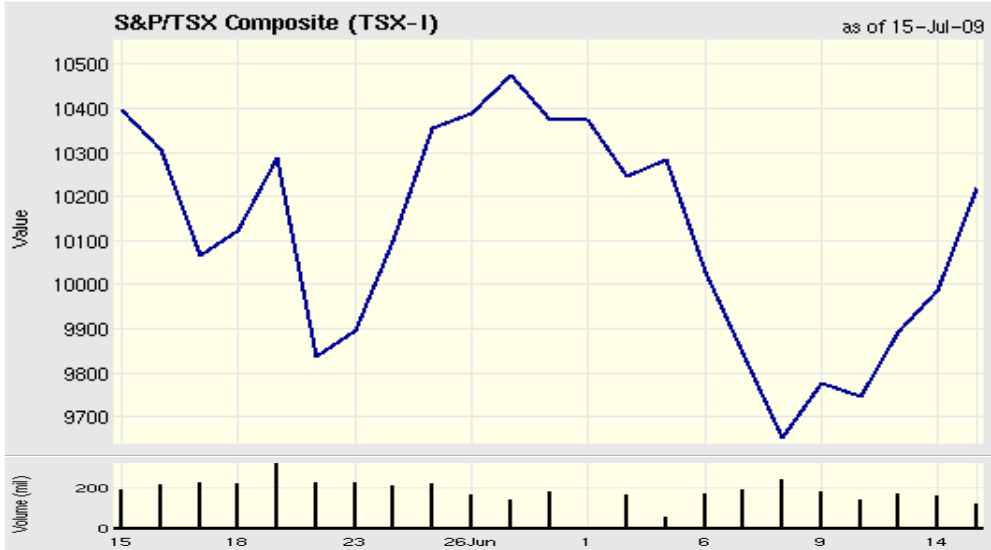


## Volatility and what Meredith thinks now. MARKET AND INVESTMENT REVIEW ----- July 16<sup>th</sup>, 2009

- **What does volatility look like?** (See below) The **TSX Composite** has gone from 10,714 points on June 11<sup>th</sup>, down 818 points (-7.6%) to 9,896 on June 22<sup>nd</sup>, up 580 (+5.8%) points to 10,476 on June 29<sup>th</sup>, down 823 points (-7.8%) to 9,653 by July 8<sup>th</sup> only to recover to current levels of around 10,200 only a week later. All this has happened at a time when there was no big financial or economic story. The daily trading volume was moderate and exceeded 300 million shares traded only on June 19<sup>th</sup>. Depending on which day an investor might value their portfolio, they may be pleased or not pleased with the findings. Clearly decisions can't be based on such short term view and long term investors --- that's most of us --- shouldn't pay heed to this volatility. In the long term we are sure of one thing: *market values must rise*. Thus the key to investing well is to be efficient, patient and to maintain a diversified and balanced approach.



- **US Financials:** Some time ago we surmised that the surviving big US firms would convert into banks get bigger and become more Canadian (oligopolistic). **Goldman Sachs Group Inc.'s** Q2 profit came in at US\$3.44 billion and confirmed them as one of the stand out winners for the post-financial crisis era. The company's revenue of US\$13.76 billion was its highest ever. **JP Morgan Chase & Co.** also reported strong earnings and has quietly repaid US\$25 billion it owed the US government. **JP Morgan** was one of the few financial behemoths that skirted the problems that brought down **Bear Stearns, Lehman Bros. and Merrill Lynch**. After absorbing Bear Stearns and **Washington Mutual** (not an easy undertaking), JP Morgan has a much bigger retail banking and prime brokerage presence and is ready to do what big banks do --- get bigger and more profitable.

- **WOW! Meredith likes Goldman Sachs!** None other than **Meredith Whitney**, the incredibly bearish analyst who hated financials, has upgraded her recommendation on **Goldman Sachs** to a "buy" from "neutral" previously, with a 12-month price target of US\$186. The shares closed on Friday at US\$141.87, which means that the stock has 30% upside. Nota Bene: in the time it took Ms. Whitney to find the courage to convert from her "neutral" call, which she made on March 4, Goldman shares jumped +66%.

- **CIT Group Inc.** - All the while, commercial lender **CIT Group Inc.** is being allowed to slide into bankruptcy by the **Obama Administration**. Markets seem unfazed because this company, with US\$75 billion in assets, is only about 25% of the size of **Lehman Bros.** but perhaps also because the financial crisis is over and the system is not at risk anymore.

- **JP Morgan, Goldman Sachs, Intel Q2 earnings beat analyst expectations! What gives?** TD's Chief Strategist, **John Aitkens** who announced on June 24<sup>th</sup> that the US recession is over, also warned that analysts had become overly pessimistic and that earnings expectations will need to be revised upwards. A week later we got the same message from **Stefane Marion** and his team at the **National Bank**. The Q2 'surprises' are not surprises at all.

- **Rising money supply: CIBC World Markets** noted that a rising money supply is highly correlated with equity market gains. A 10% rise in Canadian M2 (term deposits plus currency in circulation) typically boosts the **TSX Composite** by more than 7%. Currently, CIBC notes, M2 has risen 23% since the credit crunch first hit in mid-2007. That is like adding jet fuel to the economy and equity markets and accounts for much of the market activity seen to date. Apparently it takes about 2 years for the full impact of the money supply rise to trickle down to equity markets and about one third of the liquidity effect has yet to materialize. CIBC can now join **TD** and the **National Bank** as equity market boosters.

**-Ponzi schemes and the end of the cycle:** Ponzi schemes and other frauds (Madoff, Stanford, Earl Jones et al) become unsustainable when markets go down, hence the number of fraudsters that are being 'outed' right now. It's not that there are more of them than before or that regulatory agencies are less effective --- it's simply a sad but good indicator that we are at the bottom of a market cycle and these cheats have no room to hide their schemes.

- **Ontario to subsidize car purchases: Premier McGuinty** wants Ontarians to re-elect him *and* to buy electric powered cars. To that end his government is offering to subsidize electric car purchases to the tune of \$10,000. **TD's Chief Strategist, John Aitkens** has already projected that motor vehicle production *will surge over 50% this fall*, so the sector sure won't need the help. As to the electric car initiative, it seems a little far fetched that Ontario with its power supply issues needs to go down this path. Discouraging car transportation and penalizing buyers who buy inefficient vehicles would meet environmental objectives just as well, but that won't get you elected.

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

DISCLAIMER: Readers are advised that information contained in newsletters, email correspondence or the web site published by Shaunessy Investment Counsel Inc. ("Shaunessy") should be used solely for informational purposes. Shaunessy cannot be held liable for any loss or damages arising directly or indirectly as a result of a reader's reliance on information provided by Shaunessy. Our opinions and analyses are believed to be accurate at the time made and are written in good faith, but no representation or warranty, expressed or implied, is to be made as to their accuracy or completeness. We are not responsible for errors, omissions or for providing future updates. All information should be independently verified and readers should seek professional advice prior to making an investment decision. The information provided by Shaunessy also does not constitute a representation or a solicitation for the purchase or sale of securities or form part of an offer to provide investment management or advisory services.