



The Walker Report

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Q1 MARKET REVIEW

A review of all the important financial news from the first quarter of 2013.

By Adrian Walker

Our Most Important Job

This article was going to be about the future of Europe. In it I was going to lay out our views about why, even though Europe seems to be in lots of trouble, it's still a place that we think is good to invest. I was going to lightly delve into the differences between countries and companies, how Europe is made up of unequal players, and how Germany was seemingly softening on its hardline stance about fiscal austerity, blah, blah, blah.

I was going to do this because I hear so much about Europe in the news. But in meetings with our investors I only hear the most minuscule scraps of information about Europe at all. Generally people are worried instead *about everything*. That's right, everything. From the United States to the Emerging Markets and back to Canada people are overwhelming worried that the US is in deep long term trouble, that Canada has a housing bubble, that global credit is too cheap, that the Emerging Markets are too dangerous and that gold isn't doing what they expected it to.

I sympathize with all of this. Much of my job is spent crawling through piles of articles from multiple news sources, scoured from the internet, twitter and print media looking to

gain a better understanding of what is actually happening in this world. And if you read as much as I do, you'll learn something very important. Nobody knows.

Financial news is all about trends, and it relies on regular reporting of data from governments. And not a few reports either. Hundreds. Thousands maybe. Are US housing sales up or down? How about consumer confidence? Bank of England? Bank of Japan? Last quarter GDP results? Did it beat or meet expectations? There is so much data that it isn't surprising that there is lots of conflicting views about what is happening. Even worse, much of this data is preliminary when it is first released, meaning that it is likely subject to revision over the next five years!

So what is my most important job? *Assuming I'm wrong*. Over the past six months we have launched a number of portfolios tailored to match the risk tolerance of investors. Ranging from the very conservative to the strictly growth focused, we have been offering our clients a more structured form of investment whose touchstone is, "What if I'm wrong?"

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DO YOU HAVE QUESTIONS?

BE PART OF OUR QUARTERLY Q&A

People have questions, lots of questions. And we want to answer them. Send us questions you would like us to review and answer in our newsletter, or in a video. Names will be kept confidential, and only the question and answer will be printed. Let's start a conversation!

Adrian Walker



Our Most Important Job

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How does that work? Through diversification. Everyday I read numerous articles and views that contradict my own thinking about what is happening in the markets. I'm not a believer in gold, but many are. I'm down on the Canadian market, but many aren't. I like the US, and the choruses in favor and against both number in the thousands. Rather than steel myself against other views in the markets, I allow myself to consider: "What if they're right and I'm wrong? What impact would that have to a portfolio? What would it mean to us? How would we react?" And that gives us guidance about how we can protect against problems we don't see.

In practice that means our portfolios are diversified. Diversification isn't sexy. It's one of the oldest tenets of successful investing, and often means that you hold some investments that may underperform other markets. But it also offers protection against the unseen. It works in reverse too. We often invest in markets that people have stopped believing in precisely because there are opportunities there that people have lost the ability to perceive. Like Europe.

See? This article was about Europe all along!

By Brian Walker

I'm Still Here, I'm Still Busy!

Let me begin by saying, I'm not going anywhere. Since Adrian has joined our firm several clients have wondered whether this meant I was heading for retirement, but nothing could be farther from the truth. Far from retiring the help Adrian has been providing has allowed me to spend considerably more time with clients and also afforded me some additional free time particularly on the weekends. After writing the Walker Report for nearly twenty years and with help from Mike since 1996 we are enjoying the fresh approach Adrian has brought to our little newsletter. We are also quite excited about the new technology he has been introducing, allowing us to work more efficiently than we ever had before. It's no wonder why his briefcase is so much smaller than ours own. We might not get to his level of competence overnight but the possibility presented by the technology he is introducing is very exciting.

The Value of a Mutual Fund

It seems every week someone in the media chooses to offer some unsolicited advice about what investment tools will work best for investors.

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I'm Still Here

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The current flavour of the month is ETFs, or exchange traded funds, which have been slathered with praise we consider not entirely founded.

Champions of the ETF craze have included pundits in the business section, and all the economists at the major banks. Whether its worth pointing out that the banks who make and sell both ETFs and buy lots of advertising in those same newspapers may or may not be a waste of breath. I learned a long time ago that there is little point fighting the guy who owns the ink. But we do recognize that there is a regularity with which advisors like ourselves get criticized in the media. Frequently we hear that the management fees are too high, the results are too poor and the advisors who sell them are not acting in their client's best interests but rather their own. We don't shy away from these criticisms, but rather Mike, Adrian and I are always happy to sit with a client and discuss this situation.

It is worth mentioning that we believe the mutual fund presents the average investor with the best investment opportunity to make a decent return on the money they invest. **So much so that this is how we invest our own money!** It is our job to ensure that from the choice of over 5,000 funds available to Canadians we provide you with the funds that will meet your investment goals and suite your risk tolerance. We look at costs, but in relation to all of your other needs. We are always available to explain our rationale and would be pleased to listen to any concerns you may have, just give us a call.

The Bottom Line

For three years we have been positive on the USA recommending that an overweight position would serve our clients very well for some years to come. We agree the inability of the two governing parties' to get along and do their job is rather stupid but what is important is the health of US corporations and I am pleased to report they are in great shape. Since the crash of 2008, American firms have been paying down debt using more technology to improve efficiency and assembling the largest cash positions we have seen in many years. American consumers have, unlike their Canadian counterparts, been paying down debt and with lower house prices homes new and used are now selling with prices moving up by the month.

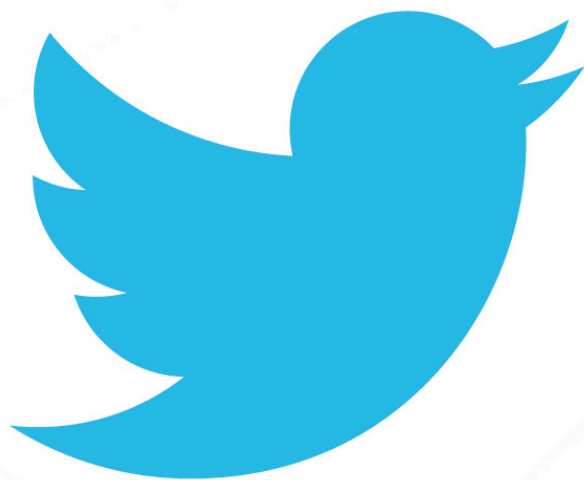
The Americans are heading towards (with the importing of Canadian oil) energy self-sufficiency and lower energy costs are contributing to the industrial growth with several examples of companies returning manufacturing to the states from China.

By Mike Vamvakaris It's Time You Took Identity Theft Seriously

You hear fewer horror stories of identity theft, these days. Where once identity theft was new and terrifying it is receding into the background as our society chooses to become ever more "wired" and identity theft seems less surprising. But in 2011 over 17,000 Canadians were victims of identity theft.

The most common form of theft is in credit card fraud, but as more personal information circulates on the web, and more people carry smartphones loaded with personal information identity theft is a real risk. In fact a survey by BMO Harris found that people who use smartphones are at greater risk of being identity theft victims, which isn't useful since almost everyone has a smartphone. Here's some ways that you can protect yourself and your smart phone from identity theft.:

1. Password protect your phone. This is the first step you should take toward protecting your identity. In the event your phone is lost or stolen, a password creates a barrier against thieves trying to access your information. Make sure the password you select is unique and not associated with other personal information like your address, phone number or birthday.
2. Be selective when downloading apps. While many programs are safe to use, some are actually tools created by identity thieves to collect and distribute your personal information. Before downloading an app, make sure it's from a secure source and read the description to find out what personal data is collected. If it seems suspicious, skip it.
3. Be careful using public Wi-Fi. Although it's tempting to tap into public Wi-Fi zones, these hotspots are frequently targeted by hackers looking to gain access to your personal information. A better bet is using your network provider connection, *Continued pg. 4.*



HOW SERIOUS IS IDENTITY THEFT?

JUST ASK THE AP

This past month the Associated Press' twitter feed was hacked by a group called the Syrian Electronic Army (SEA) which claimed that the White House had been attacked. Almost immediately the DOW Jones Index dropped 100 points before it quickly recovering after the false tweet was exposed.

Online piracy is here to stay, which means being more vigilant with our own information!

Identity Theft

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even if it dips into your data plan.

If you must use a public connection, avoid email, online banking or buying anything with a credit card number.

4. Use basic computer smarts. Just as you wouldn't visit suspicious websites or open questionable links on your personal computer, you shouldn't do these things when using your phone. Also, remember to check that a site is secure before providing personal or financial information for logging in or purchasing items. The easiest way to check is by looking for "https" versus "http" in your address bar.
5. Use social media with caution. Many people use their Smartphones to update their social media accounts. But don't forget that in addition to your family and friends seeing these updates, identity thieves

are also tapped in. Remember that anything you post on a public site can be seen by other people so you should make sure that you don't include personal information in these updates.

By Adrian Walker

How the Media Ruins Good News

I love Apple computers. I have personally owned 3 iPhones, 2 iPads, a 27 inch iMac and am in the market for a laptop. We also own an Apple TV, and I have convinced both my dad and my in-laws to join me in the great Apple conversion.

Cumulatively my in-laws and father are in possession of 3 iPads, 3 Apple TVs and one iPhone. I'm not alone in this "Mac head" obsession. Apple computers have always had a dedicated following, but starting with the iPod in the early 2000s Apple moved from the periphery of the

market to its main player. When the iPhone was finally launched in 2007 it quickly defined and redefined the smart phone market, setting the gold standard in terms of technology and design.

But since the iPhone came along there has always been a chorus of competitors and market pundits that have been chirping about the coming "iPhone killer". The assumption is that Apple's success can't be sustained, especially with the passing of Steve Jobs. In fact the death of Steve Jobs has lent a great deal of mainstream credibility to this story. It's well known that Apple floundered in the years where Steve Jobs was in exile, and it has long been viewed that it was his determination and personality that brought the company back from the brink.

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Apple and Good News

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The media tends to encourage these kind of stories. First, because bad news sells much better than good news, but second because the media is in some ways very lazy and is attracted to people who make bold pronouncements. Since success in the news industry isn't grounded in the quality of the news, but in how exciting it is, there is little incentive to do balanced stories. Instead it's much easier to focus on salacious rumors and fear mongering than accurate and in-depth reporting.

Take for instance the plight of Apple's share price. Late last year Apple's shares were trading for just over \$700, but has since come crashing down to Earth. The pundits and media have made a big deal out of this, highlighting increasing competition from rivals like Samsung and looking to the story of RIM (now Blackberry) as a cautionary tale about how successful companies can stumble and fall into obscurity. Since a share price is a comment about its future earnings the market mood can largely be read as a negative outlook on the future of Apple. But should it be? Consider these facts about Apple:

1. In the last three quarters of 2012, Apple earned more money than any other non-oil company has ever earned in a single quarter.

2. In 2012 Apple's profits topped \$41.7 billion, which is also a record for any non-oil firm.

3. Apple sold 48 million iPhones over the holiday season and 125 million iPhones in 2012. Samsung, Apple's largest competitor took 7 months to sell 40 million Galaxy S3 phones (their flagship phone).

4. Apple sold 23 million iPads in the last quarter of 2012, a 50% increase over the previous year's holiday sales, and an additional 19 million iPads in the first 3 months of this year.

5. Apple accounted for 72% of ALL smartphone profits in 2012, while Samsung accounted for another 29%, meaning that every other company lost money in the smartphone business.

6. Sales of just the iPhone generate \$25 billion in revenue every quarter, totaling \$100 billion in revenues every year, making just the iPhone one of the biggest businesses on Earth.

7. The iPhone business generates around \$30 billion in profits, making it more profitable than almost any business on Earth. It's more profit than all of General Electric. More than Microsoft, more than Google and more than Walmart.

8. The iPhone has killed and seriously maimed several big companies. That includes Palm, Nokia, Blackberry, Microsoft, HP and Dell.

9. Apple earns more from the sale of its desktop computers (iMac) than the entire rest of the PC desktop market combined (Asus, Acer, Lenovo, HP, Dell)

10. PC sales dropped by 14% on year over year sales, while iMac sales dropped only by 2%.

11. Apple has more than \$145 billion cash in reserve.

How often do we hear these statistics? Never. When the Wall Street Journal reported on the future of the iPhone their view was that "There isn't really any major differentiator between the players at this phase" which is a funny way to view a company that easily outsells its competitors top phones with a fraction of the cost and captures the majority of the profits in an entire industry. As I write this Apple stock

had dropped again today, dipping below \$400, making Apple's PE ratio lower than Google's, Amazon and even Yahoo (remember Yahoo?)

I can't claim to know what will happen in the future, whether another company will come along with an equally amazing and disruptive technology that becomes the darling of the world. But what I do know is this. Business reporting isn't about business, it's about advertising revenues. If Apple, easily one of the biggest companies that is constantly in the public eye, can be so badly misrepresented in the news, how many other stories are also not reporting the reality of the world around us? Worse still, how does it affect your judgement? As for me, I can't wait to get my new laptop.

By Adrian Walker Make Do & Mend

Ever heard of the latte effect? There is a theory that buying a latte a day is the equivalent of fritting away your retirement. Well, don't worry: it isn't true. No one has Starbucked their way into poverty.

But statistics do show that people aren't saving enough for retirement. They are also buying a lot of lattes. What Canadians need is more budgeting. But budgeting is a funny thing: despite how important it is considered to a healthy financial lifestyle, most people don't get around to it until after the majority of their money has been spoken for.

Take, for instance, the idea of buying a house.

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Market Numbers

Indexes	Q1	YTD
S&P/TSX - Toronto	+ 3.3%	+ 3.3%
Dow Jones - New York (US\$)	+ 11.9%	+ 11.9%
S&P 500 - New York (US\$)	+ 10.6%	+ 10.6%
Morgan Stanley World (US\$)	+ 7.9%	+ 7.9%
Morgan Stanley EAFE (US\$)	+ 5.2%	+ 5.2%

Source: Morningstar Research Inc. (as of March 31st, 2013)



Buying a house is undoubtedly one of the biggest milestones in anyone's life, up there with getting married and having kids. But the majority of us don't buy houses. The bank buys the house and leases it back to you. The bank has an interest in encouraging you to buy the biggest house you can, with the only proviso that you can afford the monthly payments. Frequently this means that people look to buy the most expensive house they can afford, rather than focusing on limiting their mortgage payment.

It's usually after this point that people begin budgeting, because their standard of living has yet to be brought into line with their new financial responsibilities. Somewhere in this mess, it became a thing to claim that the "latte effect" was robbing people of their retirement savings. This is only true in that fixed costs like your house, utilities and other payments like insurance and car loans can't be adjusted after the fact. Sometimes cutting the lattes out seems to be the only way to save for the future.

I'm a huge champion of the benefits of budgeting and doing it simply (did you see our last video about budgeting made easy?) but the more important aspect of budgeting isn't just planning where you spend your money, it's knowing where you spend it now. If you are trying to save for the future you may find it challenging to do so if you aren't aware of all the places that money can escape from your wallet. Consider the following scenario:

Assume that a Starbucks coffee a day ranges between \$3.00 to \$5.00 depending on what you choose. Assume as well that you eat out 3 times a week while at work for a (modest) \$10. Your weekly bill is somewhere between \$45 and \$55 every week. Rent films from iTunes, or a video store if you can still find one? One film a week would be close to \$6. Order pizza twice a month? Let's add an additional \$50 a month to the total. When you go shopping for groceries do you buy cheaper fresh food, or more expensive prepared foods (kids' foods in particular can be quite expensive)? Let's add another \$10 a week in junk food from the supermarket. Do you ever as a family go to the movies? Say a family of four go to the movies every other month, that's still \$600 a year. This is relatively modest stuff, but it amounts to about \$100 a week in extra expenses. Over the course of a 52 week year that's typically your annual TFSA contribution room.

A latte a day won't put you into the poor house, but it's worthwhile to keep your eye on the things we do absentmindedly. If you like your daily latte, a budget allows you to balance the treat with your investing goals, making it possible to not simply accept your financial situation, but choose it.



From Paragon Asset Management Market Summary - Q1

The positive momentum in capital markets continued through the first quarter of 2013, with U.S. and world stock markets posting double-digit returns and strongly outperforming bonds.

The MSCI World Index climbed 10.1% in Canadian dollar terms, led by robust results from the U.S. and Japan. In the U.S., the S&P 500 Index reached a record closing high and finished the quarter with a gain of 12.9% (in Canadian currency). The U.S. market's advance was led by mainly defensive sectors, such as health care, consumer staples and utilities, while those sectors that are most responsive to a growing economy, including technology and materials, were laggards. Several other global equity markets made solid quarterly gains, including those in Australia and the U.K. Japan's Nikkei Index posted the strongest increase for the period, adding almost 20% local currency terms. Stocks in that country benefited from a combination of expansionary monetary policy and fiscal spending, and central bank efforts to weaken the yen in order to boost exports. Markets in Hong Kong and Shanghai, however, were negative for the period, reflecting concerns about China's slower growth rate and anticipated economic reforms.

Canada's S&P/TSX Composite Index was also positive, posting a quarterly gain of 3.3%. Although most sectors added value, Canada's resource-heavy market was affected by lower commodity prices, and the

materials sector recorded a loss for the period. Results for the financial sector also were lacklustre.

The bond market was stable during the quarter, generating modest returns. Canadian and U.S. government bond yields were little changed, while yields for corporate bonds continued to decline due to strong demand. Inflation remained low and the U.S. Federal Reserve repeated its pledge to keep interest rates low until the country's unemployment rate declines to 6.5%. As a result, investors had little reason to expect higher interest rates in the near term.

The strength in stock prices over the past five months signals an important shift in investor sentiment. The S&P 500 Index, for example, was up 14.0% in Canadian dollars over the five months ending March 31, 2013. Investors have drawn confidence from the global economy's continued moderate expansion, particularly in the U.S., where corporate profits as a percentage of economic output remain at a record high and employment, consumer spending and housing data have all improved. However, concerns remain over new taxes and spending cuts related to the country's budgetary "fiscal cliff" that may cool consumer and corporate spending. The first quarter also brought a reminder that Europe's debt woes remain an issue, as ongoing recession fears and the 10 billion euro bailout of Cyprus rattled financial markets.

DISCLAIMER

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. Fund values change frequently and past performance may not be repeated. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call Brian Walker, Adrian Walker or Mike Vamvakaris to discuss your particular circumstance.

SOURCES

Sources for the Walker Report are collected over the quarter from the following news agencies: Bloomberg, Financial Times, The Globe & Mail, Thomson Reuters, the BBC, Morningstar Research, The Bank of Canada, TD Mutual Funds, Manulife Financial, Slate News, CBC News.

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