LIBERTY
International Investment Management

MARKET UPDATE

Q2 | January 1 to June 30, 2020

IN THIS ISSUE:

Amusement park rides may be closed today but they've been replaced by the 2020 roller coaster action of the stock markets.

In the past, the stock market used to move up or down by about 1% a month. Through the first six months of 2020, it's been anything but a 1% change. The table below illustrates that volatility.

For example, the total return at the end of June for the Canadian stock market (the TSX Index) was a negative 7.47% in Canadian dollars with dividends re-invested. During that 6-month period, however, it fell by 17.38% in March and rallied 15.11% in April. These were certainly atypical circumstances.

Benchmark returns for 2020 (in CAD$) including dividend reinvestment
At June 30, 2020

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	TOTAL
TSX Index	1.74%	-5.90%	-17.38%	15.11%	4.17%	2.16%	-7.47%
S&P 500 Index	1.93%	-6.86%	-7.43%	15.63%	5.64%	1.74%	1.68%
EuroStoxx 600 Index	-0.52%	-7.69%	-9.89%	7.80%	3.27%	3.16%	-7.29%
MSCI Global Index	1.38%	-7.05%	-8.29%	13.10%	5.27%	2.07%	-0.82%
Russell 2000 Index	-1.30%	-7.05%	-17.33%	19.84%	8.55%	2.84%	-8.71%
ZCM Canadian Mid-Term Corporate Index	2.88%	0.51%	-6.96%	8.41%	1.18%	2.59%	5.91%
ZLC Canadian Long-Term Corporate Index	4.36%	-0.37%	-13.04%	11.80%	0.60%	5.13%	7.11%
ZPR Canadian Preferred Share Index	0.05%	-2.83%	-22.71%	16.21%	-1.78%	4.49%	-13.62%
ZRR Canadian Real Return Index	3.56%	1.22%	-4.53%	5.36%	0.52%	3.26%	6.54%
VCLT US Long-Term Corporate Index	5.89%	2.87%	-3.28%	6.24%	0.62%	3.04%	11.72%
ZUP US Preferred Share Index	3.43%	-2.56%	-9.27%	19.68%	2.23%	-2.81%	1.88%

Data Courtesy of *Bloomberg Finance L.P.*

And with the decline in interest rates, fixed income markets have outperformed stock markets worldwide by a wide margin, with bond total returns up anywhere from 6% to 12% (see the table above at the far right).

We are in a recession and historically, it involves more than one market sell-off

We are in the fourth month of this current recession – historically, recessions usually last from 18 to 24 months. The biggest market selloffs often occur near the end of the recession because investors, tired of seeing declining monthly statement valuations, throw in the towel and go to cash.

In the last economic slowdown of 2007-09, there were two such stock market selloffs of greater than 20% in the final 6 months of that recession (see chart in the last Liberty newsletter – March 31, 2020 – page 7).

The difficulty with the market today is that it isn't following the usual trend. Below is a table of Price-Earnings ratios from peak to trough of past recessions:

S&P 500 Index P/E Ratios in Prior Bear Markets

PEAK DATE	PE AT PEAK	PE AT LOW
8/2/1956	13.8	12.2
12/12/1961	22.4	15.4
2/9/1966	18.0	12.9
11/29/1968	18.0	13.2
1/11/1973	19.5	7.5
11/28/1980	9.1	7.1
8/25/1987	22.5	14.7
3/24/2000	30.6	17.3
10/9/2007	17.5	11.1
2/19/2020	22.3	14.9
Average	19.0	12.4

Data Courtesy of *Bloomberg Finance L.P.*

We anticipated that the S&P 500 Index might reach 2,200 but that was based on a market correction and a normal economic slowdown with low unemployment in the economy. With unemployment currently about 3 times higher and some jobs lost forever, a dip to the average P/E of 12.4 times would indicate a new S&P 500 Index low of 1762, about 46% lower than we are today.

Three reasons for the bounce-back in stock markets

The biggest reasons for the bounce-back in stock markets has been:

- **The U.S. Federal Reserve cut short-term interest rates close to zero**

  The Fed wanted to ensure that corporations had access to debt markets at low rates so these firms could remain solvent and liquid until either a vaccine was found to fight the Covid19 virus or the economy was able to re-open safely.

- **The U.S. Federal Reserve initiated another round of quantitative easing**

  The Fed announced it would re-purchase U.S. Treasury bonds and even go so far as to buy back corporate debt, including high yield "junk bonds" to ensure the economy wouldn't de-stabilize.

- **The U.S. Federal Government announced fiscal policy changes**

  The $2.2 trillion CARES Act injected billions of dollars into households and businesses, masking the impact of widespread closures.

  This represented one of the largest injections of liquidity into an economic system ever, leading to one of the biggest stock rebounds. It typically takes about 1 1/2 years to recover from a 20% drop. Instead, the S&P 500 Index rose 40% in 50 days, the fastest rebound in nine decades.

Where do we go from here?

The answer is that nobody knows where we go from here as there are too many variables to connect the dots, such as the duration of the pandemic, when we will get a useful vaccine, what the unemployment situation will look like and how long this recession will last.

As key components of the CARES Act begin to phase out, the true pain may begin soon. As many as 25.6 million Americans will lose enhanced unemployment benefits by the end of July, and it's unclear if Congress will extend the $600 per week in additional payments that has buoyed so many households.

From an investment standpoint, what are the implications of this current market?

For those who believe the market will only continue higher, their arguments would include:

→ **Stock earnings yields are far higher than bond yields**

At June 30th, the S&P 500 Index earnings yield was 4.58%. This compares with 10-year US Treasury yields of 0.65%. Therefore, stocks should produce better future returns than the bond market.

→ **Never fight the Fed**

As long as we have the dual power of both monetary and fiscal policy working to support the economy, the stock market should do well.

→ **Low interest rates are good for technology stocks**

Whenever rates go lower, growth stocks often surge. That's why the only market index with a positive return in 2020 is the technology-laden Nasdaq.

→ **As long as we're stuck working from home, tech stocks are the beneficiaries of this cultural/economic shift.**

Some pundits have said that we're undergoing another secular shift, similar to the 1990s with the advent of the Internet. Their arguments continue that it's different this time because these companies have profits and cash flow, whereas Internet stocks did not, which burst the Tech Bubble in Year 2000.

Those who are against this line of reasoning would say the following:

→ **Where's the growth?**

Companies have cut their Capital Expenditures by anywhere from 20% to 60%. They've suspended dividend payments and share buybacks. How does a firm grow organically with no money re-invested in the business? How does country GDP grow with no earnings growth?

→ **What happens when globalization slows or disappears entirely?**

Supply chains are greatly interrupted. If global trade disappears, it will take a long time for countries to build the infrastructure to truly be self-sustaining. "Just-in-time" production hit a big wall, as was seen with the delayed supply and delivery of face masks.

→ **What happens if unemployment remains high?**

White-collar jobs are disappearing. In the United States, the Labor Department reported that since February, over 11 million permanent jobs have been lost or furloughed, many that may never come back. That doesn't sound like a return to full employment.

The biggest statistic of all, however, is that In June, average hourly earnings for all employees on private nonfarm payrolls fell by 35 cents to $29.37. Given that two-thirds of GDP in the United States comes from consumer spending and wages are falling, who's going to have money to buy anything? Instead of worries of supply inflation, we're more concerned with demand destruction and deflation.

→ **It still comes down to valuations.**

How much do you wish to pay for $1 of corporate earnings? We looked at the best and worst-case scenarios based on current valuation projections by analysts and came up with the table below:

Earnings and P/E Multiples at June 30th

	INDEX VALUE	CURRENT EPS	CURRENT P/E	BEST CASE P/E	WORST CASE P/E
TSX Index	15,515.22	$800.27	19.4	23.1	44.9
S&P 500 Index	3,100.29	$142.13	21.8	26.0	50.5
Dow Jones Index	25,812.88	$1,343.08	19.2	22.9	44.5
MSCI Global Index	2,201.79	$102.98	21.4	25.5	49.5
European 600 Index	360.34	$19.21	18.8	22.3	43.4
NASDAQ Index	10,058.77	$243.89	41.2	49.1	95.5
Russell 2000 Index	1,441.37	$21.11	68.3	81.3	158.1

Data Courtesy of *Bloomberg Finance L.P.*

If you believe everything returns to normal in late 2020 or early 2021, the best-case scenario above would be for earnings to fall 40% and then rise 40% to year-end.

In the first quarter of 2020, GAAP earnings for companies in the S&P 500 Index were down 66%. In Q2 to the end of the year, earnings are expected to grow 27%. That is expected to be the worst-case scenario.

In the table above, the S&P 500 Index currently trades at 21.8 times earnings – investors are willing to pay $21.80 for $1 of earnings. In the best-case scenario, noted above, the P/E multiple becomes more expensive, and in the worst case, it doubles and becomes *really* expensive.

Given the historical P/E average for the S&P is about 16 times earnings, would you really want to pay 3 times the average to own stocks?

And if we do not get a return to normalcy (lower earnings, lower consumer spending, higher unemployment), the worst-case P/E multiples (the far-right column in the table below) would be the highest in mankind's history. The risk / reward gives you about 20% upside and about 76% downside.

In other words, if a Toyota Corolla sells for $20,000 but someone offers to sell it to you for $80,000, would you buy it?

If you answer yes, I have some tulips to sell you (see Tulip Mania, 1637). If the answer is no, then why are you buying stocks today?

Some anecdotal evidence of overvalued markets

I'm reminded of a conversation I had with a taxi driver one day. He was actually yelling at me, accusing me of being stupid for not owning 50% tech stocks and 50% gold. In his words, "They're the only place you should be."

My response was to ask him to pull over as I'd be happier to avoid his judgement and walk the rest of the way. That was in March 2000 but it could also be a conversation today. It's funny that the more things change, the more they stay the same.

Meantime, the biggest news stories today are those of the day traders who have referred to themselves as the Masters of the Universe, a phrase that has been used on Wall Street every decade of its existence.

Barstool Sports' Dave Portnoy had bought just one stock in his life before the quarantine hit. When the country shut down in March, canceling sports and sports betting, the founder of the brash media empire dusted off his old E*Trade account and started day trading.

Portnoy has dissed the acumen of Warren Buffett, the world's fifth-richest person and widely regarded as one of the greatest investors ever. "I'm sure Warren Buffett is a great guy but when it comes to stocks he's washed up," Portnoy tweeted. "I'm the captain now."

Recently, Portnoy was found to be pulling Scrabble tiles from a bag to form the letters of the stock symbol of his next purchase, indicating that he thought investing was easy.

Most day-traders in 2000 lost all their money. Chances are, it will happen again. Over the last 20 years, do-it-yourself investors have earned a total return of 1.2% compounded annually. They have trouble making money because:

- They can't stop getting in their own way
- They make investment decisions based on noise – media outlets, neighbours, etc.
- They get pompous (as Portnoy illustrated above)
- They don't diversify properly
- They get caught having too high of stock concentration levels
- They get emotional when things aren't going their way
- They can't manage their losers – over time, these stocks destroy performance
- They pick more losers than winners
- They don't do their homework

All of the above help take us to where we are today. It's nothing new – it happens every decade and every generation.

But don't take my word for it: What are the Market Gurus Thinking?

Instead, I believe it's important to listen to those who have been in the investment industry for decades as they tend to be more rational than others who haven't been around as long. They've lived to fight another day. It seems, they too, are concerned about the current direction of the markets. Here are the ruminations / actions of three such stock market gurus.

Warren Buffett (age 89), has essentially been sitting on the sidelines through the pandemic. His firm, Berkshire Hathaway, holds about $137 billion in cash. To date, he has made only a small, USD $10 billion purchase of Dominion Energy gas assets.

Not finding much value in the market, it has been speculated, based on Berkshire's last quarterly filing, that Buffett has spent about $5 billion buying back Berkshire shares (the stock is down about 20% in price this year).

Bill Gross (age 76), released his latest investment outlook, where he believes the high-flying growth stocks have been the market darlings because real interest rates are negative.

"The price of Microsoft (perhaps the most consistent growth stock of all), has a .854 R2 correlation to TIPS (Treasury Inflation-Protected bonds) over the past two years. When TIPs go up, Microsoft goes up. When TIPs prices go down and real yields go up, Microsoft goes down."

"To me, then, the future price disparity of Microsoft, Apple and Amazon relative to lesser growth but still high quality stocks like Coca Cola or Proctor & Gamble, is subject to an ongoing decline in real rates, which to my mind, have seen their best days. Value stocks, versus growth stocks, should be an investor's preference in the near-term future."

Jeremy Grantham, (age 81), the co-founder of Grantham, Mayo, Van Otterloo and Co. (GMO) back in 1977, had this to say in his latest newsletter (it's highly recommended reading):

"We exited Japan 100% in 1987 at 45x earnings and watched it go to 65x (for a second, bigger than the

U.S.) before a downward readjustment of 30 years and counting.

In early 1998 we fought the Tech bubble from 21x (equal to the previous record high in 1929) to 35x before a 50% decline, losing many clients and then regaining even more on the round trip. In 2007 we led our clients relatively painlessly through the housing bust."

He goes on to mention that, "Everyone can see and feel that this is different and can sense the bizarre nature of the market response: We are in the top 10% of historical price earnings ratio for the S&P on prior earnings and simultaneously are in the worst 10% of economic situations, arguably even the worst 1%!" – *his emphasis*.

In summary, we at Liberty anticipate a future stock market drop somewhere between 40% and 70%.

The Risk of Buying High P/E Stocks

By Brett Girard and Thomas Zagrobelny

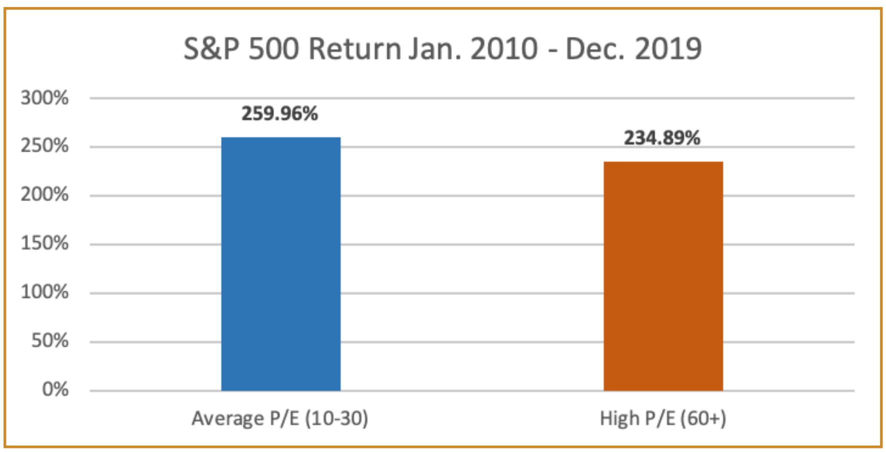
People love talking about high price-to-earnings (P/E) stocks because they're considered the "wonder children" of the market. Since investors are willing to pay so much for the company's earnings, there must be high expectations for the company's growth and future.

If you pick the right high P/E stock and those expectations come true, you can earn a lot of return, and since high P/E stocks also tend to be higher in profile (think Tesla, Shopify and Amazon), it's easy to feel like you have more information and understanding driving that decision.

> "Understanding risk is just as important as earning returns."

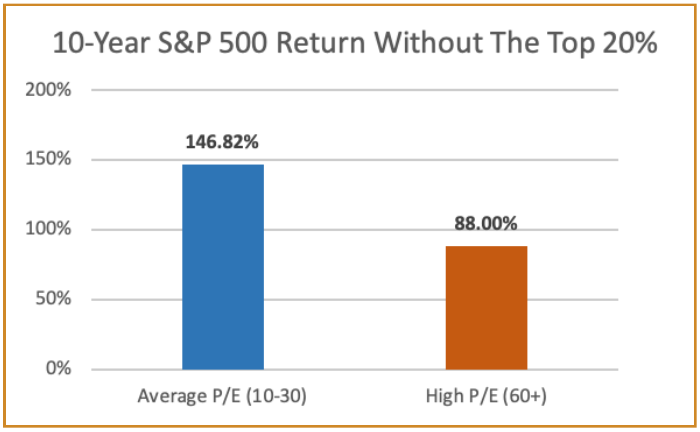
A word of caution though: The more the price is driven by high expectations, the more the price can come crashing down if things change for the worse. If investing is a spectrum from boring, low-yield investments to all-out gambling, high P/E ends up more on the gambling end.

First, let's take a look from a historical perspective. Performance in the past 10 years was similar across P/E levels:



The blue bar on the left are S&P 500 stocks that had an average Price-Earnings multiple between 10 and 30 times. The orange bar on the right are the high P/E stocks, whose multiples were greater than 60 times earnings.

Certainly, the returns are close – nothing to talk about there. But something interesting happens if you cut out the top 20% performing stocks in each group:



After removing the top 20% performing stocks from each group, the high P/E stocks in the graph above performed only half as well, meaning that when investing in high P/E stocks, results depend more on picking the best of the best companies.

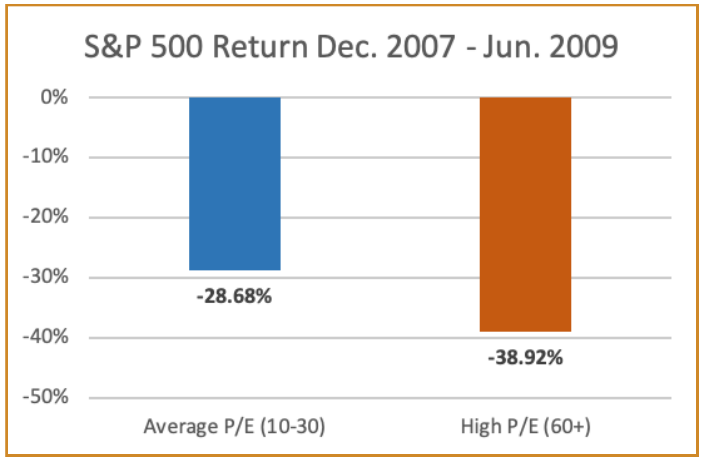
Since an investor can't be right every time, high P/E stocks expose them to more downside risk, especially since they tend to get excited about a small group of specific companies instead of a larger, diversified set.

The riskiness of high P/E stocks manifests in other ways too. Since high P/E firms depend more on unrealized expectations, they are more speculative in nature.

One thing that happens when the market drops is that investors become more risk-averse and shift away from speculation to safety. Because of this, high P/E stocks get hit twice: Once for the drop in company earnings and then again for the overall drop in market P/E levels. This second force is known as multiple compression.

In the table to the right, a $40 stock drops 25% after the company reports a 25% fall in earnings from $2.00 a share to $1.50 a share. As investors race to the exits, the P/E multiple begins to compress, causing another 25% drop in the price. All told, the stock plummets 44% in just a short period of time.

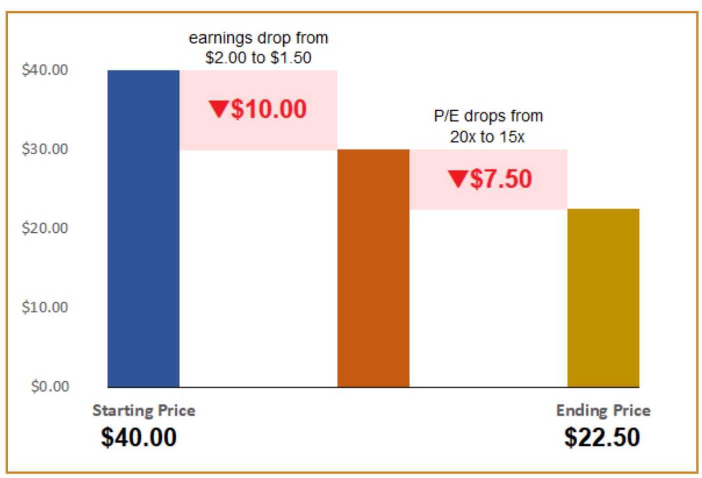
A perfect illustration of the high P/E stocks destruction was during the 2007-2009 recession when high P/E stocks fell 39% compared to their lower P/E cousins (down 29%):



This isn't to say that high P/E stocks can't be a good investment. It's important to realize the risks, however, especially when it comes to holistic portfolio strategy and construction.

At Liberty, we diversify and manage overall risk and prefer to invest in strong, long-term focused companies that make sense in the portfolio.

One example is Shopify Inc., whose inclusion is balanced out by the stock weighting – only a one-half position relative to the other companies. This is our preferred strategy to provide some exposure to the disruptive technology space.



DEALING WITH THE STRESS OF COVID19

By Annie Bertrand

There is no denying that the Covid19 pandemic has emotionally affected everyone. The confinement has given us time to reflect on different aspects of life: Our work, our lifestyle and our finances. The lockdown, coupled with a lack of a vaccine for COVID-19 yet, has made the future more uncertain than ever. Here are a few suggestions to minimize any anxiety you have that may be linked to your finances:

- Make or review your budget. Now is the time to look closely at your revenues and expenses. As a family, have an open discussion about your priorities and plan accordingly. You can use a sheet of paper, create an excel spreadsheet or even use a budgeting app to record your income and spending.

  Good planning is important but **tracking your costs is the key to provide you with peace of mind**. If you develop a weekly habit to compare your budget with your actual income and expenses, you will be able to rapidly adjust it to avoid unpleasant surprises at the end of the month. Through online banking platforms, most financial institutions provide tools to help keep track of your income and expenses. These tools will save you time and, hopefully, money.

- If you are now working from home, some expenses may have been reduced or eliminated. If you are retired, annual trips might have been cancelled. **This provides different options for your savings:**

  a. Build an emergency fund. Ideally, your emergency fund should cover 6 months of expenses. Your goal is not to generate high performance, but to create a safety net. Higher rate savings accounts would be the place to preserve your capital.

  b. Reduce your debt. Look at the interest rates you pay on your debts and reduce the highest rate debt. The faster you pay off capital on your debt, the less interest you will pay overall.

  c. If savings aren't needed, you could invest in a Tax-Free Savings Account ("TFSA") or in a Registered Retirement Savings Plan ("RRSP"). If you choose to invest in the stock market, remember that these funds should be considered vehicles for long-term performance.

  d. If you have children and have not yet maximized your contributions to the Registered Education Savings Plan ("RESP"), future deposits will generate additional grants (the Federal government will match 20 % of your contribution. For Quebec residents, an additional 10 % will be matched by the Quebec government).

- If you plan to make an important purchase (house, car, etc.), it might be wise to delay your purchase.

  After losing their jobs, some homeowners have asked for a suspension of their mortgage payments. Most financial institutions have offered a 6-month break. This delay will end in the fall. If those individuals have not found employment, we could see an increase in foreclosures leading to an increase in supply and lower home prices.

  For buyers of cars and other expensive goods, if the unemployment rate remains high this summer and consumers are cautious in their spending, dealers and stores may want to liquidate their inventories by offering attractive prices.

- If you received the CERB (Canadian Emergency Response Benefit) or unemployment insurance, these aide programs are taxable because no tax has been deducted at source. You need to set aside an amount for the tax bill that will be due in April 2021. Some internet calculators like Neuvoo (https://neuvoo.ca/tax-calculator/) can help you estimate the amount of tax due.
- RRIF minimum payment: The requirement for the minimum payment for RRIF\LIF has been reduced by 25 % for 2020. If you do not need the income and the full minimum payment has not yet been paid to you, it could be advantageous to ask for the reduction.
- Review the bank fees you pay and the transactions you make. Since COVID-19 started, are you transacting more? Does the banking package you currently have still correspond to your lifestyle? Additional transactions outside your package can increase your monthly fees substantially.
- If you've been working from home since March and there is a high possibility that it will stay this way or become permanent, contact your insurance company to re-evaluate your auto insurance.
- Do not look at your portfolio online daily – once a week or monthly should be enough. Remember that you are invested for the long-term. Because of higher transaction costs, active buying and selling only makes the broker rich. That's why Goldman Sachs and Morgan Stanley had better earnings recently than their U.S. bank cousins.
- Like the companies in which Liberty invests, your free cash-flow is the key component to surviving a crisis. Taking control and having a clear plan for your household finances should help reduce your anxiety.

CLIENT QUESTIONS

The divide between haves and have-nots is growing wider. What can we do about it?

A *Reuters* article by Mike Spector and Jessica Dinapoli found that, "Nearly a third of more than 40 large companies seeking U.S. bankruptcy protection during the coronavirus pandemic awarded bonuses to executives within a month of filing their cases."

"Even more firms paid bonuses in the half-year period before their bankruptcies. Thirty-two of the 45 companies *Reuters* examined approved or paid bonuses within six months of filing. Nearly half authorized payouts within two months."

"J.C. Penney – forced to temporarily close its 846 department stores and furlough about 78,000 of its 85,000 employees as the pandemic spread – approved nearly $10 million in payouts just before its May 15 bankruptcy filing. Then, the company said it would permanently close 152 stores and lay off 1,000 employees."

The common excuse by these companies is that this is the price they have to pay to keep talented executives. This seems more like an oxymoron; if they're that talented, then why did these companies go bankrupt?

It illustrates how greedy the executives can be, where arrogance and narcissism reign supreme but also how inept and ineffective are their Boards of Directors. That's why Liberty always votes against executive compensation because we find such practices egregious.

As Liberty grows as a firm, we hope to someday hold enough sway to stop Boards of Directors and company executives' abusive practices. After all, it's the shareholders' money, not theirs.

My Shopify shares have more than doubled this year. When do we take profits?

In Liberty Tax-Free Savings Accounts (TFSAs), we have owned Shopify stock since our first purchase around $82 a share. With 20 stocks in those portfolios, the average weight for each company is 5%. If any stock becomes a 10% weighting, we automatically sell half – this is a mechanical decision, not an emotional one.

We have re-balanced Shopify on three occasions since our first purchase to secure profits on the way up and to help de-risk the portfolios. According to academic evidence, re-balancing enhances long-term returns by a compound rate of 1% to 2%.

I've got a lot of cash in my account earning nothing. Isn't there somewhere I can earn a return?

This is a common question we get today. Because of low interest rates, Canadian T-bills with a duration less than one year currently yield between 0.18% for three months and 0.26% for one year.

Treasury Bills are known as "risk-free" investments. If you want a higher return, you'll have to take on more risk with the potential for a capital loss.

If you're thinking of buying a house, you have to accept the low savings account rates to preserve the capital for the down payment. If you put these savings into the stock market and lose 40% prior to closing date, you may not have the requisite down payment to purchase the house.

In Liberty investment portfolios, the cash may earn little today but it's there strategically to:

a. Preserve capital

b. Provide better performance numbers than the benchmarks during negative markets like 2016, 2018 and 2020

c. Take advantage of any large corrections to buy more of what you own at lower prices

Meanwhile, preferred share investors enjoying 8% pre-tax yields are nervous or unhappy dealing with the volatility and negative price movements. While their income has been high, the unrealized losses have left them emotionally unhappy.

In their case, as long as they have no plans to sell, they're still earning 8%, a far cry better yield than the 0.35% that five-year Government of Canada bonds earn.

For both types of investors, however, the old axiom, "*There's no free lunch*" must always be understood.

Rate reset preferred shares have spiked recently. Why did this happen?

These past few days, the price of preferred shares rallied after the Royal Bank of Canada announced it was issuing Limited Recourse Capital Notes (LRCNs). This is a new form of Additional Tier 1 Capital (AT1) that can now be issued by Canadian banks and insurance companies to satisfy their capital requirements.

These instruments are higher-risk debt that will carry lower rates of interest. As a result, these financial firms may start calling back some of their higher coupon rate-reset preferred shares in order to save money as the interest on the LRCNs is tax-deductible for them and the coupons will be lower.

The Initial coupon of the proposed upcoming Royal Bank issue is in the area of 4.50%. Remember that a 4.50% coupon on an interest-bearing instrument would be the equivalent of a bank issuing an after-tax, dividend paying preferred share with an approximate coupon of 3.50%. This is far lower than the coupons currently offered on rate-reset preferred shares.

While investors may welcome the short-term, higher price of these rate reset preferred shares, having them called will ultimately result in higher re-investment risk and lower income.

Is the 60 / 40 asset mix doomed?

There have been comments made, that, because interest rates are so low, the "Average Risk" portfolio of 60% equities and 40% fixed income should no longer be the norm. That's because the expectation for returns on the 40% fixed income component are currently negative in some cases and could be that way in the future.

However, there are some ways to keep the real return positive:

Fixed Income Real Returns

INSTRUMENT	PERCENT WEIGHT	PRE-TAX YIELD	TAX	INFLATION	AFTER-TAX FEES	REAL RETURN
Inflation-Protected Bonds	5%	3.00%	1.50%	1.00%	0.50%	0.00%
Short-Term Corporate Bonds	5%	3.00%	1.50%	1.00%	0.50%	0.00%
Medium-Term Corporate Bonds	5%	4.00%	2.00%	1.00%	0.50%	0.50%
Long-Term Corporate Bonds	5%	5.00%	2.50%	1.00%	0.50%	1.00%
Preferred Shares	20%	7.00%	1.40%	1.00%	0.50%	4.10%
Average		**4.40%**	**1.78%**	**1.00%**	**0.50 %**	**1.12%**

Above is a table showing a hypothetical 40% fixed income mix to help achieve real returns that are positive, even in this environment.

The table illustrates how an investor can keep their real return in positive territory – in this case a real return of 1.12%. The far-right column takes the Pre-tax Yield and deducts:

- Interest income tax - 50% for bonds and 20% for preferred shares because of the dividend tax credit
- Inflation - now down to 1% from 2% caused by the recession
- After-tax fees.

It isn't true, therefore, that everyone should reject the 60 / 40 asset mix in favour of something riskier, such as an all-stock portfolio.

If you have any questions, let us know.

David Driscoll
President & CEO

Brett Girard CPA, CA, CFA
Portfolio Manager & CFO

Annie Bertrand CIM
Associate Portfolio Manager

The commentary in this newsletter should be considered general commentary only. The above language is intended for informational purposes only and is not intended to constitute accounting, legal, tax, or investment advice. You should consult directly with a Liberty professional before acting on any information in this newsletter.