

The Challenge is in the Descent

— JASON N. VINCENT, PFP, TEP, CHIEF OPERATING OFFICER AND VICE PRESIDENT, MULTI-FAMILY OFFICE

It's a long way up as a young adventurer facing a tall tree or steep rock face to climb. What do you do? You focus on getting to the top. Upon arriving there's that great feeling of accomplishment, savoured only until the moment you realize getting down safely poses an equal, if not greater challenge.

The current economic and market environment conjures up such images. Clearly, 2009 belonged to the world's central banks and major governments as their aggressive fiscal and monetary policies successfully stopped the dramatic decline in asset values and sparked the re-inflation of assets from March 2009 lows. Their actions have been essentially propping up asset values through direct injections of capital into the private sector and by making capital cheaper through historically low interest rates.

The short-term focus for central banks and governments has been on the upward climb. It's difficult to be critical of this approach, as throughout 2008 and 2009 there were few alternatives to halting the globally critical situation. However, the reality is that at some point in the future, central banks and governments will have to start climbing down from the high levels of support. One way or another, we'll need to navigate the direct or indirect consequences of that descent.

As pundits debate the prospects of higher inflation and rising interest rates that are likely to accompany the withdrawal of support, we believe the more critical question is: Where are we in the economic recovery?

In our view, we're in the early stages of a prolonged recovery that will present significant challenges along the way. In the near-term, our outlook is positive as we watch capital continue to flow back into the marketplace. Looking longer term, we believe we're participating in the re-wiring of global trade patterns that have existed since the second world war. Since that time, countries around the world have relied on the voracious appetite of U.S. consumers and a lower domestic currency to ensure an exporting advantage over the United States.

Over the past year, we've watched the widespread depreciation of the U.S. dollar against the world's major currencies and we've seen the export advantage of countries such as Canada decline. This trend poses real challenges for our domestic economy. Countries such as ours must find ways to counter a stronger currency with greater productivity and new and sustainable trading relationships beyond our number one trading partner, the United States.

From a U.S. perspective, we believe their course of action is clear—continue to keep the dollar and interest rates low to attract economic activity and keep foreign interest payments at relatively lower levels.

We recognize such macro trends will take years to evolve. As investors working through the early stages of a schizophrenic economic recovery, we believe our strategies are well-suited for this environment. In our view, it's important to:

- Own high-quality companies that can operate in a volatile and lean environment and potentially grow relative to the competition.
- Minimize risk as we believe this current environment is not going to reward risk taking to the same degree investors experienced during the last two or three business cycles.
- Be paid a higher yield on assets as it will be the foundation of your total return.
- Align growth components of a portfolio with developing countries such as China and India through strategic exposure to commodities.

In pursuing such strategies, we believe portfolios will be better positioned to safely participate in the twists and turns economies and markets present as central banks and policymakers climb their way down from the currently lofty levels of support. ■



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