

*"Never make predictions, especially about the future." Charles Dillon "Casey" Stengel, baseball legend.*

- **US Housing:** yet another report, this time from **Lombard Street Research**, indicating that the US housing market is stabilizing. Lombard relies on several measures: an up-tick in the National Association of Homebuilders (NAHB) index, a decline in the inventory of new homes for sale and two months of modest back-to-back price increases according to the Federal Housing Finance Administration's price index. Given current interest rates and affordability at record levels, the housing market is healthier today and according to Lombard in a backhanded compliment, housing "should stop being a drag on growth in coming quarters."

- **Jim O'Shaughnessy**, author of *What Works on Wall Street* and seasoned US equity fund manager (for RBC) has no doubt: "equity markets are offering us a once-in-a-generation opportunity ..... the 10 years ending February 2009, were the worst for US equities since 1900 and the 40 years ending February 2009, returned less than 4% per year ... [we found] that after stocks had poor long-term results they rebounded strongly for a long period ... As scary as markets might seem now, we think equities will provide the best returns over the next three, five and ten year periods." Shaunessy Investment Counsel has noted the same trends and we believe in the tendency of markets to revert to a mean rate of return. In other words, US equity markets have some catching up to do following the terrible results of the past 10 years.

- **The Blind Squirrel Award Part II :** **Jeffrey Rubin** gets to keep the award but **Mark Carney, Governor of the Bank of Canada (BoC)**, suddenly qualifies as a runner up: as the **Globe & Mail** put it, "for months, the person who should know the most about the health of the Canada's economy and its prognosis has been badly out of step ... now in a sharp public reversal Governor Mark Carney has cast aside his earlier view of a quick recession and accepted what the others have been saying for months: the situation on the ground is much worse than anticipated." The **BoC** revised its 2009 forecast from -1.2% to -3% and its 2010 forecast from 3.8% to 2.5%. Now in classic blind squirrel fashion, the Governor and his "sophisticated computer models" in arriving a tad late, seem to be painting a picture that is even gloomier than the consensus view.

- **What next? Barron's Bob O'Brien** recently pointed out that **Condé Nast** is folding its **Portfolio** magazine, a well respected financial publication, and that this demise may well be a signal of the bear market touching bottom. Magazines have been considered to be useful indicators of economic health and trends. Portfolio was launched in April 2007 when the S&P 500 exceeded 1500 points and it folded with the index at just 850 points. Conversely, **Jeff Augen**, an expert (ed.) options trader in New York is convinced that the **Chicago Board Options Exchange Volatility Index** (or **VIX**, a gauge of investor fear) is set to rise sharply leading the market into a severe downward correction. Recently **VIX** has held at a modest 30 to 40 points (it peaked at 90 in during the fall meltdown) under the influence of a bear market rally. According to Mr. Augen, originally a molecular biologist by training, fear can spike at any time courtesy of any number of events, such as awful GDP data, renewed concerns about banks following mediocre stress test results, a failure of either **Chrysler** or **GM** or both, or perhaps of the rapid spread of swine flu in the US and elsewhere.

- **Conclusion: Casey Stengel** knew what he was talking about. It seems obvious to us that all the experts cannot be right and that they are each speaking to their positions. Also, it's clear that the future is uncertain and unknowable (especially the more distant future) and that investors must not abandon the fundamental principles of portfolio construction and balance in order to be ready for the future, whatever it may bring. That humans perversely seek to divine future events, once with chicken entrails and bones and now with computer models and Phds, does not mean that we have got any better at this impossible task. Finally, there is a self-fulfilling nature to many 'predictions'. When many investors believe that the price of gold should go up/ down in the next little while, it should come as no surprise that it does so accordingly. A prescient view about the price of gold is really an astute reading of market trends, but even then outcomes can never be assured as sudden reversals of fortune can and do occur. The point is that investors can believe anything they want, just as long as they don't risk too much on those hunches: point in case, see the next story.

- **Swine flu fear:** Reading the headlines it's easy to get alarmed; but perhaps more alarming is how freely we now use the word '*crisis*' in the absence of any decent evidence --- forget the excessive speculation from the **WHO** on what *might* happen to global GDP --- regarding the real risks of swine flu. Nevertheless, some investors were quick off the mark and reduced their stock exposure (especially to travel industry sector stocks) on Monday pushing the TSX Composite down by 1.6%. Interestingly, during the SARS scare in 2003 and before that in 1918-20 during the very severe Spanish flu pandemic, stock markets did not fall apart. Stock markets in both cases dipped temporarily only to recover very nicely.

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