



The Blind Squirrel, reality, housing and other issues. **WEEKLY INVESTMENT PRE/REVIEW ----- April 20th, 2009**

- *Reality is a very slippery thing. Now you see it, now you don't.*
- **Focus on the winners:** With all the doom and gloom pronouncements and weekly updates on bankruptcies (this week **AbitibiBowater** and U.S. shopping-mall operator **General Growth Properties Inc.**, next week **Air Canada** or **Chrysler?**), what tends to get overlooked is the other side of the coin: that when the dust settles, the new market leaders like a **VW** or a **Wells Fargo**, benefit from the reduced competition. Also the decline in production of almost everything, but especially commodities, creates a shortfall in supply which then becomes the very building block for the next phase of growth. This is not a universal truth --- housing may not rebound as sharply because of structural issues and other variables (population growth, interest rates) and consumer confidence may remain tempered for some time yet. Investors, even ones with only a slightly optimistic perspective, can profit from these trends by holding index instruments (so-called index ETFs) that are biased to blue chip stocks (like the **S&P 100** or **TSX 60**) and thus tap into the stronger market players.
- **Housing:** while it's almost commonplace now to see reports indicating that housing is stabilizing after its 'spiral crash', a study by **Eli Beracha** and **Mark Hirschey** published in the March/April 2009 edition of the **Financial Analysts Journal** throws a bit of cold water on the whole notion of a widespread crash. Their conclusion is that the very widely used **S&P/Case-Shiller Home Price Index** which measures the growth in value of US residential real estate, is severely biased! This index tracks just ten US real estate markets and is dominated by seven including California, Florida, Nevada, DC and New York, where prices were at extremes between Q4 2006 and Q4 2008: according to the authors, prices in these seven markets were "red hot and then stone cold" while in 23 other states prices actually went up over the same period. In another 11, prices declined less than 5%. "*The current and unprecedented nationwide decline in housing prices has had little to no effect on homeowners in 34 of 50 states*" conclude Beracha and Hirschey. Crisis? What crisis?
- **National Bank's** relatively new Chief Economist and Strategist **Stefane Marion** recently updated his view of the Canadian and global economy. Overall the global economy has been dragged down by the credit crisis and trade flows have 'nosedived'; Canadian real GDP has declined more in Q4 2008 than in any other quarter in the past 19 years and both Canada and the US will not see sings of economic recovery until mid-year 2009 or later. However, the unprecedented and forceful government fiscal and monetary action initiated by every key economic player does improve the economic picture in 2010 and is what prompted Mr. Marion's upward revisions. The picture that is beginning to emerge from his analysis, and from other economists as well, is that our economies are awash in cash. For example, the US monetary base --- that is money in circulation plus bank deposits at the US Federal Reserve --- has doubled in the last year. There is no precedent for such a jump and lays the foundation for an enormous injection of liquidity and an expansion of money supply which can only mean one thing: growth.
- **The Blind Squirrel Award:** this award's premise is that even a blind squirrel over a life time of searching will eventually hit upon a stash of nuts *and* because we love analysts, especially those large-than-life folks with guru-like status who get one memorable prediction right and then turn it into a career. And in the world of guru analysts you either 'go big or go home': as a guru analysts' star rises the pronouncements get bigger, more strident and extend further into the future with the prospect of greater glory or, more likely, of getting things very wrong. So, leading contenders for the Blind Squirrel Award today must be the so-called "four prominent super-bears" --- **Eric Sprott, Meredith Whitney, Ian Gordon and Nouriel Roubini** (aka **Dr. Doom**) --- whose reputation is strong enough to fill the Elgin Theatre to capacity the other week. A perennial favourite is also **John Embry** --- a gold bug for over 35 years, long enough that everyone has lost track how many times he's recommended gold as a hot investment. The most deserving recipient in our opinion however is **Jeffrey Rubin**, the recently retired high-profile and occasionally controversial **CIBC** chief economist. Mr. Rubin was named Canada's top economist no less than ten times in his 20 year career, made some bold and unconventional calls (e.g. Canadian dollar at par, US\$225 oil and TSX +16,000) over the years and generated considerable interest, in particular in those lively debates with **Sherry Cooper**, his peer from **BMO**. Mr. Rubin has retired from CIBC to promote his soon to be published book on peak oil and the end of globalization and life as we know it. We wish him all the best --- thanks Jeffrey!

For more info call Mark Kryzan or Terry Shaunessy at 403-802-3108.

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