Brownstone Asset Management

Newsletter

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INVESTMENT INFLUENCES - FOREIGN TO DOMESTIC

While we at Brownstone are “bottom-up” investors, such that we analyze investment opportunities on a company specific risk / return basis, we also understand the impact of global macro influences that impact the value of stock investments.

I had the opportunity to visit China for three days in July to meet some Government officials and private sector executives, which shed some light to on the might of the Chinese economy and how that translates into our investment strategies.

There was little question that the Chinese are on a major upward trajectory in terms of growth. They openly boast about construction plans, as it relates to infrastructure (trains, roads, airlines etc.), and they plan to achieve this aggressive growth within the next three to five years. They own a mountain of U.S. dollars, which they fear is declining and wish to deploy this capital rapidly through external acquisitions of natural resources and internal infrastructure creation.

When translated into our equity investments, one can feel rather assured regarding the extensive long-term demand for Canadian natural resources (oil, potash, minerals etc.) as building blocks for their ambitions. This global economic reality should underpin continued growth of the Canadian economy and stock prices.

On a different macro perspective, I had the opportunity to join a small group of finance-based Calgary executives to meet with a couple Canadian Federal Ministers that were soliciting input regarding the development of Canadian finance policy and regulatory development. Our pitch was based on a few central themes: clear and transparent policy development (no surprises such as the income trust debacle), reduced regulatory burden and red tape that inhibits business development, and extreme caution on oil sands regulation (carbon trade). China, for example, has no regulatory burden as the Government simply dictates the plan and executes. On the contrary, the growth plans of many Canadian corporations are restricted through extreme regulatory burden’s imposed by Governments of all levels.

I was pleased that our Federal Government has endeavored to solicit input from the private sector, and understands how important it is to promote Canadian economic growth rather than smother it in the name of politics and votes. Stable policy development is a must to attract capital and grow our economy. This point was highlighted with an exclamation mark to our Ministers.

Based on my trip to China, I also clearly see the need for the Canadian Government to draw the line on foreign ownership of our large strategically important assets. There is little question the monetary clout of China is enormous and their capacity to purchase our national strategic assets is most plausible.

China’s need for Canadian resources, combined with sound Federal policies can set the stage for a winning environment for the advancement of Canadian equities.