



Fall Edition 2007

PROVEN INSIGHT

“Cautious  
Optimism”



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## Market Musings

I have always, and will always believe that the only kind of optimism a smart investor should entertain is of the “cautious” variety. To proceed with wide eyed optimistic enthusiasm, regardless of where in the economic cycle one finds themselves, is callous and harmful to your balance sheet. At no time is cautious optimism of greater value than with today’s volatile markets. For the record, my outlook for North American markets is positive over the longer term, with a high degree of volatility to be expected along the way as the various kinks work through the system. I’m also bullish on global markets and have moved a great deal of client portfolios abroad, based on the stronger economic growth profile they exhibit.

Of the greatest concern and perhaps the biggest stumbling block to this outlook is how far the US real-estate market will fall and how the US consumer and in turn the US economy will hold up. **The economy has been largely propped up by consumer spending driven by one’s ability to utilize (the now shrinking) home equity in an ATM-like fashion, financing a lifestyle which would otherwise not be possible. I fully expect (as do most bright minds which I follow) to see a continued drop in US real-estate values, especially in speculative regions, with the weakest links on the financial chain getting cleaned out as “teaser” and variable rates mortgages re-set to higher levels.** Not a pleasant picture for someone who has overextended themselves and now finds their mortgage payments increasing, but it is nevertheless needed to bring some measure of sensibility to the credit markets. The blame for this situation needs to fall equally on naive (or greedy) home owners who signed on the dotted line for “exotic” (read: ridiculous) mortgages as much as it should on the lenders for allowing such credit practices to flourish.

One would have to be very naive to say the almost inevitable real-estate fallout and in turn (somewhat unquantifiable at the moment) commercial paper fiasco won’t present a significant drag on the US economy, and in turn global economies. Its viewed by most as manageable and not one that will land us in a recession as some have suggested. **The US consumer has, and will, despite great odds, most likely continue to find ways to be resilient, helped a great deal by low unemployment rates, higher wages, greater efficiency and a very committed and capable Federal Reserve Chairman willing to pull out all the stops to steward the economy to safer ground. In addition, the internal economic growth outlook for China, Asia, and emerging markets is very**

*continued ...*

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*"Times like these make balanced portfolio investing all the more sensible."*

*"The trend is your friend", an ability to spot and capitalize on one before it becomes old news will serve you well.*

**strong, regardless of a US recession.** When consumers and corporations are forced to make a dollar stretch or to realize greater cost savings, they turn to goods and services of the above noted regions. These are the regions of highly skilled ultra low-cost workers which produce most of what one finds at store such as Wal-Mart and who will most likely be on the other end of the phone if you call a customer service support line. Whether a strong USA or a weak USA there is still a great demand for their products/services which creates a cycle of internal growth. In turn requiring the "building blocks" of society (oil, commodities, materials etc) to grow. It's a sort of global circle of life.

**Even in down markets high-quality assets or value stocks tend to do better than their more growth oriented peers.** As volatility encourages investors to shift allocations from risky to less risky assets and dump those which they have made a tidy profit on. It should be noted that the S&P/TSX index is trading at 2.5 times forward earnings so the general markets are not cheap by any means, investors will need to roll up their sleeves and rummage for values.

*\* As an aside...I'm proud to report that PI FINANCIAL CORP had no exposure whatsoever to the asset-backed commercial paper market and held no positions in those instruments for clients or for the firm. My "cash parking" instrument of choice is the Manulife Bank High-Interest Savings Account Fund which presently pays 4.35% and has no costs to buy/sell or any hold restrictions.*

## Emerging Middle Class

**Perhaps the biggest trend to watch at the moment is the explosive growth of a "middle-class" in emerging regions, ie. Brazil, India, China, and Latin America.** The economic growth in these regions is enabling hundreds of millions of people to spend more on food, homes, and the discretionary basics such as electronics, computers, cell phones, etc. **This added market for food boosts demand for protein (pork, chicken, and beef), wheat, as well as other commodities such as barley, eggs, cheese, oats, rice, etc.** In addition the US government incentives that encourage business to turn corn & soybeans into motor fuel have further put upward pressure on prices. **A growing number of economists think the run up in prices could last as long as a decade.**

## Gold

**Another trend which plays off this theme of economic growth is that of rising gold prices. Gold represents both an investment/hedging product as well as a hard asset used in the production of jewelry.** The demand for gold jewelry has, not surprisingly, spiked dramatically over the past few years as the above mentioned growing middle class, in this case, mostly in India, creates a huge demand for gold jewelry. You throw in investment demand for gold, tension in the middle east, gold is viewed as a safe haven and the leveling off of mine output; all of which add up to a very bullish case for gold prices. **As my clients know, I prefer straight plays on gold rather than cherry picking individual gold stocks (aside from a few momentum or value plays). My focus being on the various ETF's (Exchanged Traded Funds), which allow one to participate in the rising gold prices directly or via a basket of established gold producers, both allowing for a great deal of liquidity. This has been a successful strategy and one I highly recommend.**

***\* FOR A COMPLETE REPORT ON THE UNDERLYING FUNDAMENTALS FOR THESE TWO TRENDS, WAYS TO POSITION YOUR INVESTMENTS TO PARTICIPATE IN IT, OR FOR INFORMATION REGARDING THE IPO OF THE "GLOBAL AGRIBUSINESS TRUST" PLEASE FEEL FREE TO CONTACT ME either by phone, 604.664.2755 or email: dsc@pifinancialcorp.com***



## Stocks in Focus

### Brookfield Properties Corporation

**TSX SYMBOL " BPO"**

**RISK: MEDIUM**

Brookfield is a commercial office property company that owns top tier office assets in North America. This company has everything I screen for and has been a core portfolio holding for quite sometime. It is currently trading "cheap" valuation-wise, both from a historical perspective and in relation to its peers and has "best in class" assets, bright management, and a strong growth profile. The major growth in their business model is through higher margins (raising rents) which are possible given the tight market for office assets of this quality. As of 11-09-07 Brookfield was trading in the \$21 range which puts it very close to its 52 week low of \$20.29 and a far cry from its 52-week high of \$38.64. The average Bloomberg 12-month target price for this stock is \$32.00 which represents a potential return of 57% via capital appreciation and the 3.06% dividend. No stock is without risks and the key risk to this company's growth is a major economic slowdown in Canada which is quite unlikely given the robust balance sheets of corporation and strong economics in Alberta.

### Tio Networks Corp

**TSX - VENTURE SYMBOL "TIO"**

**RISK: SPECULATIVE**

Tio Networks is a provider of financial services for the "un-banked" consumer market in North-America through its "TIO NETWORK" of self-service bill payment kiosks and clerk assisted TIO Express locations. They provide services such as bill-payment, pre-paid debit cards, money transfer and cheque cashing in large convenience store chains and billing partner stores. This company is attractive as the share price has drifted down over the past few months on the lack of any news, investors are getting bored or they are not willing to hold speculative positions over the longer term given the market volatility. Given the strong growth profile of this company, positive earnings, and intelligent management the current share price is a good entry point into a unique speculative company. As of the time of writing (11-09-07) Tio was trading in the \$1.10 range with an average Bloomberg 12-month target price of \$1.85 representing a potential return of 68%. With any speculative company such as TIO there are a multitude of risk or events which could derail its growth but I'm of the opinion that the risk/reward profile and outlook for the company warrant a BUY for risk tolerant investors.

*continued ...*



## HIGHLIGHTED IPO / NEW ISSUE OPPORTUNITY

**GLOBAL AGRIBUSINESS TRUST**

**CLOSING EXPECTED MID-NOVEMBER**

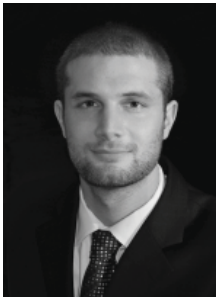
INVESTMENT HIGHLIGHTS

### **ATTRACTIVE OPPORTUNITY TO INVEST IN GLOBAL AGRIBUSINESS ISSUERS**

- Agribusiness Issuers are attractively positioned for future growth due to favorable world demographics, increasing global demand for food, biofuels and biotechnology
- **Soaring global population** expected to put pressure on available resources such as rable land, water and energy
- **Rising incomes** in developing markets such as India and China may result in higher protein consumption, requiring greater resources to produce, creating upward pressure on food prices

**The GLOBAL AGRIBUSINESS TRUST is being created to provide investors with exposure to an actively managed, diversified portfolio of publicly-listed companies engaged in various aspects of the global agribusiness industry.**

**For information on this upcoming IPO or to discuss suitability for your investment portfolio please feel free to contact me.**



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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