

Don't Confuse A Bull Market With Brains!

Thought provoking quotations...

Rule No.1: Never lose money. Rule No.2: Never forget rule No.1.

- Warren Buffett

"There is no sphere of human thought in which it is easier to show superficial cleverness and the appearance of superior wisdom than in discussing questions of currency and exchange."

- Winston Churchill

"There is nothing so disastrous as a rational investment policy in an irrational world."

- John Maynard Keynes

"Paper money eventually goes down to its intrinsic value – zero."

- Voltaire (1729)

"Gold and only gold is real money"

- J. P. Morgan

"Collecting more taxes than is absolutely necessary is legalized robbery."

- Calvin Coolidge

"Fundamental analysis tells you how rational investors should behave, while...Technical analysis tells you how actual investors do behave."

- Ron Meisels

"Financial markets are a kind of time machine that allows selling investors to compress the future into the present, and buying investors to stretch the present into the future"

- Peter Bernstein

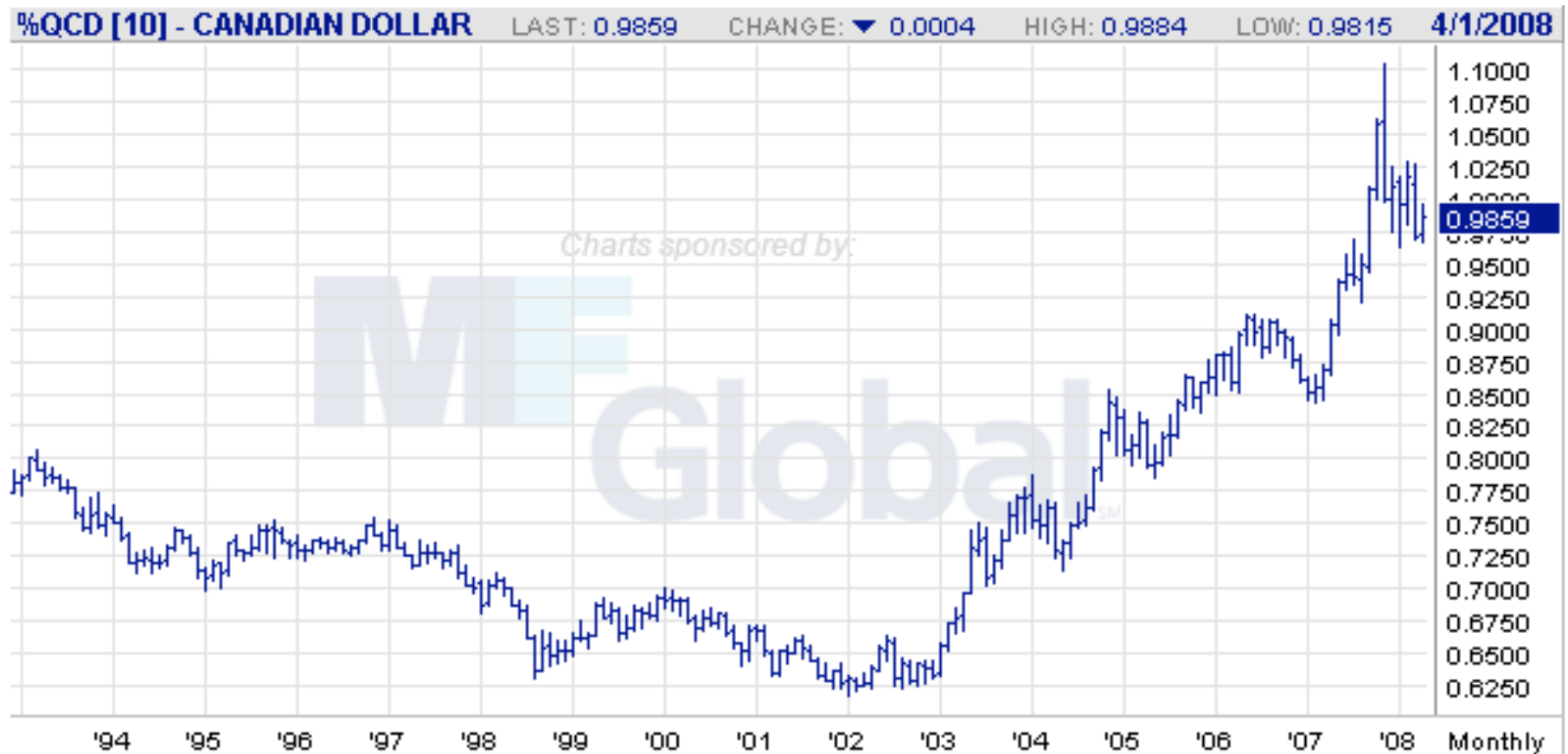
“Inflation is taxation without legislation”

Milton Friedman CRB Index



"I don't even know what street Canada is on" - Al Capone (Circa 1928)

How things have changed in 80 years - Canada is now a global factor



Canada's "natural resource wealth"

- **Canada has the second-largest petroleum reserves on the planet next to Saudi Arabia;**
- **We are the largest exporter of oil to the U.S.;**
- **We rank third in global natural gas production;**
- **We are the world's second-largest producer of hydroelectric power;**
- **We are the world's largest producer of potash and uranium; and**
- **We are the second-largest producer of nickel, the third-largest producer of aluminum and diamonds, and the largest exporter of forest products.**

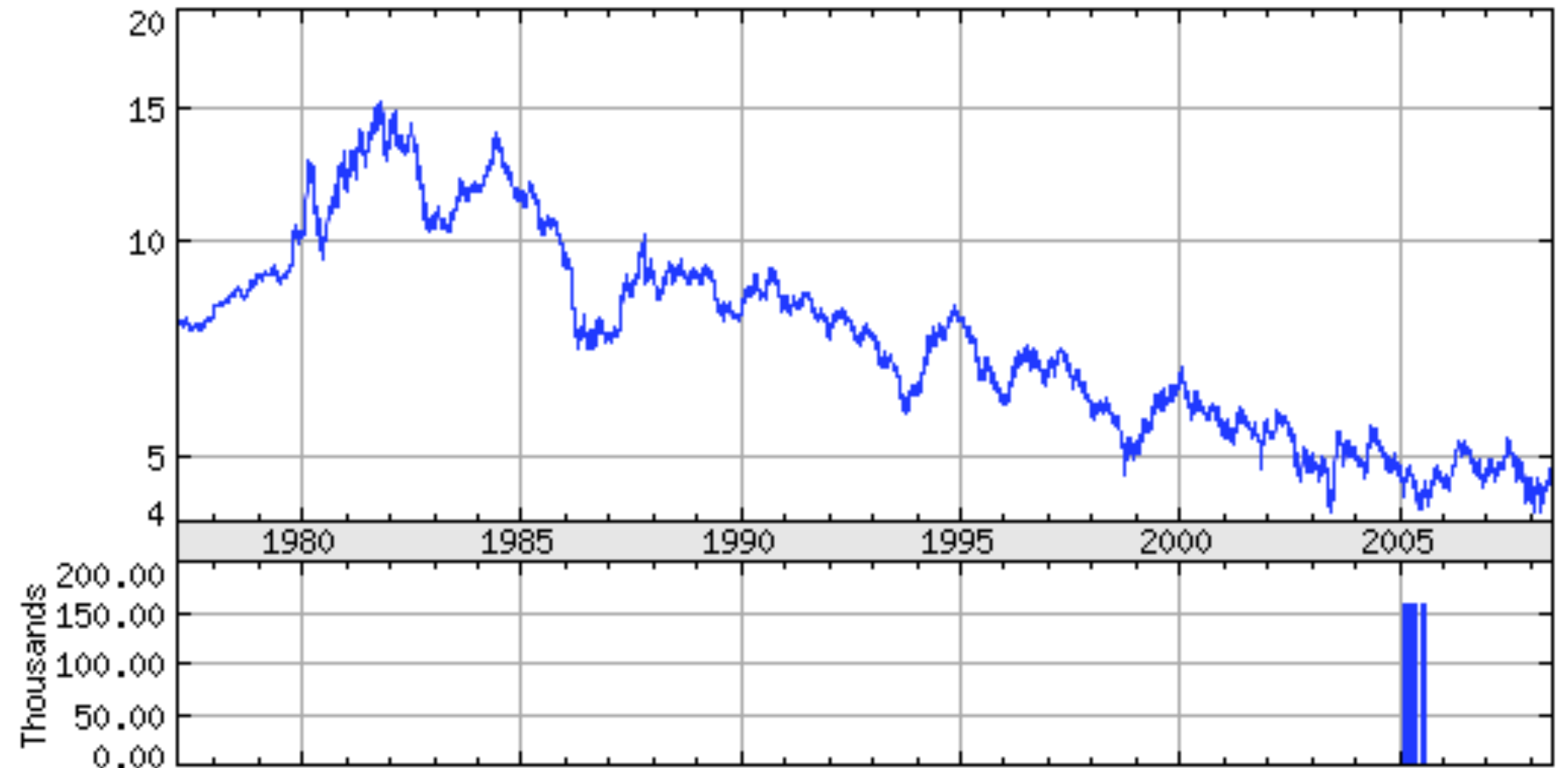
**"The security of the dollar involves the security of us all." JFK,
speech to IMF**



The US national debt as of May 7, 2008, was \$9.35 trillion. Just the interest on the US debt is now \$500 billion a year -- which is equal to the cost of the Iraq war for five years. The cost of servicing this outlandish debt grows every year. Since September 2006, the debt has increased at an average of \$1.46 billion per day!

Emerging inflation spells the end of the 25 year bull market in bonds; higher interest rates are on the way...

CBOE 30-YEAR YIELD
as of 13-Jun-2008

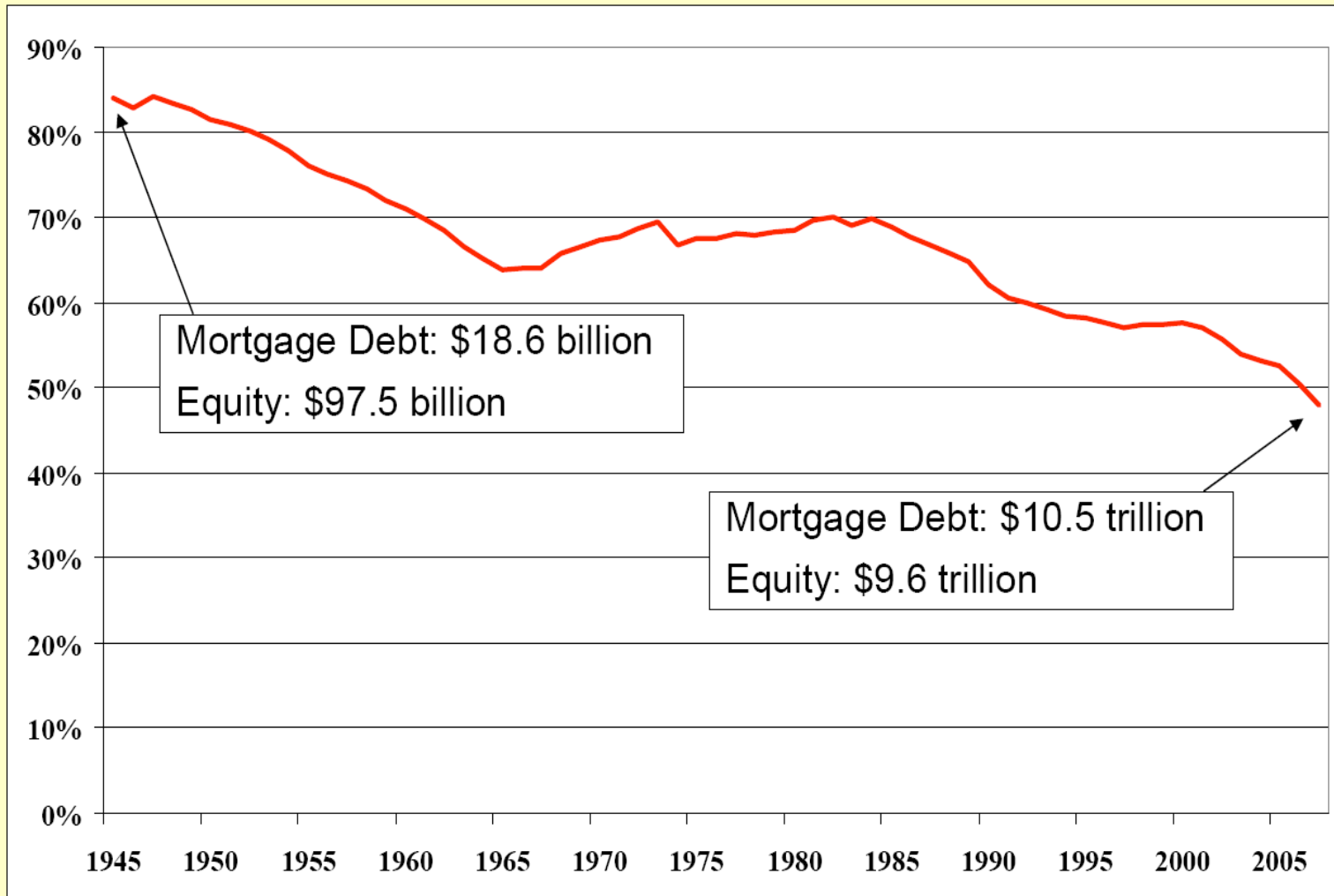


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The U.S. housing mess; a major deflationary force

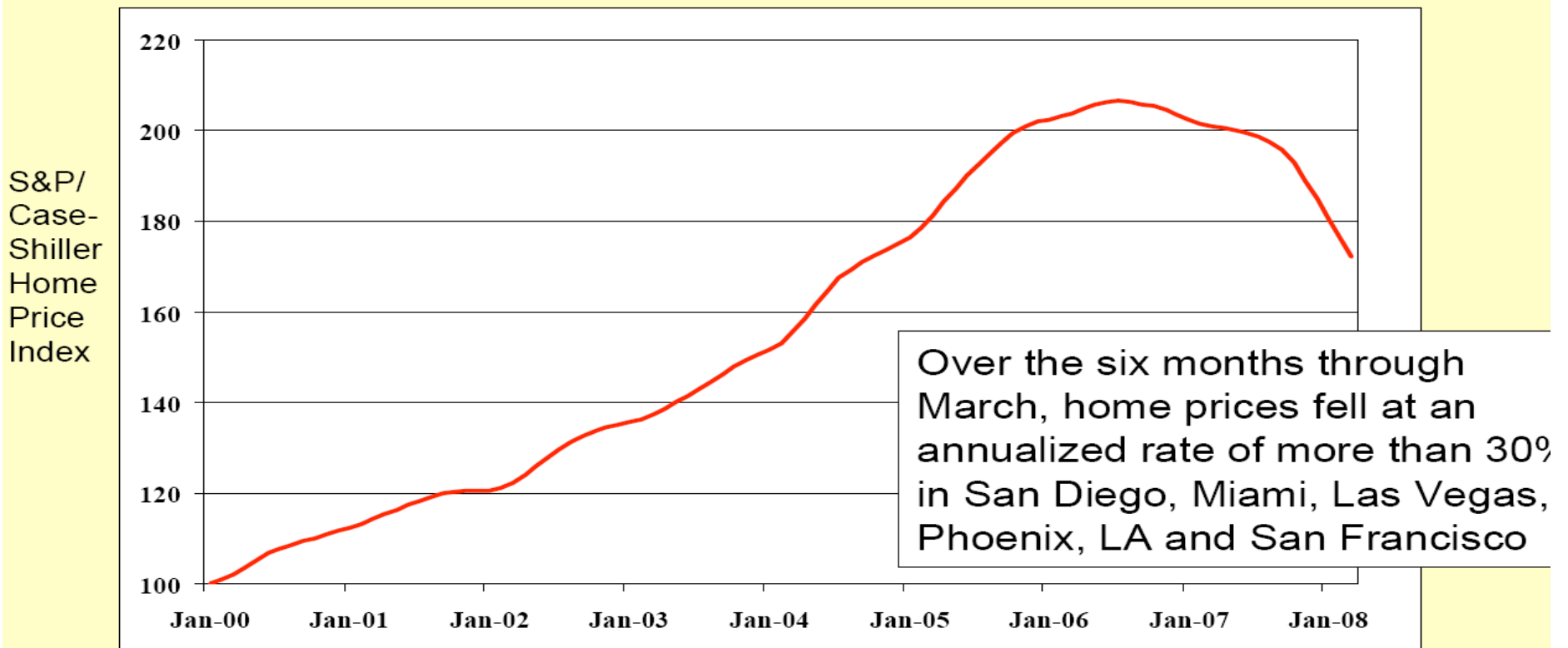
Americans Have Borrowed Heavily Against Their Homes Such That the Percentage of Equity in Their Homes Has Fallen Below 50% for the First Time on Record Since 1945



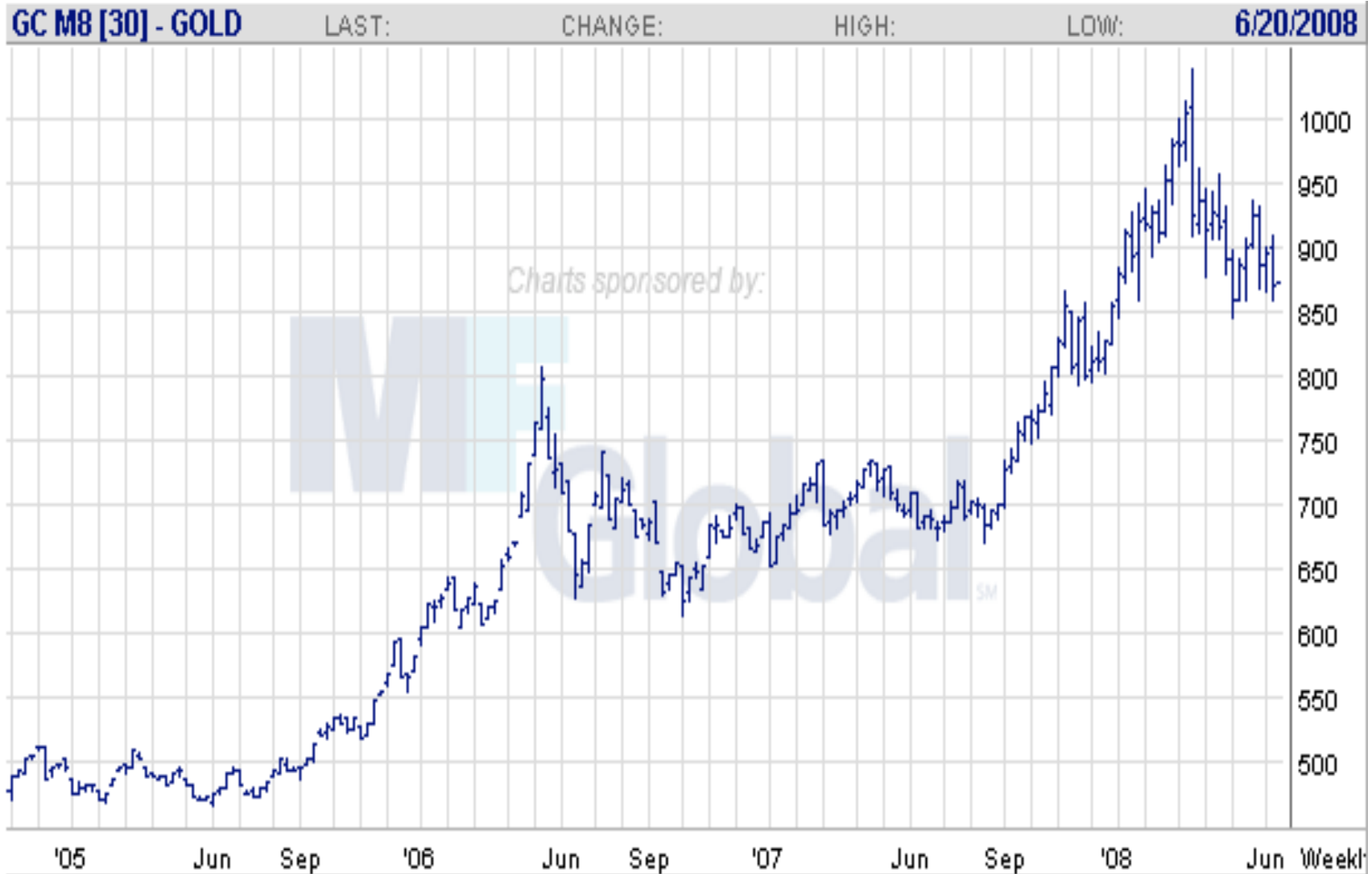
This is why the Bernanke Fed will opt for inflation

Home Prices Are in an Unprecedented, Accelerating Freefall

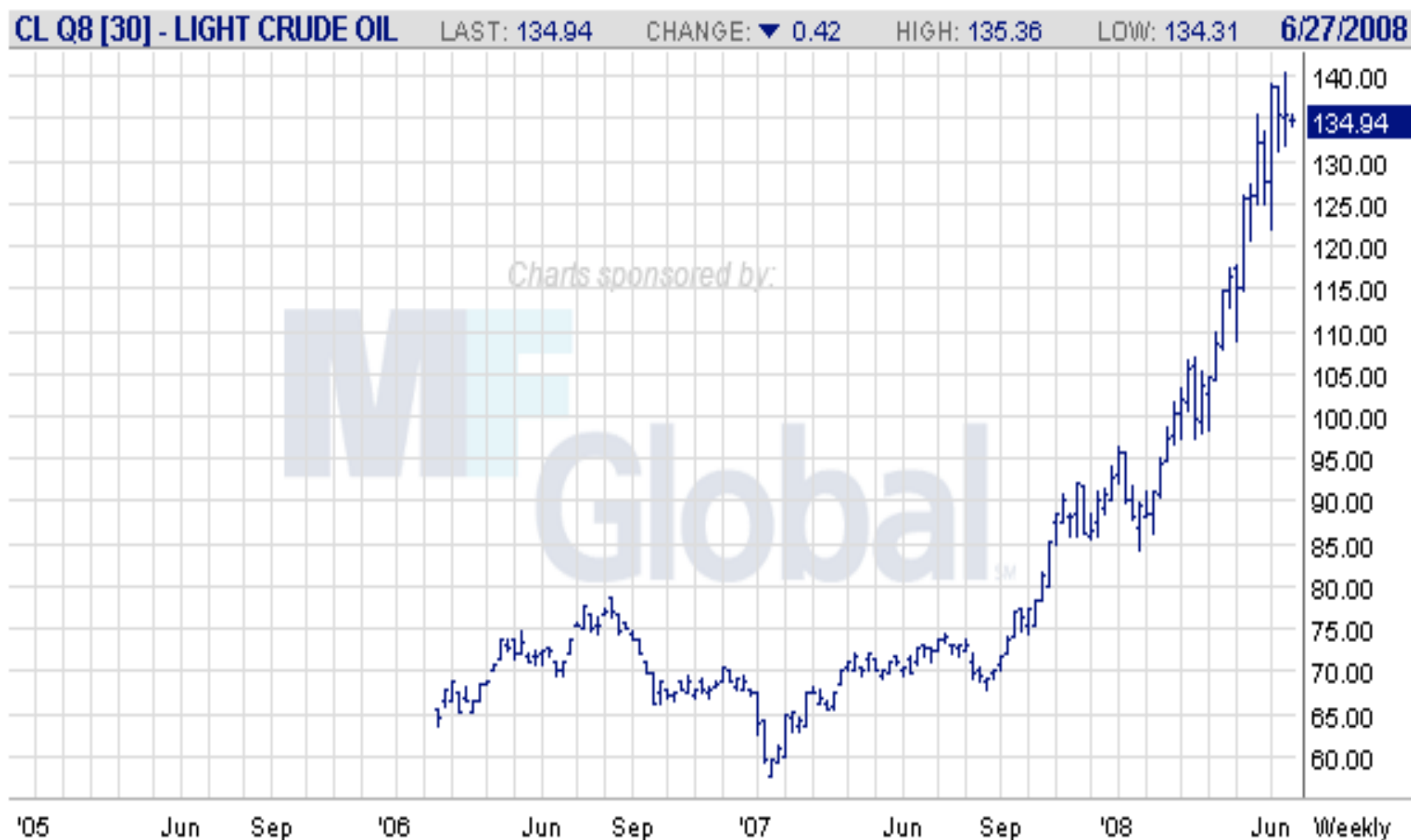
In March, home prices fell an average of 14.4% year over year in 20 major metropolitan areas – 12.0% in the past six months alone, a 22.6% annualized rate



“Gold and only gold is real money” *J.P. Morgan*



**“Formula for success: rise early, work hard,
strike oil” *J. Paul Getty***



“The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways” – *John F. Kennedy*



“You can issue stocks every day, but you can’t crank out a zinc mine every day” *Jim Rogers*



RBS issues global stock and credit crash alert

From the Telegraph –

RBS issues global stock and credit crash alert – The Scottish banks are well-known for being conservative and very savvy.

By Ambrose Evans-Pritchard, International Business Editor, the Telegraph.

The Royal Bank of Scotland has advised clients to brace for a full-fledged crash in global stock and credit markets over the next three months as inflation paralyses the major central banks.

"A very nasty period is soon to be upon us - be prepared," said Bob Janjuah, the bank's credit strategist.

A report by the bank's research team warns that the S&P 500 index of Wall Street equities is likely to fall by more than 300 points to around 1050 by September as "all the chickens come home to roost" from the excesses of the global boom, with contagion spreading across Europe and emerging markets. Such a slide on world bourses would amount to one of the worst bear markets over the last century. RBS said the iTraxx index of high-grade corporate bonds could soar to 130/150 while the "Crossover" index of lower grade corporate bonds could reach 650/700 in a renewed bout of panic on the debt markets.

RBS issues global stock and credit crash alert (cont'd)

"I do not think I can be much blunter. If you have to be in credit, focus on quality, short durations, non-cyclical defensive names.

"Cash is the key safe haven. This is about not losing your money, and not losing your job," said Mr Janjua, who became a City star after his grim warnings last year about the credit crisis proved all too accurate.

RBS expects Wall Street to rally a little further into early July before short-lived momentum from America's fiscal boost begins to fizzle out, and the delayed effects of the oil spike inflict their damage.

"Globalization was always going to risk putting G7 bankers into a dangerous corner at some point. We have got to that point," he said

"The political fall-out could be substantial as finance ministers from the weaker economies rail at the ECB. Wider spreads between the German Bunds and peripheral markets seem assured," he said.

Ultimately, the bank expects the oil price spike to subside as the more powerful force of debt deflation takes hold next year.

BRIC (Brazil, Russia, India & China)



DJII - Weak!



Dow Transports – Strong !



U.S. Banks are still ill!



Bipolar Portfolio: A Guideline

bi-po-lar: Having two opposite or contradictory ideas or natures

1. Cash (20%): Government of Canada T Bills.

2. Stocks (30%): Blue Chip Canadian companies with dominant franchises and a long history of paying and increasing their dividends... to include Canadian chartered banks – **Toronto Dominion Bank (TD) (2%)** and **Royal Bank of Canada (RY)**, Insurance and Financial Services, **(2%)**, **Manulife Financial (MFC) (2%)**, Railway - **Canadian National Railway (CNR) (2%)**, Oil and Gas - **Imperial Oil (IMO) (2%)** , **PetroCan (PCA) (2%)**, **Suncor Energy (SU) (2%)**, **Encana (ECA) (2%)**, **Husky Energy (HSE) (2%)**, and, Communications - **Rogers Communications (RCI.B) (4%)**, Agriculture - **Viterra (VT) (2%)**, Uranium - **Denison Mines (DML) (2%)**, and Base/Precious Metals -**Teck Cominco (TCK.B) (2%)**; **Sprott Resource Corp. (SCP) (2%)**(All listed on the TSX)
Favored funds as an alternative to individual holdings for this portion of the portfolio... [Sprott Energy Fund](#) and [Sprott Canadian Equity Fund](#)

Bipolar Portfolio: A Guideline (cont'd)

3. Global Stocks (10%): TIS Preservation and Growth Fund (10%); now available to Canadian investors - The fund codes are **GHC 100 (front end)** and **GHC 200 (no load)**.

4. Commodities (10%): Coxe Commodity Strategy Fund (COX.UN) TSX

5. Canadian Income Trusts (10%): Top quality and heavily weighted in resources; particularly oil and natural gas: **Canadian Oil Sands Trust (3%) (COS_UN)**, **Pengrowth Energy Trust Class B (PGF.UN) (7%)**

6. Precious Metals Holdings (20%) As inflation, deflation and devaluation insurance...

Gold Funds/Shares (10%): AGF Precious Metals Fund (5%) managed by Bob Farquharson and **Goldcorp (G) (5%)** (Listed on the TSX)

Direct Holdings of [Gold](#) and Silver Bullion (10%): Central Fund of Canada (CEF.A) (Listed on the TSX)

**"Maybe I don't understand the market,
but I prefer not to have the same kind of continued
exposure I've had up until now.
In some ways I think the music has stopped only most
people are still dancing."
- *George Soros*, May 2000**

**"Good judgment comes from experience,
and experience - well, that comes from poor
judgment." - *AA Milne***

**And now for the slides that should get your
attention...**

Warren Buffett's Gen Re Experience

When Warren Buffett bought Gen Re, the large reinsurer, five years ago, he presciently made the decision to reduce their exposure to credit default swaps. It took them four years to reduce the number of contracts from 23,218 to just 197 at the end of 2006.

"We lost over \$400 million on contracts that were supposedly 'safe and properly priced' and we did it in a leisurely way in a benign market," says Mr. Buffett. "If we had to unwind it today in one month, who knows what would have happened?"

(The Wall Street Journal)

***Addendum:* Mr. Buffett argues that such highly complex financial instruments are time bombs and "financial weapons of mass destruction" that could harm not only their buyers and sellers, but the whole economic system. (March 2003)**

The notional value of all outstanding derivatives now totals approximately \$1.144 QUADRILLION; \$548 trillion (Listed) plus \$596 trillion (OTC) means \$1.144 quadrillion. ... More than a 1000 trillion dollars in all derivatives outstanding. Notional value becomes real value when either counterparty to an OTC derivative goes bankrupt; reference Bear Stearns

Thank you, for your interest and attention

Good luck in the battle for investment survival and, above all, keep your sense of humor.

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John Budden :

Strategies & Investment Manager Selection for Pensions, Endowments and Family Offices...

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