

The QAM letter that highlights recent developments that we think either affect the markets or are important to understanding them.

“Things ain't what they used to be and probably never was.” – Will Rogers

Fear and greed v2013

As 2012 comes to an end we can proclaim that it wasn't as bad a year for long-term investors as some pundits predicted (let alone the Mayans).

As at Friday December 21, the S&P/TSX managed to provide a 6.58% return YTD. The S&P500 returned 16.27% in USD and 13.56% when converted to Canadian Dollars. Despite all the problems in Europe (can also be read *thanks* to all the problems in Europe) EAFE delivered 18.02% in USD (15.27% when converted into Canadian Dollars).

As we get close to the end of the year, it looks like the solution to the Fiscal Cliff in the US is going to be date stamped 2013. After January 1, the discussion will turn from raising taxes and controlling public expenditures to lowering taxes and increasing public expenditures. Notwithstanding the negative impact created by uncertainty in the markets and on consumer spending, in the U.S., political brinkmanship appears to be alive and well. Politics is played by politicians.

We would like to step back and make a quick list of just some of the issues that concerned the media and captured the attention of the general public in 2012: Sovereign Debt, “Grexit”, UK’s double dip recession, 75% tax rate, Middle East, oil, weak investor sentiment, U.S. economy, Fiscal Cliff, China, Japan, PIIGS, Quantitative Easing, ECB Outright Monetary Transaction, LIBOR scandal, Inflation, Currencies, Deflation, US Election, Canadian Housing bubble, sluggish Global Growth.

Oh yes, did we say weak investor sentiment? Will 2013 be the year that funds that investors have held out of the markets, collecting negative real returns, come off the sidelines?

As we turn the page to the New Year, Central Banks are fighting fiercely against deflationary forces. The Federal Reserve has set expectations that the US economy will not be out of the woods until unemployment is below 6.5% and inflation is more than 2.5%. In the meantime, it will print 85 billion US dollars per month to buy 45 billion US dollars of US government debt and 40 billion US dollars of mortgage-backed securities. We believe that inflation is still the number one risk for the long-term investor after all is said and done.

The last series of measures by the Federal Reserve has generated a lot of talk about which investments are good hedges against inflation. This is an old discussion where the same instruments are always mentioned: Gold, Real Estate, Real Return Bonds. Of course Equities are also a natural hedge as most companies have the ability to pass increased costs onto customers. Now some analysts are saying Equities might be the best alternative.

We remain firm in our belief that inflation protected growth in the long-run comes from holding high quality stocks, while liquidity requirements and stability has to be provided by a prudently selected Fixed Income position in the portfolio.

Happy 2013

As we write this QAM Update in the last days of 2012, recall the events of 2012 and still wait for the politicians in the U.S. to actually “govern” by addressing the Fiscal Cliff, there is always the hint of optimism for a new year. The 1988 hit song by Bobby McFerrin “Don’t Worry, Be Happy” is a good place to start. In 1997, Chicago Tribune journalist Mary Schmich wrote “Don’t worry about the future. Or worry, but know that worrying is as effective as trying to solve an algebra equation by chewing bubble gum.” While Black Swan events can materialize, a long term plan can remove much of the impact.

Rest assured that we at Quadrant work to help you with your long-term financial plans based on some proven investment tenets: diversification, discipline, capital preservation and continued re-focus in the long term.

We thank all our clients for their continued support and trust. It has been an important year for Quadrant, working to maintain strong ties with our clients, the addition of new clients to our Quadrant family and significant improvements in our operations. We are particularly thankful for all the referrals. We understand these referrals represent your trust in us and they are one of the greatest compliments that we could receive.

All the best for a healthy, peaceful and prosperous 2013!

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