THE Fred Langan e-REPORT

FIRST QUARTER 2013

CURRENCY WARS

The Canadian production business has been doing fine with a dollar above parity; actors' take-home pay was up last year, but everyone would be doing even better if the loonie would do us the favour of taking a tumble. For a while it looked like that might happen, but now it is not such a sure thing.

It seems the International Monetary Fund is going to make the Canadian dollar a so-called reserve currency. One reason for this is that Canada's economy is successful and one of the few in the world with a triple A credit rating. The U.S., France, and Britain have all lost their triple As.

That means central banks around the world — the equivalent of our Bank of Canada — would buy and hold more Canadian dollars, pushing its value higher. But other things could make it weaker, such as falling prices for commodities Canada produces like gold, oil, nickel, wheat, and copper.

With the world economy still unstable five years after the big financial/mortgage meltdown, politicians and central bankers in many countries would like to kick start their economies. Unemployment is still very high in Europe: 26% in Spain, 11.6% in Italy, and 10.8% in France. In the United States it is 7.6%; Canada is at 7.2%.

Japan has been in a slump since 1989. The Japanese yen has dropped more than 15% against the U.S. dollar this year. That could fix things as it makes Japanese made electronic goods and cars cheaper. This has Japan's competitors screaming unfair and currency war.

Last year, there were predictions that the Canadian dollar was going to $1.10 U.S., maybe higher. It actually hit $1.03 U.S. last September. Then it dropped to around 95 cents U.S. early this year, but all this reserve currency talk pushed it up around par again.

"Long term the dollar is going up, but over the next 6 to 12 months it could trade as low as 95 cents (US)," says Patricia Croft, economist and member of the economic panel on CBC's The National.

The loonie is headed even lower according to something called the Big Mac Index. It is a whimsical creation of the British publication The Economist. Since 1986, it has measured the price of a Big Mac in various countries as compared to the price within the United States. The principle is "identical baskets of tradable products," that is, McDonald's Big Mac should cost the same all over the world. Everything is compared to the base price of an American Big Mac, which this year was $4.37 U.S.

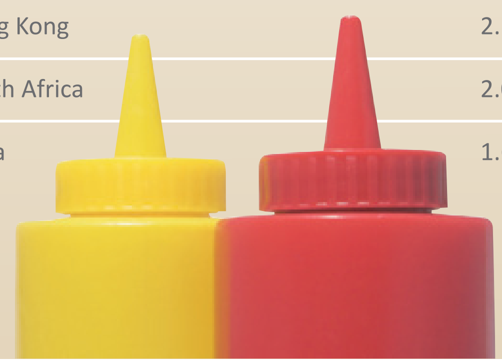
"The Canadian version of the burger costs $5.39 (US$) compared with an average price of $4.37 in America. By our reckoning, then, the Canadian dollar is roughly 24% overvalued relative to its American counterpart."

That is certainly taking British whimsy a loonie too far. If the Canadian dollar were to lose that much, it would be trading at .7372 cents U.S., a level it hasn't seen since August of 2003, when the loonie was starting its long climb to parity and beyond. It would certainly have Hollywood rushing north, and not just for cheaper burgers.

Fred Langan is a financial journalist and someone who avoids Big Macs.

The Big Mac Index

Country	Local cost of a Big Mac converted to US$ on Jan 30th 2013
Norway	$7.84
Switzerland	7.12
Brazil	5.64
Canada	5.39
Australia	4.90
Euro area	4.88
United States	4.37
Britain	4.25
Japan	3.51
Mexico	2.90
Indonesia	2.86
China	2.57
Russia	2.43
Egypt	2.39
Hong Kong	2.19
South Africa	2.03
India	1.67



Source: The Economist

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BUY AND HOLD

Most investors are like someone who is texting while driving: distracted and irrational. Financial Behaviour is a new discipline pioneered by Terrance Odean, Professor of Finance at the Haas School of Business at the University of California, Berkeley.

“Made poor by choice,” was his take on the success of the average stock and mutual fund pickers at a conference in Banff, Alberta earlier this year.

The average investor is his own worst enemy. The use of “his” is not an inadvertent sexist throwaway; men display investor overconfidence much more than women do, according to Professor Odean. The result is that men lose more money than women do. Oddly enough, single women do better than women in general, but single men are a disaster. Odean points out that this is similar to the belief of many men that they are better drivers. Young, single men have terrible driving records, which is why their insurance is so high.

A big mistake all amateur investors make is buying yesterday’s winner. When it comes to mutual funds, Odean’s studies show that people pile into last year’s top fund. For example, 39% of mutual fund investors bought last year’s number one performer. That, of course, is no guarantee it will be next year’s winner.

The same is true of individual stocks. Small investors buy popular stocks, things they read about or hear on TV, usually at the top of the market when the stock is overpriced. Many continue to buy as the stock falls. This type of investor behaviour destroys savings.

Canadians are not alone when it comes to paying savings-destroying fees on things such as mutual funds. According to Professor Odean, people around the world get clipped on fees. He did a study that looked at every trade on the Taiwan Stock Exchange over four years. A combination of commissions, poor decisions and taxes took US$32-billion USD from investors.

“The winners in this game: middlemen and institutions,” said a Forbes magazine article on the Odean study.

Amateur investors tend to hang on to losers and sell winners. Odean’s studies show that in most cases, those winners go on to gain 3.4% in the year after they were sold, while the losers they hang on to keep on dropping.

Professor Odean and his academic partner suggest that the way to make savings grow for retirement is through a careful mix of stocks, bonds, and other investments as carried out by managers, such as those as at the Canada Pension Plan and AFBS.

It isn’t just the average investor who makes poor decisions; even the pros, or at least the financial journalists who cover the pros, can make fools of themselves.

In August of 2000 Fortune Magazine ran a piece titled: 10 Stocks To Last The Decade. It was a classic buy and hold portfolio, though it proved to be buy and lose, with the most spectacular loser being Canada’s Nortel Networks.

Fred Langan is a financial journalist and writer.

BUY AND HOLD	August 14, 2000	April 2013	Return
1. Nokia	$54	$3.26	-94%
2. Nortel Networks	$77	$0.00	-100%
3. Enron	$73	$0.00	-100%
4. Oracle	$74	$32.41	-56%
5. Broadcom	$237	$34.22	-86%
6. Viacom	$69	$61.43	-11%
7. Univision	$113	$36.25 (Takeover)	-68%
8. Charles Schwab	$36	$17.38	-52%
9. Morgan Stanley Dean Witter	$89	$21.68	-76%
10. Genentech	$150	$95 (Takeover)	-37%

Source: Ritholtz.com

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