



RBC Wealth Management™

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Dear Readers,

Anxiety levels are high, markets around the world are dropping on European debt fears and Korean tensions. Is this a correction, or a bear market? Should investors fly to safety and what is safe?

So far, it seems the US dollar and treasury issues are the flight to safety trade. Conversely, the Euro, China, commodities and equities of any sort are being viewed as risk and therefore selling off sharply. I believe the key questions are: Do economic conditions and financial realities warrant this? What are the differences between conditions in the US and other major economies? Are we headed for a double dip recession?

To begin with, the US appears to have done a better job and been more preemptive in its actions to stabilize the financial system than European counterparts. Economic growth continues, inflation is tame, corporate earnings are good and getting stronger, stock buybacks are running at twice their normal rate, dividend hikes are being announced with greater frequency, job growth appears slow but at least it is appearing, financial reform is taking place and most of it is warranted. In short, the US seems to be in a sustainable recovery.

Meanwhile, Europe grapples with the fear that sovereign debt in Greece, Portugal, Spain and other nations may be restructured or even default. The fact is that Europe is finally dealing with its problems in a serious way and, like regulators in the US, they will succeed in their mission. All members of the EU have a critical stake in solving the problem. There are some real investment bargains developing in Europe, but it is prudent to wait until things begin to stabilize before stepping in.

Bears point to the increase in lending rates and widening credit spreads as evidence the crisis is getting worse. However, 3 month Libor - the rate at which financial institutions lend to each other - has only risen to .536% compared to 4.5% at the peak of the real crisis in the fall of 2008. It seems perfectly normal that lending rates need to rise towards historic norms as recovery continues.

If you ignore the media frenzy and ask yourself whether you think things are better or worse now than the fall of 2008 and whether the economy will be better 1, 3 and 5 years from now, I think you will agree that we are heading in the right direction and this will allow you to sleep well at night.

Regards,

Terry

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