PRIVATE INVESTMENT MANAGEMENT GROUP QUARTERLY REPORT

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SUMMER DOLDRUMS ARE FOR BUYING

As we begin the *second* half of the year, please allow me to briefly look back at the *first half*...

I came into 2013 with a bullish outlook for equities – particularly U.S. equities; and my discretionary managed portfolios were allocated accordingly (overweight stocks/underweight cash and bonds). This was premised on my outlook for an ongoing U.S. housing recovery, buoyant auto sales, and persistently low interest rates, among a number of other factors.

Thankfully we were rewarded. Stocks indeed turned out to be the best place to invest during the first quarter of 2013, with the U.S. equity benchmark S&P500 gaining 10%, outpacing Canadian stocks (as per the S&P/TSX Index) by close to 7.5%.

In my commentary written in early April (end of Q1/2013) I wrote about volatility, and it was volatility that seemed to dominate the price action for stocks during much of the second quarter. During this time I took gains on a number of your investment holdings and, for the most part, elected to leave the proceeds in cash. This more defensive stance in the portfolios has been held through to the end of the second quarter of 2013.

Looking forward...

In that same commentary I also wrote of my view that volatility should be the ‘friend’ (and NOT the ‘enemy’...) to the *intelligent* investor. It is on that note that I will be looking to take advantage of the seasonal doldrums that often plague stocks during the summer months, by reallocating much of the cash raised over the past few months.

While we may be entering somewhat of a new era for investing – one where interest rates will be rising, not dropping – my bullish outlook for stocks remains steadfast, at least in the near term. Interest rates on cash equivalents are still paltry at best, and bond yields hardly cover off inflation let alone the inevitable tax liability. In this environment, money must continue to find its way into the stock market in order to achieve any real returns (net of inflation and taxes).

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The 'trick' may be to find attractively valued equities *that don't trade like bonds*. This may mean looking beyond the ever popular category of 'high yielding' securities. We witnessed the extreme sensitivity of such equities-with-yield to the mere hint of rising interest rates when Federal Reserve Chairman Ben Bernanke spoke on May 22nd. His slightly more hawkish sounding comments (which were largely misconstrued by most investors, in my view), resulted in long-time favourite/high-yielding sectors like utilities, telcos and REITs dropping by as much as 9% to 11% in just a little more than a month to the end of June. Can you say "volatility"? This move to the downside wiped out more than a full year's worth of yield in a matter of weeks, proving that these 'defensive' sectors are no place to hide in a rising rate environment.

In conclusion, a well thought out investment portfolio should be 'tested' to see how it performs in all interest rate environments. I will indeed be 'testing' your portfolios in the coming months, with a penchant toward cyclicals and those securities that benefit from rising rates.

The summer doldrums represent a buying opportunity indeed.

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