

- **Bay Street bankers** have been relatively busy so far this year and, unlike their peers in London and New York, have been stable places of employment. Listed Canadian companies raised about **C\$9.2 billion** in the first three months of 2009. Wall Street only raised C\$9.6 billion in the same time frame. Companies in the US have all but shut down stock offerings. In global terms Canada fared very well as global stock sales totaled US\$47 billion. Canada's volume of business in Q1 was nevertheless comparable to the level of activity in 2008. Bay Street firms have been kept busy with sales of numerous gold and energy offerings, sales of preferred shares (about C\$5 billion) primarily by financial institutions, as well as large offerings from **Canadian Pacific Railway Ltd.** and **ING Canada Inc.** **Bond sales** in Q1 2009 were also strong rising to C\$33.7 billion from C\$28.2 billion a year earlier. All in all, this looks pretty normal and it suggests that at least in Canada, capital markets are functioning normally and that pension plans, mutual funds and other investors are willing to invest in Canadian companies and in the future. We've also mentioned previously that global corporate bond markets, driven by massive takeovers among major pharmaceuticals, have been setting a record pace. This is a further signal that credit markets are thawing. However unpopular with the general public, bonus earnings are going to be large, but bankers may be more discreet this time next year when they get paid out.

- **How accurate are analysts?** On Thursday of last week, **RIM** released its fourth quarter financial results and it blew past the prediction of every senior analyst that follows the stock. Ten analysts upgraded the stock on the next day after it had gone up 19% (and it has gone up some more since). How could so many smart hard-working people have got it all so wrong? Simple really. There is no way for them to predict outcomes in times of change (in this case whether or not RIM's appeal to broader retail markets was going to succeed), and the consensus view is sometimes nothing more than a guess as determined by the prevalent mood of the day as much as by anything else. The same is true when you listen to bank analysts, energy analysts and so on, including economists: it's very tough to predict change and it's easy to get caught up in the sentiment of the day. This evening, Nouriel Roubini (Dr. Doom), Meredith Whitney, Ian Gordon and Eric Sprott --- the so-called "prominent bears" --- are going to "entertain" a sold-out Toronto audience with their own particular brand of pessimism. The expectations are large and it will take considerable fortitude to resist their pitch given that each of them professes to be realistic and rational in their opinions and that they are very well spoken with plenty of good charts. But, it is worth remembering what happened to the equally sincere and hard working RIM analysts. Analysts of every stripe are useful and deserve to be listened to, but it isn't necessary or wise to buy into any individual story with too much enthusiasm or too many investment dollars. As to the "prominent bears", their story is getting a little long in the tooth and is losing its immediate appeal as investors become less fearful.

- **Protectionism:** The global recession is undermining free trade. Irrespective of the rhetoric supporting free trade, key trading partners, including the US, Europe and China, have implemented protectionist measures. Many of these trade barriers have taken the form of bailout or stimulus packages blatantly favouring (subsidizing?) domestic companies. All of the major trading partners --- that is the US, the EU, Japan and China --- are to some extent now at odds with each other over trade as well as financial and credit protectionism (see [National Bank April 2009, Geopolitical Outlook: Facing up to protectionism](#)). The US government, the free trade champion of the last 50 years, can no longer advocate strongly for free trade compromised as it is by domestic political and economic priorities. Interestingly, for investors, as free trade is undermined, one country, the US, will not be as adversely affected as its trading partners and is therefore a more attractive place to invest. Exports accounts for only 13% of US GDP versus 50% for EU countries (and still more than that for Canada). The US is a barrier-free market of over 300 million people, who, even after the current debacle, are better equipped and more motivated to go shopping than any other group of people on earth. Europe may have more people (400 million), but it is riddled with interior trade, financial and cultural barriers and has a growing financial crisis in Eastern and Central Europe to deal with. EU institutions do not have the central economic and financial power of US authorities. In terms of specific investments, diversified multinationals (many of them coincidentally based and listed in the US) with cash reserves and footprints in many countries, and the ability to set up more local operations quickly as well as attract local government assistance, are much better positioned than smaller export dependent players with narrow markets. The US also remains a leading source of new technology and innovation, and this sector will benefit from the global appetite for new technology to refurbish obsolete infrastructure.

- **Earnings jitters?** It's a bit bizarre but apparently the reason markets are down this week (about 2.66%) is that investors have suddenly turned their attention to quarterly earnings and are getting jittery at the prospect of seeing negative results. It's odd because analysts (see our observation re: analysts above) have been calling for a dramatic drop (37% year over year on average) in quarterly earnings for TSX stocks some time. Trading volumes on the TSX have been normal and one can only suppose that some investors prefer to check out from this earnings season and buy back later at a lower price. Reported earnings may actually deliver some pleasant surprises because the overall consensus is

so negative. For example: the worst three sectors are consumer discretionary, materials and energy stocks and they are expected to see a drop in year over year earnings of 103%, 78% and 58% respectively. Perhaps along with earnings anxieties, investors have a renewed fear of dividend cuts, though it's unclear why investors are newly concerned now.

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