



A balanced perspective.

## WEEKLY INVESTMENT PRE/ REVIEW ----- June 23<sup>th</sup>, 2009

- **On Monday June 22**, stock market indexes suffered their worst one-day declines in months. The **Dow Jones Industrial Average** closed at 8339.01, down 200.72 points or 2.4%; the **S&P 500** closed at 893.04, down 28.19 points or 3.1% and putting it back into negative territory for 2009. In Canada, the **S&P/TSX composite index** closed at 9834.18, down 453.77 points or 4.4%. The drop was widespread with approximately 90% of **TSX** stocks ending the day lower, however, the daily volume was modest with 224 million shares trading hands. In other words, a sharp drop occurred because *some* investors --- not the whole market --- got nervous. The C\$ dropped 1.3 cents suggesting too that many sellers were not domestic.

- **Why?** The **World Bank** lowered its forecast for the global economy in 2009 from -1.7% to -2.9% and is now predicting only a shallow recovery in 2010. According to this view, the world economy, and Canada along with it, is (in a phrase perhaps coined by the **Globe and Mail**) 'sliding into the belly of a U-shaped recovery'. It is a bit unusual that investors give a **World Bank** report this much credit, but nevertheless this is the reason provided by some market watchers. Other observers opined that the markets 'had it coming to them' for rising too swiftly in the first part of the year (especially oil prices). The **World Bank** report was merely a catalyst as the report itself provided no striking new information regarding global economic fundamentals.

- **So what now?** For investors, like us, who hold blue chip index instruments, this set-back in prices and confidence is uncomfortable, but in the long run will not matter. This is because our investment horizon is beyond 2010 and because we remain confident that a global financial and economic crisis is averted --- something the **World Bank** did confirm incidentally --- and therefore markets must return to a normal level of activity. Given this important conclusion about risk, sheltering the majority of assets (in a balanced portfolio) in bonds or cash with little or no return and interest rate risk does not make sense. Our exposure to stocks is approximately 60%. For those who have not rebalanced their portfolios, this may be a good time to buy stocks. However, it seems most investors don't have the stomach for it yet --- according to the **Globe and Mail**, since mid-2007 Canadian cash balances have risen 26% (twice the pace seen in the US).

- At this stage forward-looking strategists/analysts (e.g. **John Aitkens, Toronto Dominion Bank, Stefane Marion, National Bank**) remain relatively bullish. They point to the fact that: the US economy has been mired in a recession for 17 months --- a record in modern times; the global stimulus is beginning to take a bite out of the recession; US yield spreads are signalling an economy that is beginning to stir; global credit conditions have improved; the volatility index is falling; corporate earnings projections, while dismal, are being revised upward not downward; consumer confidence, while fragile, is returning even though housing and unemployment indicators still signal relative weakness. For us, the greater investment risk is that the **World Bank** and others may not have things exactly right.

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