



# CASTLEMOORE INVESTMENT NEWS



*Uniquely Superior Portfolio Management*

## THE CLONE BUILDERS



**By  
Bill Carrigan**

According to the company, the Sentry Select Diversified Income

Trust is a closed-end trust that invests primarily in a broad range of royalty and income trusts, real estate investment trusts and other high-yielding securities.

**Reality check #1;** The Sentry Select offer includes over 250 names! The Trust has such obscure ones as ACS Media Income Fund, Art In Motion Income Fund, Builders Energy Services Trust, DirectCash Income Fund, Gienow Windows and Doors Income Fund, Hardwoods Distribution Income Fund, Movie Distribution Income Fund, Newport Partners Income Fund and The Brick Group Income Fund. There's couple more too

Standard & Poor's claims the S&P/TSX Capped Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classification Standard (GICS®) sectors of the income trust marketplace. There are currently 72 names in

the S&P/TSX Capped Income Trust Index. These are big names like Bell Nordiq Income Fund, Canadian Oil Sands Trust, Riocan REIT and Transalta Power LP Units.

**Reality check #2;** From December 27, 2002 to date the price appreciation of the index has been 82% (17.6% annualized), handily trouncing the "managed" trust fund price appreciation of 44% (10.5%). That 7% annual spread more that compensates for the lower yield of the index— total return matters.



**Reality check #3;** I can now own the S&P/TSX Capped Income Trust Index by way of a clone investment. According to Barclays Global Investors Canada Limited, the iShares CDN Income Trust Sector Index Fund (XTR) seeks to provide long-term capital growth by replicating, to the extent possible, the performance of the S&P®/TSX® Capped Income Trust Index through investments in the constituent issuers of

such index, net of expenses. The Index is comprised of the securities of Canadian income trust issuers listed on the TSX, selected by S&P using its industrial classifications and guidelines for evaluating issuer capitalization, liquidity and fundamentals. Now there is an offer I can't refuse.

**Reality check #4;** We live in an era of clone investments. If I want to own a diversified portfolio of Income Trusts, I don't need to buy 250 names OR 72 names. I buy ONE name. And I can buy and sell in the open market any time I want. It's a new era.

Same thing if I want to own the S&P 500 Index, a broad portfolio of blue chip American companies. I buy or sell one clone investment, not 500 individual stocks.

Thanks to the clone-builders, managing my portfolio in this new era is different from managing investments in the old days.

Besides his duties at CastleMoore, Bill writes for the Toronto Star and is a frequent guest on The Globe & Mail's ROBTV  
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## GM Genius



By  
**Ken Norquay,**  
CMT & Partner

In late August 2006, GM announced its re-entry into the muscle car business. The New Camero was going to be built in Oshawa, Ontario, providing employment for scores of auto workers. It seems like only a few months ago that the newspapers and securities analysts had declared GM terminally ill, dying a slow and agonizing financial death. Wasn't their Car division losing money? Wasn't the Truck division barely profitable? And wasn't the finance arm [GMAC] was the only real profit center?

And, now, it is becoming clear why. GM, it appears, can't build small cars.

Ever since the 1960s European and Japanese cars have been gaining market share in North America. More and more Toyotas, fewer and fewer Chevies.

And now, in a time when the price of gasoline is regularly over \$1 per litre, they announce yet another eight cylinder monster.

Ok, we understand that "the testosterone set" is a valid market for auto manufacturers: 20 to 30 year old male drivers who like speed and power. But, you don't have to be a marketing whiz to check out what these young men are buying now. Check it out. Just drive to work with your car windows down and listen for the noise. Check out that little Honda with the big exhaust pipes. There are dozens of them. And check out who's driving. A 20-year old in a T-shirt with his baseball hat on backwards.

Sigh... maybe GM is not really targeting the 20 year olds.



Maybe their real target market is aging baby boomer males who WANT to be twenty years old again.

The old/new Camero is proof that the big old car companies can't build small cars. It appears the old car companies are obsolete: can't compete in today's economy.

Same is true for the big old investment firms. Obsolete: can't compete in today's economy. "Bigger is better" doesn't work any more. When the stock markets went up and up for years and years [1982 to 2000], "BIG" worked. "Buy and Hold for the Long Term" worked. But when the markets go down or sideways as they have since 2000, small and flexible works better. "Buy low, sell high" works better.

The big mutual funds and the big pension funds are in trouble. But your personal RRSP has a fighting chance. Just don't get caught imitating yesterday's big old investment firms. Your advantage is your smallness and your flexibility.

Hmm... What will I do with that old Camero in my drive way? I wonder if it's an antique car yet.

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**“Buy, Hold...And  
Know When To Sell”**

CastleMoore Inc. helps investors manage their life savings. We are not stock brokers or mutual fund salesmen. We are discretionary investment managers specialising in “buy low, sell high” strategies instead of “buy and hold” strategies like the other guys.

At CastleMoore we manage our clients’ investments through a methodical and disciplined set of systems that virtually removes any individual bias and emotion from the investment process. What we do works. We rely heavily on loss avoidance techniques when making investment decisions.

Our clients are investors that pay particular attention to asset prices, have little tolerance for investment losses, and strong expectations of getting their money’s worth. Clients appreciate CastleMoore's all-inclusive, comprehensive fee schedule. If we are required because of volatile markets, to be more active within our client accounts CastleMoore bears all the costs associated with more frequent transactions.

Our team’s previous experience in national and international firms and small boutiques provides us the ability to deliver a high quality and cost effective professional portfolio management service. A CastleMoore client enjoys the benefits of having focused portfolio management without the distractions of also providing a “super market” of financial services. We just manage investment portfolios effectively – plain and simple. CastleMoore is uniquely superior portfolio management. To know more, including how we gradually and gently transition your existing portfolio to our models please contact us at:

**info@castlemoore.com OR 1.877.289.5673**

## MODEL PORTFOLIO PERFORMANCE AS AT 31 AUGUST 06

	<u>1 YEAR</u>	<u>INCEPTION</u>
<b>“CLASS” PORTFOLIOS</b>		
ENTREPRENEURIAL	12.02%	12.77%
MODERATE	7.38%	6.86%
LOW	- 4.12%	- 4.55%
<b>“FOCUS” PORTFOLIOS</b>		
ENTREPRENEURIAL	20.89%	17.84%
MODERATE	17.07%	14.62%
LOW	20.51%	18.40%

Client net returns depend on asset size. CastleMoore uses a sliding fee schedule from 2.00—1.00%, inclusive of ALL costs.

*Uniquely Superior Portfolio Management***Zzzz... (Part II)**

**By  
Sheldon Liberman,  
Portfolio Manager**

You may recall having read, or are at least somewhat familiar with, the story of Rip Van Winkle.

This is the fictional character that decided to take a nap one afternoon and woke up 20 years later.

The part you're probably unfamiliar with is this: when ol' Rip finally awoke, the first thing he thought to do—well, after that!—was to check the value of his investment portfolio. So he found a pay phone and called the investment firm at which his account was located. The logistics of this would have been nightmare, but remember that this is fiction.

So he finally located his account—and what do you know?—his account was worth almost \$6 million. So buy and hold does pay off after all! Or so he thought.

Well, hold on. No sooner did the broker inform him of his portfolio's value than the telephone operator interrupted the conversation by saying, "Please deposit \$2,000 for the next three minutes..."

[in case any of my rabbis is reading this, let me just state, before continuing, that the Rip Van Winkle story passes the Jewish content requirement by virtue of 1) having taken place in the Catskill Mountains, 2) the fact the Van

Winkle *must* have awoken with the longest white beard you've ever seen, and 3) the authors name, albeit his surname, was Irving.]

The investment moral of the story is that investment performance alone is not as meaningful as if presented with a useful basis for comparison.

In the investment business, we refer to that basis as a "benchmark", and the most popular one used in the business is the Standard & Poor's 500, a proxy for a broadly diversified portfolio of U.S. equities.

But the Standard and Poor's may be a poor standard in several situations in which a meaningful comparison of your investment results is called for. For one thing, no investment strategy can be considered successful if its results don't keep pace with inflation, as our Van Winkle story demonstrates.

Secondly, the Standard and Poor's, and other similarly constructed benchmarks, represent an investment strategy that is 100% invested in equities 100% of the time. With respect to asset allocation decisions, this is the riskiest (non-levered) strategy available, and is certainly not for all investors at all times. In fact, no market index-based benchmark considers risk at all.

(The buy and hold approach is fine for investors who plan on spending

the next 20 years asleep under a tree. All others, please call...)

Thirdly, suppose that, on the day your child is born, you set up a college fund for him or her. You decided that, by the time your child enters college the fund will have to be worth at least \$250,000 in order to fully fund his/her education. If you were to deposit \$5,000 at the beginning of each year, your investments would have to earn about 11% annually in order to be worth the desired amount after 18 years. Thus, your benchmark in this instance isn't based on any particular market, but rather on having accumulated enough at any point between now and your investment terminal point that reflects an 11% return on your investment to that point (i.e. \$48,916 after 7 years, \$97,807 after 11 years, and so on). If at any point you find your performance ahead or behind the 11% benchmark, you can become more or less aggressive as required.

The bottom line is that the best benchmark is one that measures a portfolio's performance against the investor's stated objectives. For this reason, the relationship between a portfolio manager and his/her client begins with client profiling—in the case of CastleMoore, the creation of an investment Blueprint™.

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