



Summer Edition  
2008

## PROVEN INSIGHT



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## Investors with a long-term time horizon should be buying now.

### Market Musings:

With the global stock markets in a slump, most Investment Advisors are no doubt fielding calls from concerned and anxious clients. I myself find I'm rolling out such clichés as "stick to your long term goals," and "just hang in there." As repetitive and unexciting as it may sound, it's actually very sage advice with both a historical and practical basis. While it's never pleasant seeing a decline in one's portfolio, you can rest assured that if you hold high-quality holdings and are patient, you will see your assets increase over time.

**In fact, for an investor with a long-term time horizon, the current market offers a number of opportunities for value, and investors should actually be looking around for more capital to invest.**

Oddly enough, investors tend to plow money into the market when things are good, when the best time to ramp up investments is actually when things are bad (or more accurately: "less good"). The current decline in the global markets is supported by a number of very real concerns such as inflation, credit issues, high energy prices, and a perceived slowing of the US economy. At the same time it's fair to say that a number of proverbial babies have been tossed out with the bath water...and kicked on the way out the door. Trying to time the market is best left to math geniuses or those who feel they are smarter than the rest of us (It's worth noting that very few investors, regardless of pedigree, ever produce consistent results over the long term with market timing).

**We all stand a far better chance at outperforming the market by looking for high-quality stocks that are trading at values in respect to historical prices, and then investing in them for the long term.** You may find yourself with further declines in the short run but taking a longer term approach should be beneficial to your portfolio. As a steward of people's wealth, I try to instill this way of thinking in my clients, and discipline myself to practice what I preach.

**I am presently a selective buyer of equities and well valued index-units for my clients. I focus on high-quality companies which are trading at a discount. These positions should provide an excellent avenue to participate in a recovery in equities markets.**

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## Why High Energy Prices are Here to Stay

*"The recent decline in the energy sector has made high-quality Canadian names such as Crescent Point Energy Trust, Suncor, and Nexen look reasonable."*

*"By donating \$100k of stock he was able to donate this amount for a cost of \$57,000, had he sold the stock and donated the cash it would have cost him \$67,750..... so he saved \$10,750 in the process."*

Many wonder if the recent shift by consumers, governments, and corporations towards reduced fuel usage and energy conservation will have a real impact on oil demand. Its debatable I'm sure, but in my opinion the answer is no and while we've seen a pullback in the price of oil over the past month down from its all-time highs, consumer demand for oil internationally should remain strong.

### Consider the following:

China has 1.3 billion people, 4 times larger than the population of the US. Each American uses 10 times more oil than each Chinese – which is why, for now, the US remains the biggest consumer of oil.

Now factor in China's industrial growth that is rapidly creating a large middle class. Right now, there are still only 20 cars per 1000 people in China, compared to 950 per 1000 Americans. Knowing that 70% of the global crude supply goes to fuel cars, consider the impact a few more cars per 1000 people multiplied by 1.3 billion Chinese might affect the demand side of the oil equation.

Advancements in renewable energy technology and the promise of potential oil finds under the ocean will certainly help to balance the supply/demand equation at some point, but in the short and mid-term it will not have much of an impact. As mentioned in my comments on renewable energy, despite great advancements, we are still a ways off before there will be any real dent in global energy demand. When considering the potential of deep-sea oil deposits it should be noted that something like this takes upwards of 5 to 10 years or more to develop and that's after it makes it past all the red tape, environmental protests, and conflicting global political agendas.

Despite the saber rattling about energy prices crashing, the case is still very strong for continuing to own a healthy exposure to the energy sector. Even at far lower energy prices for oil and gas, energy companies are still printing money.

## Smart Giving

The 2006 budget removed the capital gains tax on securities donated to a registered Canadian charity and the 2007 budget extended this rule to Private Charitable Foundations. This change couldn't have come at a better time for charities or investors given the strong growth in the resource sector over the past few years, leaving investors sitting on big gains (and eventually a tax liability).

A client recently wanted to donate a gift of \$100k to a charity, by looking at his portfolio we decided to donate \$100k of a gold stock he held with a cost base of roughly half.

Donating \$100k of Securities with a cost base of \$50,000  
(\$100,000 - \$43,000 tax credit assuming a top tax rate = \$57,000).

Selling the securities and donating cash  
(\$100,000 - \$43,000 tax credit + \$10,750 in capital gains tax payable = \$67,750)

*Note these calculations are based on a BC resident in the top tax bracket who has already donated the basic \$200 amount in that year.*



## Stocks In Focus: Renewable Energy

Despite renewable energy being one of the hottest trends at the moment it's a sector that has had far more losers than winners, and most companies in the sector will never make you money. It's an industry that has a veritable mine field of drawbacks, the biggest issue being that despite all of the advancements in solar technology, wind power, fuel cells etc. they are all still far less efficient than their conventional alternatives. At best solar is at least 5 to 6 years off from what is called "grid-parity;" the point at which solar is as efficient as conventional power.

With that said I do like aspects of the renewable energy sector and there are still a number of good investments if you know what to look for and have sufficient risk tolerance and patience. In the case of wind power you want producers with power contracts, and in the solar sector you want companies that have either the most efficient technology or are the market leaders by size.

For an investor with risk tolerance and a long term time horizon, three companies to look at are: First Solar (NYSE: FSLR), Western Wind Energy Corp (T-WND), and Day4 Energy (T-DFE). With the exception of First Solar all of these companies have seen their stock price slide dramatically in the past month and current prices represent a good entry point in my opinion.

### **First Solar (NY: FSLR) \$270.00    52 week high / low: \$317 - \$74.77**

First Solar markets thin-film modules for solar panels which could achieve grid parity by 2010, potentially two years ahead of its rivals. Thin film technology is less bulky and uses cheaper cadmium telluride instead of polysilicon. While it's less efficient than traditional polysilicon it is a better alternative for large commercial operations. The cheaper price will make it the choice for business. According to one Citigroup analyst who covers the stock: "First Solar is so far ahead of its rival as both a low cost and high volume producer that it may be impossible for them to catch up". First Solar is trading in the \$270 range and has an average 12 month target price of \$337.09 which represents a potential return of 24%.

### **Western Wind Energy Corp (TSX-V: WND \$1.75    52 week high/low: \$4.35 - \$0.90**

Western Wind Energy Corp is the largest producing (non-income trust, publically traded) wind power company in North America. It recently closed an oversubscribed private placement for \$18 million dollars which gives it the required capital to expand and develop projects. There are a number of wind power companies but most are either in the development stage or they have production but don't have contracts in place to sell it. Its marquee "Wind Star" project in Mesa California will produce directly \$1.7 billion in revenue over 30 years. What makes this company especially attractive at present is that its share price has taken a beating and is currently trading at \$1.75, with average targets in the \$4.80 range and potential to go much higher.

### **Day4 Energy Corp (TSX-V: DFE) \$4.00    52 week high/low: \$7.20 - 2.95**

Day4 Energy puts solar cells together in a cheaper and more efficient way. They install cells into flexible plastic sheets that boost connectivity. This company IPO'd in December of last year for \$7.25 a share but has seen its share price decline severely to the \$3.70 range as investors shun risk for safer pastures. At the same as its share price has been declining they have been improving technology and expanding production capacity 8-fold. For investors with risk tolerance and patience this makes a great buying opportunity as the average 12-month target is \$7.67.

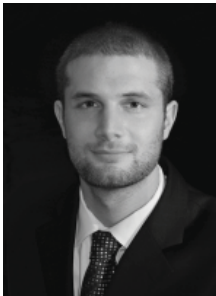
*\* Prices as of 08-20-08, targets quoted are the average of all analyst who cover the stock as per Bloomberg*



## THE UGLY DUCKLING - ROGERS COMMUNICATIONS INC (T-RCI.B)

*"Being the company with the newest phones has helped Rogers maintain very good client retention (if I have to sign a 3yr contract I want to do it with a company that has access to new phone upgrades)."*

Rogers Communication is considered to be quite cheap at the moment by many analysts that cover the stock. It has strong financials, tons of free cash flow, a history of dividend increases, and top-of-the-line network infrastructure. They have a monopoly on the iPhone in Canada, as well as a first mover advantage on the much anticipated Blackberry Bold & Blackberry Thunder when they are released. Despite the many positives and strong earnings, Rogers' share price has continued to decline to almost a 52 week low. Some of the decline is no doubt due to the prospect of new entrants to the wireless market, but with the huge barriers to entry in this industry any new entrants would be hard pressed to grab any more than 5% market share in Canada. Analysts are mixed on the stock but the average target of all analysts who cover it is \$50.00, which provides for considerable upside potential over today's (08-08-08) share price of \$34.50.



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As a steward of my client's wealth, I balance risk/reward and endeavor to deliver the **best returns for the least amount of assumed risk**. I provide clients with **personalized investment management, objective advice** and a high level of **personal service**.

To learn more about how I might be able to help **grow and protect** your wealth please feel free to contact me at your convenience.

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