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CANADA RISING

Canada gets no respect! For as long as I can remember, we've thought of our home and native land as a sleepy branch plant economy. Anyone with any ambition had to head south of the border to make a fortune. Canada was just too small, too conservative and too unproductive an economy to play with the big boys. Yes, the United States was *it* and we, as Canadians, had to just thank our lucky stars that we happened to live right beside such a big, successful and generous neighbour.

But Canada is rising. Everything you've heard about Canada's supposed mediocrity is about to be proved wrong. All of the things the naysayers have said are *exactly why* this is the country best positioned to survive the collapse of the Western world's financial system. Too conservative? Too risk averse? Our cautious nature helped keep our chartered banks out of major trouble when the world was lapping up the toxic securities that American investment bankers were out there peddling. Too weak on productivity? While our national productivity has been nothing to write home about, at least it wasn't based on a lie—like in America. No global brands? Just you wait. Research In Motion is on the move and so, too, is Royal Bank of Canada, which is picking up the star employees of disgraced Wall Street giants. Our lack of entrepreneurial

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drive is another shortcoming the pundits like to hurl our way. Maybe, but that dog-eat-dog type of entrepreneurial zing that is so much a part of American life was the Achilles heel of its investment banking industry. Best of all, Canada's focus on natural resources is exactly what will be needed when the dust clears on the collapse and the startling truth becomes plain: economic power has shifted away from the United States to the emerging markets in Asia.

Despite all this, investors are petrified. They have seen their wealth destroyed and their prospects dim in a global financial tsunami. We have witnessed the greatest financial cataclysm of our lifetimes. We don't know how this train wreck will end, but we are certain of one thing—it will end badly. At the heart of this disaster was a very simple supposition that turned out to be tragically flawed. Upon that flawed supposition, financial products were designed, lies were told and whole industries were created. When the lies and promises were finally exposed for the hot air that they really were, the punishment meted out was devastating. Globally, trillions of dollars have been eviscerated in one dramatic wave of selling after another. Stocks, bonds, commodities, currencies, real estate, you name it and it's gone up in smoke. Years of work, good intentions and dreams have all been lost in the ether. No wonder investors are shell shocked and scared to death.

To invest, you need to trust. You need to trust that the system is fair. You need to trust that there is at least a reasonable expectation of earning a decent return for all of your troubles.

Yet, all of the experts misled you. They failed to warn you of the land mines that were planted on the road to investment riches. Instead, they fed into your greed and told you what you wanted to hear, rather than what you *needed* to hear. For the most part, these experts were employed by the very same people who were the architects of this disaster—the Wall Street wizards. These wizards lied to you, they lied to their clients and they lied to one another. It was a very big lie and a very convincing

lie, but once the market figured out that there was something rotten in the state of Denmark, the jig was up.

In punishing session after punishing session, markets around the globe have created the most massive fire sale the world has ever seen, sending valuations crashing to multi-decade lows. In less than three months, stock exchanges around the world shed more than \$34 trillion—the largest and quickest loss of stock market wealth ever.

Plunging stock values are one thing, but what's keeping us up at night is not just our declining net worth—it's the impact this financial crisis might be having on the *real* economy. We've always heard that when America catches a cold, Canada gets the flu. Is it really going to be any different this time? In America unemployment is up, consumer confidence is down and the auto industry is almost sure to collapse, leading us to wonder if Canada can be far behind.

Yet, Canada is doing just fine. While it is only natural to be cautious, there's no reason to be paralyzed by uncertainty. On just about every measure, Canada is ahead of the pack. We have the best fiscal situation of any G8 country. Our banking system, while not unblemished, has survived the meltdown and is in an ideal position to cherry-pick the cream of the crop globally. Canada's housing sector, while over-valued, never saw the excesses so prevalent in the United Kingdom and the United States. We have a national health care system, our government sector is strong and our reputation globally has been enhanced rather than diminished with this ordeal. And, in the emerging world order, Asia will be ascending and America will be falling. A rapidly industrializing Asia will be hungry for all things Canadian. Our much maligned resource sector will be front and centre in this rising wave of prosperity led not by America but by Asia.

The biggest casualty of all has been the American mystique, which has been shattered. The United States, as the largest, most successful economy, was until recently the envy of the world and the safe haven in times of trouble. Nothing symbolized American power and success

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more than the Wall Street banks and the masters of the universe who inhabited them. But after the collapse, a truth became clear. Like America's citizens, these financial institutions were living well beyond their means. Their collective credit cards were maxed out and when problems started to appear, the banks fell fast and hard. The speed at which the long-established banking system unravelled caught even the most seasoned investors by surprise.

No longer is the United States the undisputed leader in all things global, as a perfect storm of its own making has destroyed its biggest and most revered corporations. Neither the U.S. mystique, nor its economy, will soon be back.

I, too, sought my fortune in the U.S. As a young man, I decided there was a wide-open world out there and I wanted a part of it. So after finishing my engineering degree at the University of Waterloo, I headed for France to study—of all things—business. Armed with an MBA from the Institut Européen d'Administration des Affaires (INSEAD), I truly believed the world was indeed global and, quite possibly, my oyster. And no country had a more commanding global footprint than the United States of America. I bought the company line that the U.S. really did have the better model. So I voted with my feet. I moved to the United States.

I aimed straight for New York, but somehow landed in Houston. At least my job was with a good company that was really going places. Enron, after all, was starting to make waves for its success in turning a sleepy pipeline company into a global energy marketing and trading company. It was going to be the world's first natural gas *major*, or so the banner in the lobby proclaimed.

It wasn't long before the corporate accolades were pouring in. Enron was voted the most innovative company by *Fortune* magazine year after year and it was climbing up the ranks, becoming one of America's most admired corporations. Stock analysts loved the company as well. But what I and my friends in Enron's pool of associates and analysts

couldn't understand was how the company made *any* money. All around us seemed to be failed projects and busted deals.

Enron fabricated earnings to keep its share price high—Wall Street posted impressive results, too, until it didn't. To think that I had a ringside seat to watch the two most fascinating and sickening financial disasters of recent memory, all within a span of seven years! The motivations were the same—massive short-term rewards for the insiders, with no regard for the longer-term consequences of their actions. Talented people, who could have made a valuable contribution to society as doctors or architects, were seduced into careers in finance and into the clutches of Enron by a culture of easy money and instant gratification.

Wall Street was no different from Enron. In fact, it was a whole lot worse. It, too, seduced smart people with the prospect of unfathomable riches and used its talents to further the goals of the top brass. And, like Enron, Wall Street moved away from its traditional lines of business toward the more arcane and exotic, while all the time proclaiming *We're creating shareholder value*.

In retrospect, I wonder how anyone could have believed at all in that era. It was all about broadband trading and the Internet craze. We even invented newfangled metrics like “eyeballs” and “clicks” to justify valuations rather than the traditional earnings and cash flow metrics that stock analysts pore over. The Internet, the valuations the tech stocks commanded and the investor carnage in the aftermath were a product of slick Wall Street marketing and spin, the same forces that would unleash themselves on the world stage with far greater effect in 2008.

So I headed for home. My dream of a Wall Street career in tatters, I left the big leagues and started over. I wasn't going to London or even Chicago. I was going home to Toronto, hardly a global financial capital.

I started over, as a portfolio manager, for First Asset Funds, a mid-sized Canadian mutual fund company where I specialized in resource and infrastructure investing. Covering Canadian equities, I quickly

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learned what separated Canada from the rest of the pack. Our companies aren't all that flashy, but for the most part what they produce are *real* things—things like dishwashers, cars and subways. Things people need. I learned about the stock market. I toured our mines and oil sands projects. When I was done, I was convinced that Canada has what the world needs. So I resolved to learn all that I could and to put together a blueprint for the future jammed full of practical investment advice that I and others could follow. I needed to move fast, because the world was changing quickly. New countries were on the rise and others were falling and in the process altering the investment landscape.

Something magical began to happen: after years of economic isolation, on December 11, 2001, China was granted membership in the World Trade Organization. All of a sudden, China was part of the club. And with its voracious appetite for energy and materials, it showed its potential to transform the Canadian economy.

China's rise is unstoppable. But it isn't just China that is on the move; India and Southeast Asia are also going places and dragging Canada along for the ride. While many fret that China will be hobbled as America retrenches, the truth is that America needs China—not the other way around. China has the money, it has the people and it has the political will to keep on growing, *regardless* of what is happening in America.

In 2007, I was in China on business. I was flabbergasted by what I saw. Everywhere, people were on the move, with a determination and vitality you rarely see at home. Emerging out of former fields were whole cityscapes, but not just ordinary buildings; these were modern architectural masterpieces proclaiming *We have arrived*. But it is the people, the hundreds of millions of people yearning for a better life, who are the force behind China's remarkable transformation—a stunning transformation that has occurred in just thirty years.

What America did over the last century, China is doing as well—only faster. Behind the miracle is a culture that reveres education, hard work and savings, the very things America used to value but somehow

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forgot in the rush toward instant gratification. A Chinese-born colleague, Erik Yan, told me how lucky he feels to have his education behind him and to be living in Canada. He told me about his niece, who studied seven days a week from seven in the morning to midnight for the chance to attend a better *high school*. That's how intense the competition is in China. It's also one reason China's rise is simply unstoppable—because her people are.

Average working people in China and India save 35 per cent of their income. In North America, we save almost nothing. While the situation isn't great in Canada, it's worse in the U.S., where Americans spend more than they make. To fund this rampant consumption, Americans need to borrow and borrow big. And when Uncle Sam needs money to balance his chequebook, it is the Chinese and others with their excess savings who are willing to lend him the money.

The slightly more than a billion people in the West have most of the world's creature comforts, but very little savings. The rest of the world has more than five billion people—a number that is growing fast—and they want what we have. They are willing to work a whole lot harder, and for a whole lot less. Unless you really think that everyone in China is going back to riding on bicycles, you have to be excited about the companies that supply the *real things* that China and the rest of the developing world need.

Canada, on the other hand, is in good shape. Alone among the major economies of the West, ours has come through the terrible collapse with its health reasonably intact. We are selling more abroad than we import. Unlike America, where the U.S. government has spent trillions of dollars to shore up its financial sector, our institutions are solid. Canadian taxpayers won't be saddled with massive public debts from one desperate bailout after another, as American taxpayers will.

Our companies are well positioned for the global economy of the future. The financial health of our leading firms is, for the most part,

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excellent. Our leading companies aren't saddled with unwieldy debts. They will be moving forward, while their U.S. competitors are digging out from under a mountain of debt. The crazy, overzealous risk-taking approach to American business has been disgraced globally. It will be a long time, if ever, before a German or Chinese portfolio manager will trust an American investment bank enough to buy its structured investment vehicle crammed full of questionable credits. Canada's unheralded financial sector will have uncontested access to the global playing field.

The oil sands in Alberta are an incredible resource. The scope and scale of the resource basin and industrial complex is staggering. The largest industrial complex in the world is in the Edmonton and Fort McMurray corridor. At Syncrude Canada's facility, the enormous deposits of sandy oil stretch for kilometres in every direction. The tires on the dump trucks that haul this resource from where it is mined to the upgrader units for further processing are enormous. While I stand more than six feet tall, I couldn't even reach the midpoint on one of the tires of these enormous machines. Without doubt, Canada, which sits atop the second-largest oil reserves in the world, is destined to be an energy superpower.

Descending more than two kilometres below the earth's surface, I arrived at a small underground city where they were mining for gold. I was visiting the LaRonde gold mine, owned by Canada's Agnico-Eagle Mines Limited in northern Quebec. Little did I know it, but the elevator shaft in which I descended had taken me to the deepest point in the Western hemisphere. Underground was a small city of trucks, men and machines—all in the pursuit of recovering gold. In an era when the U.S. dollar is so obviously a flawed currency, Canada, whose mining companies produce more than half the world's gold, will be well positioned to benefit in this new world of tomorrow.

Compared with past cycles in which resources boomed and then crashed, the rally in resources next time around will be sustained

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for much, much longer. Resource companies, unlike American investment banks, produce something tangible. With large swatches of the American investment landscape so tarnished, investors will be willing to pay a premium for companies that produce something where there are no substitutes, demand is voracious and supply is tight. Canada is well positioned to be the biggest beneficiary of the coming resources boom.

But Canada has more than resources. It has expertise, too. In smart phone design, Research In Motion of Waterloo, Ontario, is a global leader. In insurance, our national champions are stellar performers. Our expertise in mining, heavy oil and infrastructure development will be in great demand in the future.

That's great news for Canada and investors in Canadian stocks, regardless of where they might live. As the world digs itself out from economic calamity, Canada will emerge stronger than ever. And so let the battle cry sound: *Buy me all the Canada you can get!*

