

OB REPORT



DECEMBER 2006

INSIDE THIS ISSUE

Timeless Principles of Intelligent Investing → Page 1

Odlum Brown Model Portfolio → Page 3

Odlum Brown Financial Services Limited Year End Tax Planning → Page 4

*Wishing everyone
a wonderful
holiday season and
a prosperous
New Year*

Odlum Brown Limited

Suite 1100 – 250 Howe Street
Vancouver BC Canada V6C 3S9
Tel 604 669 1600
Fax 604 681 8310
Toll Free 1 888 886 3586
information@odlumbrown.com
odlumbrown.com

Vancouver • Kelowna • Victoria
Chilliwack • Courtenay • Campbell River
MEMBER CIPF



→ Timeless Principles of Intelligent Investing

HABITUALLY PEOPLE FORGET THAT THE mainstream media is paid to get their attention. Also forgotten is that the media tends to be a lagging indicator which often serves as a contrarian signal to thoughtful observers. Cover stories tend to be about the best-of-the-recent-best or worst-of-the-recent-worst variety. Current news stories frequently have a disproportionate impact on market prices because they are driven by emotional selling or buying – not surprisingly, overreactions are commonplace. Albeit somewhat justified, the latest volatility in the stock market due to the Canadian government's decision to tax income trusts or the fallout from the recent mid-term elections in the United States on health-care companies, serve as important reminders to refocus on the investment basics. The need to focus on fundamentals (and screen out the background noise) continues to be one of the most important challenges of intelligent investing. Fortunately, investors do not have to reinvent the wheel as most of the important investment principles were laid out some time ago.

One of the best and most influential books ever published on investing for the layperson is Ben Graham's timeless classic, "The Intelligent Investor". We believe the book is ideal for any serious investor who wants to improve the odds of successfully investing over the long haul. The central premise of the book is that investing is most intelligent when it is most *businesslike*. This book is aimed at long-term investors and will be of little use to speculators seeking to get-rich-quick. Very little is written about the specific methods of analyzing investments (the subject of a larger tome by Graham called Security Analysis) as most of the book focuses primarily on investment principles and investors' attitudes. We believe many people make a lifetime of investment mistakes by never fully appreciating these core lessons.

Although the entire book merits a careful reading (and rereading), two chapters deserve special attention. These chapters (8 and 20) describe important behavioral and business principles – the Mr. Market allegory and the importance of investing with a margin-of-safety – which go a long way to help investors avoid poor results

in the markets (this is a greater accomplishment than many investors might imagine). We believe the Mr. Market allegory, as retold by Graham's most famous student Warren Buffett, is one of the most important passages ever written on sound investing. Mr. Buffett writes:

"Ben Graham, my friend and teacher, long ago described the mental attitude toward market fluctuations that I believe to be most conducive to investment success. He said that you should imagine market quotations as coming from a remarkably accommodating fellow named Mr. Market who is your partner in a private business. Without fail, Mr. Market appears daily and names a price at which he will either buy your interest or sell you his.

Even though the business that the two of you own may have economic characteristics that are stable, Mr. Market's quotations will be anything but. For, sad to say, the poor fellow has incurable emotional problems. At times he feels euphoric and can see only the favorable factors affecting the business. When in that mood, he names a very high buy-sell price because he fears that you will snap up his interest and rob him of imminent gains. At other times he is depressed and can see nothing but trouble ahead for both the business and the world. On these occasions he will name a very low price, since he is terrified that you will unload your interest on him.

Mr. Market has another endearing characteristic: He doesn't mind being ignored. If his quotation is uninteresting to you today, he will be back with a new one tomorrow. Transactions are strictly at your option. Under these conditions, the more manic-depressive his behavior, the better for you.

But, like Cinderella at the ball, you must heed one warning or everything will turn into pumpkins and mice: Mr. Market is there

CONTINUED ON NEXT PAGE



Festival of Trees

Odlum Brown is proud to be a tree sponsor for the BC Children's Hospital Foundation's annual Festival of Trees in Vancouver (20th anniversary) and Kelowna. This year's proceeds will go towards building the Mental Health Centre at the hospital.

Enjoy this magical holiday festival with your family and friends and view the one-of-a-kind decorated trees on display, including Odlum Brown's. The Festival runs until January 3, 2007 in Vancouver at the Four Seasons Hotel and in Kelowna at the Grand Okanagan Hotel.



Odlum Brown is proud to be the Presenting Sponsor of *The Magic of Christmas 2006* at the Kay Meek Centre in West Vancouver on December 12. The annual benefit concert will feature an array of the city's finest vocalists, a sprinkling of comedy, dance and children's voices all accompanied by a world-class live band.

Proceeds from this year's event will be donated to UNICEF and the Family Services of the North Shore Christmas Bureau.

Tickets are available at the Kay Meek Centre box office 604 913 3634. For more information visit www.magicofchristmas.com.

CONTINUED FROM PAGE 1

Timeless Principles of Intelligent Investing

to serve you, not to guide you. It is his pocketbook, not his wisdom, that you will find useful. If he shows up some day in a particularly foolish mood, you are free to either ignore him or to take advantage of him, but it will be disastrous if you fall under his influence. Indeed, if you aren't certain that you understand and can value your business far better than Mr. Market, you don't belong in the game. As they say in poker, "If you've been in the game 30 minutes and you don't know who the patsy is, *you're* the patsy."*

British playwright Oscar Wilde famously stated that a cynic was someone who "knows the price of everything, and the value of nothing." However, he could have easily have been referring to Mr. Market's obsession with the precision of temporary stock quotes while ignoring the more-important-but-harder-to-calculate intrinsic or appraised values. Estimating intrinsic value is not an easy matter, and perhaps more importantly, never precise. Two equally capable investors could review the same set of facts and come up with two widely different value estimates because so much depends on educated guesses of the future. This explains much of the fluctuation in stock market prices. However, if an investor has formed a conclusion from the facts, and if he considers this judgment conservative and sound, he should have the courage to act on it even if others hesitate or differ in their opinion.

Because the future is unpredictable, and the precise estimate of intrinsic value is inherently impossible to calculate, investors can help

protect themselves from potential downside by only buying when there is a margin-of-safety. This is defined as the favourable difference between the quoted price of a stock on one hand and the intrinsic value of the company on the other. This safety margin protects investors by helping to absorb the effect of miscalculations or worse than average luck, which is bound to occur on occasion during the investment process. Insisting on a large margin-of-safety is even more important when the underlying business is of average quality, or worse. Margin-of-safety is often largest when Mr. Market is in a particularly pessimistic mood and has difficulty seeing past the latest troubling news. Quite ironically, the resulting low prices frequently coincide with the lowest downside risk and highest upside potential – the best possible combination for investors!

We think these principles are incredibly important to investors seeking to improve their odds in the stock market. By following the principles outlined in this book, achieving satisfactory investment results should be easier than most people realize. Achieving superior long-term performance is certainly much harder than it looks. Nevertheless, we believe the process begins with a full understanding of the timeless principles of intelligent investing. 

FELIX NARHI, CFA
SENIOR EQUITY ANALYST

* COPYRIGHT © 1988 BY WARREN E. BUFFETT
ALL RIGHTS RESERVED. REPRINTED WITH PERMISSION.

ODLUM BROWN'S 13TH ANNUAL ADDRESS

Ross Sherwood, President & CEO, invites you and your guests to Odlum Brown's 13th Annual Address. Join us for an informative evening as we share our thoughts on the world economy, provide an outlook for the year ahead and present some investment opportunities. Further details will be provided in the January 2007 OB Report.

CHILLIWACK
Tuesday, January 23, 2007
Best Western
43971 Industrial Way
RSVP Heather 604 858 2455

KELOWNA
Thursday, January 25, 2007
Coast Capri
1171 Harvey Avenue * New location
RSVP Kristen 250 861 5700

VICTORIA
Monday, January 29, 2007
Delta Ocean Pointe
45 Songhees Road
RSVP Monica 250 952 7775

COURTENAY
Tuesday, January 30, 2007
Crown Isle Resort
399 Clubhouse Drive
RSVP Sharon or
Lynn 250 703 0637

VANCOUVER
Tuesday, February 6, 2007
Hotel Vancouver
900 West Georgia
RSVP Jennifer 604 844 5338

The Address will begin at 7 PM.
Space is limited. Please call to reserve your seats.

COMPOUND ANNUAL RETURNS – OB MODEL PORTFOLIO vs S&P/TSX ¹

	1 MONTH	3 MONTH	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION ²
Odlum Brown Model Portfolio	3.7%	7.1%	17.9%	23.3%	16.8%	19.7%	20.6%
S&P/TSX Total Return Index	4.5%	4.4%	19.6%	19.3%	13.5%	9.7%	11.7%
Difference	-0.8%	2.7%	-1.8%	3.9%	3.3%	10.1%	8.8%

¹ Compound Annual returns for the period ended November 15, 2006, except for 1 month and 3 month periods. ² December 15, 1994.

ODLUM BROWN MODEL PORTFOLIO

Equity markets continued their upward ascent in the first half of November. For the month ended November 15, 2006, the Odlum Brown Model Portfolio appreciated by 3.7 per cent, bringing the year-to-date gain to 14.4 per cent. By comparison, the S&P/TSX Total Return Index posted gains of 4.5 per cent and 12.4 per cent for the respective one month and year-to-date periods. Advances were broadly based.

We added three new securities to the Model – 3M Company (MMM), Yahoo! Inc. (YHOO), and George Weston (WN). Some profits were taken on Atmel (ATML) and we received additional shares in the Canfor Pulp Income Fund (CFX.UN).

3M is an exceptionally well run industrial conglomerate, with annual sales approaching \$25 billion. While best know for products like Scotch Tape and Post-it-Notes, the company manufactures more than 50,000 products in over 200 countries around the world. With a focus on innovation and a low cost global manufacturing base, 3M generates margins and earns a return on capital that is well above average. Despite the company's competitive strengths and attractive growth profile, the valuation of the stock sits at a discount to its peer group.

Yahoo!, the world's most popular web portal, is positioned to be one of the biggest beneficiaries of Internet growth and the explosion in digital media. The company has experienced rapid and profitable growth over the last several years, has a strong balance sheet and is led by a seasoned senior management team. The shares, however, are trading near a 52-week low because earnings have fallen below expectations and its key advertising platform was delayed. The new ad platform called *Panama* has been launched and the early reviews have been encouraging. Investors are starting to take note and the stock has started to react. As more and more advertising moves to the Internet, the more we think Yahoo! will benefit.

George Weston is a new spin on an old idea. Roughly 80 per cent of the value in Weston shares is the company's near 60 per cent stake in Loblaw; a company struggling as a result of self-inflicted restructuring wounds. The rest of the value is in wholly owned Weston Foods, a large and well-respected bakery and dairy operation. George Weston is investing and working aggressively to improve the fortunes of both businesses and progress should result in a higher share price.

Although Atmel reported a good third quarter and the valuation remains attractive, we felt some profit taking was warranted given our view that industry conditions may weaken in the fourth quarter. An additional factor in our decision was the company's need to restate prior period financial statements as a consequence of improper treatment of stock option grants.

The Canfor Pulp Income Fund units were received as a dividend from Canfor Corporation.

The Odlum Brown Model Portfolio was established on December 15, 1994 with a hypothetical investment of \$250,000. The Model provides a basis with which to measure the quality of our advice. It also facilitates an understanding of how we believe individual security recommendations can be used in the context of a client portfolio. Trades are made using the closing price on the day a change is announced. No allowance is made for commission. Past performance is not indicative of future performance.



WWW.ODLUMBROWN.COM
NEW WEBSITE COMING
SOON...

EARLY MUSIC
VANCOUVER

For the third consecutive year, Odlum Brown is proud to be the Presenting Sponsor of *Festive Bach Cantatas for Christmas* at the Chan Centre for the Performing Arts on December 19.

The programme is part of Early Music Vancouver's acclaimed Bach Cantata Project and features Suzie LeBlanc, Laura Pudwell, Colin Balzer, Tyler Duncan and the Bach Cantata Project Players directed by Marc Destrubé.

Tickets are available at the Chan Centre box office (in person), or through Ticketmaster at 604 280 3311 or ticketmaster.ca

ODLUM BROWN FINANCIAL SERVICES LIMITED

Year-End Tax Planning

AS YOU PREPARE FOR 2007, remember to plan for ways to minimize your 2006 income taxes before it is too late.

Don't Miss the 2006 Deadlines!

- Consider selling your securities which have accrued losses to offset against gains realized in 2006. The final trading day for transactions settling in 2006 is **December 22** for Canadian stock exchanges, and **December 26** for US stock exchanges.

Caution: Since there are many special rules surrounding capital losses, professional advice should be sought before proceeding with a "tax loss selling" strategy.

- Your last tax instalment for 2006 is due **December 15**. To avoid instalment penalties consider increasing your payment if you missed any instalments in 2006 or if your tax base has increased significantly.
- If you turn 69 in 2006, consider making an over contribution by **December 31** to maximize your future RRSP deductions. (The over contribution amount would be based on your 2006 earned income).
- Make payments for medical expenses and/or childcare expenses before **December 31** to ensure that tax savings may be realized.
- Consider paying carrying charges such as safety deposit box fees or investment counsel fees before **December 31** to ensure that they are deductible on your 2006 tax return.
- Ensure your Registered Education Savings Plan (RESP) for your children is established and deposits are made by **December 31**.
- To realize a benefit on your 2006 tax return, ensure your charitable donations are made by **December 31**. If funds are not readily available, consider making your donation by a credit card or a through a gift of securities. Beginning in 2006, any accrued capital gains from the donation of publicly listed securities are not included in taxable income.

TAX UPDATE

The introduction of the Tax-on-Income regime by the BC Government in 2000, requires the updating of the Federal and BC tax brackets, tax rates and tax credits. We endeavour to keep you abreast of some of the applicable changes.

During 2006 many tax-related announcements were made, however, not all of the tax changes have supporting legislation. Accordingly, the assessment of tax and tax credits rests with the Canada Revenue Agency (CRA).

The tables below illustrate selected 2006 tax information based on announcements by the Federal and BC Governments.

TABLE 1 - 2006 FEDERAL TAX RATES AND BRACKETS

Federal Tax	From	To
15.25%	NIL	36,378.00
22.00%	36,378.01	72,756.00
26.00%	72,756.01	118,285.00
29.00%	118,285.01	

TABLE 2 - 2006 BC TAX RATES AND BRACKETS

BC Tax	From	To
6.05%	NIL	33,755.00
9.15%	33,755.01	67,511.00
11.70%	67,511.01	77,511.00
13.70%	77,511.01	94,121.00
14.70%	94,121.01	

TABLE 3 - SELECTED 2006 TAX CREDITS FOR FEDERAL & BC TAX PURPOSES

Non-refundable tax credits	2006 Federal	2006 BC
Basic personal amount	8,839	8,858
Age amount (Maximum)	5,066	3,972
Net Income threshold	30,270	29,570
Spousal/equivalent-to-spouse amount	7,505	7,585
Canada Employment Credit	250	N/A
Pension Income Credit	2,000	1,000
Caregiver amount	3,933	3,875
Education amount (F/T) per month	400	200
Education amount (P/T) per month	120	60
Disability amount	6,741	6,643
Other Tax Credits		
Dividend Tax Credit	13.33%	5.10%
Dividend Tax Credit for "eligible" dividends	18.97%	12.00%
BC Tax Reduction (Maximum)	N/A	368

YOGESH BHATHELLA, CGA, CFP, TEP
MANAGER, TAX INFORMATION SERVICES

ODLUM BROWN FINANCIAL SERVICES LIMITED IS A WHOLLY-OWNED SUBSIDIARY OF ODLUM BROWN LIMITED, OFFERING LIFE INSURANCE PRODUCTS, RETIREMENT, ESTATE AND FINANCIAL PLANNING EXCLUSIVELY TO ODLUM BROWN CLIENTS.

PLEASE READ OUR ODLUM BROWN LIMITED DISCLAIMER & DISCLOSURE / IT IS IMPORTANT

Odlum Brown Limited is an independent, full-service investment firm focused on providing professional investment advice and objective research. We respect your right to be informed of relationships with the issuers or strategies referred to in this report which might reasonably be expected to indicate potential conflicts of interest with respect to the securities or any investment strategies discussed or recommended in this report. We do not act as a market maker in any securities and do not provide investment banking or advisory services to, or hold significant positions in, the issuers covered by our research. Analysts and their associates may, from time to time, hold securities of issuers discussed or recommended in this report because they personally have the conviction to follow their own research, but we have implemented internal policies that impose restrictions on when and how an Analyst may buy or sell securities they cover and any such interest will be disclosed in our report in accordance with regulatory policy. Our Analysts receive no direct compensation based on revenue from investment banking services. We describe our research policies in greater detail, including a description of our rating system and how we disseminate our research, on the Odlum Brown Limited website at odlumbrown.com.

This report has been prepared by Odlum Brown Limited and is intended only for persons resident and located in all the provinces and territories of Canada other than the Province of Quebec, where Odlum Brown Limited's services and products may lawfully be offered for sale, and therein only to clients of Odlum Brown Limited. This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country including the United States, where such distribution or use would be contrary to law or regulation or which would subject Odlum Brown Limited to any registration requirement within such jurisdiction or country. As no regard has been made as to the specific investment objectives, financial situation, and other particular circumstances of any person who may receive this report, clients should seek the advice of a registered investment advisor and other professional advisors, as applicable, regarding the appropriateness of investing in any securities or any investment strategies discussed or recommended in this report.

This report is for information purposes only and is neither a solicitation for the purchase of securities nor an offer of securities. The information contained in this report has been compiled from sources we believe to be reliable, however, we make no guarantee, representation or warranty, expressed or implied, as to such information's accuracy or completeness. All opinions and estimates contained in this report, whether or not our own, are based on assumptions we believe to be reasonable as of the date of the report and are subject to change without notice.

Please note that, as at the date of this report, the Research Analyst responsible for the recommendations herein, associates of such Analyst and/or other individuals directly involved in the preparation of this report hold securities of the issuer(s) referred to directly or through derivatives.

No part of this publication may be reproduced without the express written consent of Odlum Brown Limited. Odlum Brown Limited is a member of the Canadian Investor Protection Fund.

Odlum Brown Limited respects your time and your privacy. If you no longer wish us to retain and use your personal information preferring to have your name removed from our mailing list, please let us know. For more information on our Privacy Policy please visit our website at odlumbrown.com.