

INVESTMENT WATCH

The Quarterly Newsletter for clients of

The Borisoff Wealth Management Team

Finding opportunities to build your wealth in all market conditions since 1992.



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Market Update: Exhaustion!

For months now investors have been expecting the Europeans to put together a credible plan to deal with their sovereign debt issues – and instead have been given half measures designed to “kick the can down the road” leaving investors disappointed and dismayed at the apparent lack of any sense of urgency in Europe.

The EU summit on Dec. 9th produced an agreement to forge closer economic ties (with the exception of Britain) and impose strict penalties for countries exceeding deficit limits. While good for the long-term stability of the region, the sole focus of this agreement was fiscal responsibility and austerity measures which do nothing to deal with the immediate short-term problems – no buyers for European debt, perilous bank balance sheets and a rapidly diminishing growth outlook. This same approach was widely blamed for sending the U.S. economy into a depression in the 1930s – which is why Bernanke has been so aggressive with his ‘Quantitative Easing (QE)’ policy response in the U.S. over the last few years.

The Market Intelligence Report summarized current market sentiment nicely on Dec. 16th: *“What happened at last week’s EU summit was an unmitigated disaster. I think the markets have figured out that the politicians and the states they represent, have few options left. Pro-growth steps were not even discussed. All policy discussions were aimed at the debt markets, not the equity markets, or economy, which are being sacrificed so that European states can go on borrowing and banks can maintain the fiction that they are solvent, even if their assets are marked to market.”*

We have lost count of how many articles we have read and presentations we have attended over the last few months regarding

what an ultimate solution to the European crisis will likely entail – but one constant ingredient includes giving the European Central Bank (ECB) the ability to print Euros and buy up unwanted European bonds – thus becoming a lender of last resort (as the Fed is in the U.S.). This “solution” would be inflationary – and is thus being strenuously objected to by Germany – due to their experience with hyperinflation during the 1920s and German politics. While various other methods are being implemented by the ECB (it was widely reported on Dec. 21st that €489 billion in ECB “emergency loans” were taken up by 523 euro-area lenders – a much higher sum than expected), and other rescue packages are being proposed and debated the markets want to see more freedom for the ECB to implement monetary policy and become a true “lender of last resort” as the U.S. Fed is now.

The markets disappointment in Europe was followed on December 13th, when the U.S. Fed failed to announce any additional stimulative measures – which led to the massive sell-off in gold, silver and most other commodities as the U.S. dollar skyrocketed, traders locked-in gains, and risk was “taken off” once again.

However, recent comments from Bernanke, and various Fed governors is leading many to believe that the Fed is seriously contemplating another round of large-scale asset purchases (QE3) in the New Year. Debt monetization (printing money to inflate away the value of debt over time) seems to offer the only path forward (in conjunction with fiscal discipline) to deal with the current unsustainable level of debt seen in many “developed” countries.

Given the above discussion, gold, silver and certain other “hard assets” are poised to move to much higher levels in our opinion.

Best Wishes for a Very Merry Christmas! And a Healthy & Prosperous 2012!

*My business is built on referrals from satisfied clients. If someone you care about could benefit from my services I would be pleased to meet with them.
Thank you!*

December 2011



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Recent Gold/Silver Facts and Predictions:

- According to the World Gold Council, central banks bought 148.4 metric tonnes of gold in the third quarter, almost seven times as much as was bought in the year-earlier period, and the highest level recorded since central banks became a net buyer in the 2nd quarter of 2009, after two decades of net sales.
- UK-based *International Business Times* reported China's gold imports spiking 50 percent in Oct. from Sep. and soaring 4,000 percent from Oct. of a year ago, to an all-time single-month record high of 85.7 tons.
- Citigroup's Foreign Exchange Technical group recently came out with a near-term target of \$2,400 for gold (2nd half of 2012) which they see moving towards \$3,400 over the next two years or sooner (*Zero Hedge*).
- Eric Sprott continues to label silver the "investment of the decade" and in a Nov. 13th interview with *Seeking Alpha* said: "I can only imagine that it will go back to its historical relationship to gold of 16-1 in term of price (\$1,600/oz gold translates into \$100 silver/oz)... We can see that the U.S. Mint's data that comes out every month... they sold 50 times the number of silver to gold coins. This month it's actually running around 70-1. This really means people are putting as many dollars into silver as they are into gold. But there is nowhere near the amount of silver to invest in as there is gold."

What is Performing In This Environment?

In our *Managed Accounts* we continue to opportunistically take advantage of attractively price fixed income issues which are very much in demand from both retail and institutional investors. Below we highlight the last three positions which we have added to our portfolios:

Colossus Minerals 5-Year Gold-Linked Senior Notes

In a deal closing on Nov. 8th we added a position to both our *Diversified Income Portfolio* and our *Core Asset Allocation Growth Portfolio*. This was a unique corporate debenture or "Note" that pays interest in arrears based on the simple average of the gold price. Between \$1,500 and \$1,749.99 the interest rate is 9%. For every \$250 move down the interest rate drops by 1% to a minimum rate of 6%. For every \$250 move up the interest increases by 1%

to a maximum rate of 13%. As par of this transaction investors also received 60 Warrants per \$1,000 face value of Note, giving the right to buy shares in Colossus at \$8.50 for five years. This deal closed day one up 10.1% and was still up 2.7% as of Dec. 20th after the recent severe market correction (excluding accrued interest).

Huntingdon REIT 7.50% 5-Year Senior Secured Debt Units

We added a 3.8% position to our *Diversified Income Portfolio* which closed on Nov. 14th. Each unit consisted of a \$1,000 *Senior Secured 5-Year Debenture* paying interest at 7.50% per year and maturing on December 31st, 2016 and 28 Warrants per \$1,000 face value of Note, which allows the holder to buy units in Huntingdon REIT at \$9 per unit for 5 years. This offering closed the first day it was listed up 4.4% (both pieces combined) and was up 8.9% as of the close on Dec. 20th (excluding accrued interest).

Fortress Paper 6.50% 31DEC16 Convertible Debenture

We have just added a 2.9% position at par value (100) to our *Diversified Income Portfolio* – closing on Dec. 22nd. Front Street Capital (Frank Mersch's firm) commented on Dec. 15th referring to this deal specifically: "There are great special situations out there right now and smaller deals that the retail market can't get access to...3 Funds (including Prakash – a Front Street Portfolio Manager) took down the bulk of it, so it's not a deal that is easy to buy. You need to buy a fund to get exposure to this kind of deal."

We are looking for more of these well structured, attractively priced, fixed income offerings!!

Canaccord Wealth Management 2010 Portfolio Management Awards:

Best Balanced and Income Portfolio (1-Year Period)*

1st Place: Core Asset Allocation Growth Portfolio

2nd Place: Core ETF Portfolio

* For the 1-Year period ending March 31st, 2011.

Best Diverse Portfolio (Long-Term Exceptional Performance/3-Year)**

1st Place: Core Asset Allocation Growth Portfolio

** For the 3-Year period ending December 31st, 2010.

Our next quarterly updates will be available by Jan. 16th, 2012. Please contact us for more information, and/or to be put on our email distribution list for regular updates.

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