



---

**RBC Dominion Securities Inc.**

1501 McGill College Avenue, Suite 2150  
Montreal, QC H3A 3M8  
george.stedman@rbc.com

Tel: (514) 840-7626

Fax: (514)840-7639

Toll Free: 1-866-652-4511

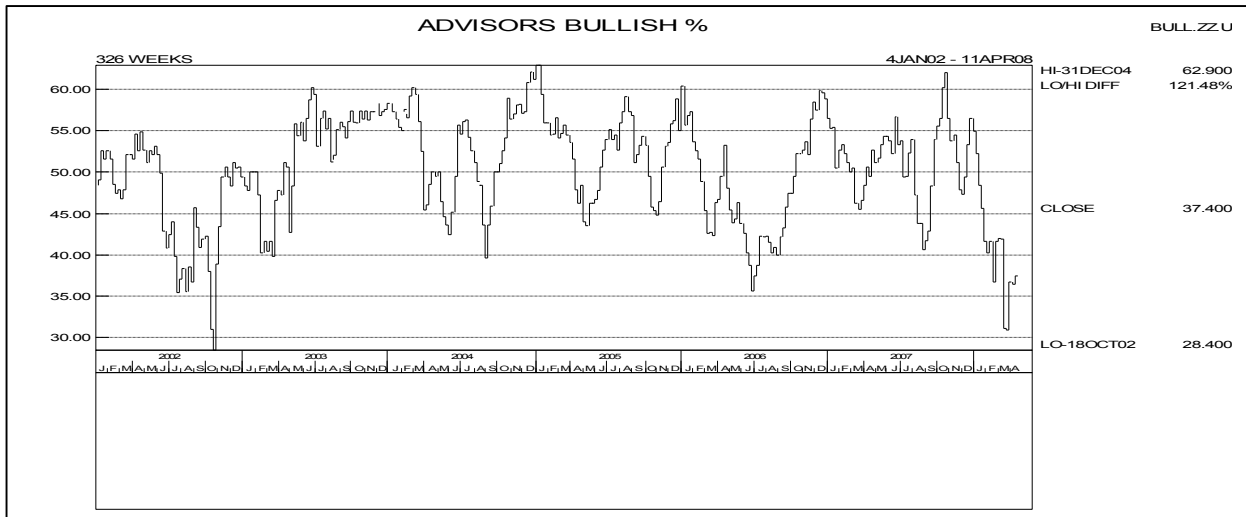
Thursday, April 17, 2008

### **First Quarter 2008**

The first quarter seemed as eventful as any I've seen. Historically, the ringing bell sounding the end of big bear markets has been the bankruptcy of a major financial institution. Twice in the 1<sup>st</sup> quarter I heard at least a tinkling. On January 21, on what is normally a very quiet day as U.S. markets are closed for President's Day, the French bank Société Générale unwound positions taken by an apparent rogue trader, for a loss of some \$8 billion dollars to SocGen and a one-day loss of 605 points on the TSX. Then again over the weekend of March 20<sup>th</sup>, Bear Stearns, the 5<sup>th</sup> largest investment bank in the U.S. and a Wall Street icon, announced it was experiencing a "liquidity event" and sold out to J.P. Morgan for \$2 per share, later revised to \$10. This was down from \$30 on the Friday night before, \$60 a week prior and \$170 a year ago. Many of Bear Stearns' 14,000 employees lost their life savings. They owned a third of the company. Their shares were worth a reported \$6.3 billion at the peak last year.

What former Fed Chairman, Paul Volcker, recently described as "the mother of all crises" shaved a near record \$7 trillion from global equities in the first quarter alone. I've attached a table which lists the returns from the world's major stock markets. Once more this quarter financial companies' stocks were in the eye of the storm. The International Monetary Fund has estimated that the U.S. mortgage and credit crises could cause almost \$1 trillion US in financial losses.

The housing/credit crisis has measurably impacted sentiment and not just the mood around our office. The University of Michigan recently reported that consumer confidence is now at its lowest level since 1982. The percentage of Advisors Bullish has now reached lows last seen in the bear market low of October 2002.



In response to the U.S.'s recessionary economic data, central banks have cut interest rates, but there is usually a 6-month lag before the effect of lower rates shows up in the economy. Stock prices have gone down and now, for virtually the first time since the 1950's, stock yields rival government bond yields. To illustrate, the S&P 500 has a dividend yield of 2.1%, the TSX 2.67%, 2-year U.S. Treasuries yield 1.85%, and 3-year Canada's yield 2.72%.

To counter some of the gloom this quarter I will focus on dividends. Here is a sampling of companies that announced dividend hikes this quarter. More than the current dividend yield, it is the rate of change in the dividend that is important. As RBC's Myles Zyblock points out, dividend growers tend to outperform and, "add portfolio ballast".

Canadian Pacific Railway Ltd. announced a quarterly dividend increase of 10%, to \$0.2475 a share, on Feb. 17. CP now yields 1.52%. For 100 years, trucks had an advantage over railways because truckers did not have to pay for the highway system. High energy prices have reversed the strategic advantage because steel wheels on steel tracks are much more energy efficient.

Coca-Cola Co. upped its dividend 12% on Feb. 21, its 46<sup>th</sup> annual increase. It now yields 2.5%.

Enbridge announced a 7.3% dividend increase on Feb. 6, to \$0.33 per quarter. At \$42.30 a share, it yields 3.1%. Enbridge has increased its dividend for 13 consecutive years and by close to 10% annually over the past half century. Some 80% of this company's earnings come from locked-in, volume-insensitive, long-term shipping contracts on its pipelines.

Encana doubled its quarterly dividend on February 14, to \$0.40 per share, and at today's record price, is yielding 1.64%. Natural gas prices, which were down a year ago, have recently started to outperform oil.

General Electric Co. has paid a dividend each quarter for over 100 years. The dividend has been raised for 32 consecutive years, most recently by 12%. Today GE yields 3.6%, though over the last 5 years its average dividend yield was 2.6%.

On March 20, Intel Corp. announced a 10% increase in its quarterly dividend, to \$0.14 U.S., following November's 13% increase. Intel, at \$21 a share, now yields 2.683%. In 2000, it traded at \$75 a share and yielded 0.09%.

3M Company raised its dividend 4.2% on Feb. 11, for its 50<sup>th</sup> straight annual increase. It now yields 2.5%.

On April 8, Procter & Gamble (P&G) announced a dividend increase of 14.3%, to \$0.40 U.S. per quarter, and now yields 2.3%. P&G dates back to 1837 and has paid dividends since 1890. P&G has increased its dividend for 52 years in a row. Developing markets now provide half of this company's growth.

In 2007, Shaw Communications had the greatest rate of dividend growth and insider buying on the Toronto Stock Exchange. It now yields 3.6%. On January 28, 2008, the Shaw family bought another 1 million class B shares and now own 47.7 million Class A and B shares. Recently, investors have been concerned that Shaw would overpay for wireless spectrum at the upcoming auction but Jim Shaw has been prudent so far.

On February 7, Thomson Corp. announced a 10% increase of its dividend, to \$0.37 U.S. per quarter, and now yields 3.0%. Over the past 10 years Thomson has increased its dividend at a compound annual growth rate of 5.7%. Also, Thomson is completing its takeover of Reuters Group PLC and will start trading as Thomson-Reuters (TRI) on April 17. The combined company will be better known outside the U.S. than Thomson was.

In these uncertain times, I find dividend increases reassuring. As always, if you would like any more information about these companies or any others in your portfolio, please give us a call.

Sincerely,

George Stedman, CFA  
Portfolio Manager

Encl.