The U.S. recession is **over**: markets are poised to recover. Now what?

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- John Aitkens, Chief Strategist, TD Newcrest, in a newsletter released this morning following a detailed conference call on Monday announced that he believes that the "correction is over …. the U.S. economic recession bottomed in June and a recovery is imminent." The U.S. is expected to see strong productivity-led profit growth over the next two years taking earnings and stock valuations back to normal levels. By 2011 the **S&P 500** index, which has been hovering in the 900 range of late, is targeted to rise to 1,400 points. "When combined with expected dividend yields, this target translates into a 20% compound annual rate of return over the next two and a half years" writes Mr. Aitkens. TD's preliminary research suggests a similar upside potential for the **TSX Composite**. A report on Canada is to be released next week.

- Whether Mr. Aitkens is correct or not, we are not making any changes to our balanced portfolios as exposure to stocks exceeds 60% based on our earlier view that (a) financial systemic risk was addressed in late 2008 and early 2009 and (b) the unprecedented level of global government stimulus will trigger a noticeable economic recovery in 2009, or at latest in 2010.

- **Comment re the U.S.:** it is interesting to note that Aitkens' bullish sounding projection is not at all bullish given that at a valuation of 1,400 in 2011 the **S&P 500** is below the 1,527 mark posted on October 31, 2008 and also below 1,498 set in January 2000! It probably comes as a surprise to most investors that the *U.S. stocks have been in a bear market for more than 10 years* and will not have climbed out of it by 2011 based on the Aitkens projection. For the U.S. stocks to emerge from this trend, a material shift to a more cyclical and export oriented (and therefore concomitantly less consumer-driven) economy and stock market needs to occur. The leading U.S. firms, such as **Boeing, GE, IBM** or **Merck**, are truly global players with global competitive advantages. In the aftermath of this recession and with the assistance of a relatively cheap U.S.$, these corporations will be even more competitive. Domestic weakness will also force U.S. companies to seek growth elsewhere. As a regional investment, the U.S. compares favourably with **Europe** which has fewer dominant global corporate players and is impeded by the absence of competitive advantages or a coordinated or efficient regulatory and fiscal backdrop.

- **Comment re Canada:** The **TSX Composite,** which has been trading around the 10,000 mark, peaked at 11,388 in August 2000 during the tech (and specifically **Nortel**) boom and then peaked again 14,984 in May 2008. Canadian index returns and strong currency gains in the past 10 years have made Canada a very speculative place to invest (especially for U.S. investors). Close examination will reveal the degree to which Canadian returns are the result of a few key sectors (energy, materials and finance) and a handful of key stocks (not the least of which was **Nortel**, which incidentally was de-listed this week). For Canadian investors one has to ask how safe is it to continue to invest primarily only in the same familiar stocks (i.e. Canadian financials plus some energy plays plus **RIM** and a few income trusts)? If it is not safe, how can Canadian investors seeking to diversify allocate their money elsewhere without having to be concerned with the rather volatile and thinly traded C$? For now, our Canadian exposure is confined to the most liquid Canadian index instruments which are balanced by currency hedged investments (if available) in the S&P 500 index, S&P 500 sector indexes and MSCI EAFE. In our global balanced portfolio, the overall stock allocation is 65% and is comprised of approximately 30% Canadian stocks, 25% U.S. stocks and 10% international stocks.

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