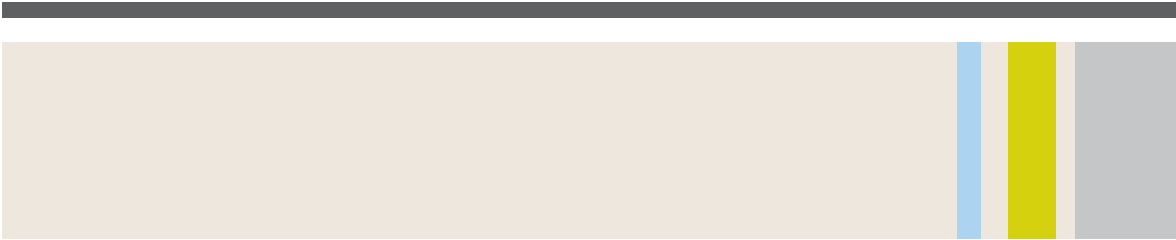
In September, the OSM's new concert hall was inaugurated. This marvel of interior design, built with the use of innovative technological advances was built after a 30-year gestation period. In fact, the plan to build a new hall was announced almost at the same time as the Bank of Canada's key interest rate was at an all-time high of over 21%. Ironically, the project was completed almost at the same time as the Bank's key rate bottomed at 0.25%. (1)

Over the past 30 years, the key rate has trended downward in a pattern that is the exact opposite of how public debt in Quebec, Canada and almost all of the industrialized countries has evolved. To demonstrate the magnitude of this phenomenon, let's use as an example Great-Britain and its Conservative Prime Minister, David Cameron, who had to come to an agreement with the newly defeated Labor Party to announce unprecedented government cuts. Eliminating some 300,000 public sector jobs was deemed essential to curb the mounting deficit which would rise above 12% of GDP for the current year and the years to come.

Remember that under the terms of the Maastricht Treaty ratified in 1993, the debt and deficit ceilings for countries that were to join the EEC were set respectively at 60% and at 3% of their GDP.(2) The Euro was finally introduced on January 1, 2002. In 2011, the debt and deficit ratio of many of the industrialized countries (many of these countries are part of the Euro zone) stood respectively at 100% and 10% of their GDP.(3) Surprisingly, the debt to GDP ratio of emerging countries is approximately one-third that of industrialized countries.(3) Who would have thought that this could happen!

In a previous text written by my colleague Laurent Wermeilinger, the new standards that governments and citizens will have to contend with going forward were mentioned. In a globalized and highly competitive market environment, we will be unable to avoid participating in the debate over the debt issue. It is our duty as citizens to take stock of our practices and reflect on the place that debt should occupy in our quest to fulfill our life goals.

Just as the technological innovations in the new concert hall will allow the OSM to modulate its sound, the central banks (including the Bank of Canada) can call upon a certain number of tools to reduce the undesirable effects of rising inflation or of unstable markets. The Bank of Canada's presentation to our clients on September 21st allowed us to become acquainted with some of these tools.



The declining rates that have prevailed over the past decades have made a positive contribution to the fixed income (bonds) portion of our clients' portfolios. However, we must admit that if rates were to remain very stable, the contribution of this asset class to our portfolios' total return would be greatly diminished. A prudent approach is therefore appropriate during a time when this asset class is particularly popular. Maintaining short maturities would ensure little else but the preservation of capital.

We must admit that technological advances alone cannot eliminate the less desirable consequences of over indebtedness. No one can defy the laws of gravity forever. Taking stock of this reality and a collective desire to remedy the situation are essential steps in the process of achieving financial stability.

At this stage, in the face of all this media hype that could pass for background noise, our principal mandate as wealth managers and in partnership with our clients is to attempt to sort out reality from misperceptions.

During periods when emotions run high and lead to extreme volatility, we should remember certain facts. Treasuries (U.S. Government bonds) with a 10-year maturity are currently trading at a 1.8% return to maturity. At the same time, the S&P 500 Index, made up of the 500 largest U.S. companies, is trading at a dividend rate of 2.1%. The positive results published by these companies and the healthy balance sheets of many of these corporations contrast with the apocalyptic scenarios served up by the media.

For instance, emerging countries have much lower debt levels and can count on a younger population who is looking for improved living standards. Consequently, despite the fact that growth has slowed in these regions, it is still relatively high.

For our portfolios, we favor a wide diversification among the various asset classes and the selection of instruments that provide tax-efficient revenues. These strategies have largely contributed to the well-being of our portfolios during periods of high volatility.

Unless major changes occur in your personal and financial situation, it is more important than ever to stick to the strategy that has been agreed upon during our meetings and conversations, just as musicians follow the partitions that have withstood the test of time.

Lastly, without wanting to minimize the challenges that we are facing, we firmly believe that the current outlook offers opportunities that will allow us to meet the objectives we have established with you. We must remain positive. Remember that most of you have an investment horizon of 10, 20 and even 30 years.

In conclusion, we would like to express our appreciation for the trust you have placed in us. Please do not hesitate to give us your comments or ask questions.

Notes :

1. <http://www.banqueducanada.ca/taux/taux-dinteret/outil-de-consultation-des-taux-directeurs/>
2. <http://www.insee.fr/fr/methodes/default.asp?page=definitions/criteres-convergence-maastr.htm>
3. Pimco's Investment Outlook Feb. 2010. The ring of fire. Bill Gross

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