



## **2010: Maintaining Composure.**

**MARKET AND INVESTMENT REVIEW ----- January 5<sup>th</sup>, 2010**

Capital markets recovered in 2009 as quick government action to counteract a nasty financial panic, combined with ample liquidity and a dose of old fashioned Keynesian economics, bolstered shaken investor confidence and set the stage for accelerating global economic growth in 2010. For the year, the S&P 500- the benchmark for global equities- produced a total return of 26.5%- its best annual showing since 2003. In Canada, the economically sensitive TSX Composite returned 35.1% led by the stellar performance of the financial sector.

The 2009 rally provided much needed relief to investment portfolios and yet the current investment mood remains fearful of another financial trauma brought about by either a double dip recession or runaway inflation. We think that "extreme" forecasts will continue to dominate the financial and mainstream media which, in turn, will keep risk premiums and volatility at above average levels. It will also present attractive investment opportunities for those investors who can ignore the overstatements of financial pundits and focus on simple facts. Our case for attractive investment returns in 2010 is as follows:

- 1) All major governments set into motion monetary and fiscal policies intended to jump start economic growth and job creation. It takes time for these stimulants to work their way through the system so that 2010 will benefit from actions taken in 2009.
- 2) Stronger than expected economic growth will produce better than forecast corporate earnings (as was the case throughout 2009) which, in turn, will underpin the next up leg in stock prices.
- 3) Global growth is shifting from the domain of the American consumer to a more broadly based aggregate demand from both western and emerging economies. We believe that this is a very healthy and sustainable development.
- 4) Three year government bonds yield 1.7% while the yield on large cap stock indexes is approximately 2.2%. At maturity the government will return the \$100 par for your bond but we would argue that stocks will be substantially higher than current levels 3 years from now in addition to the 0.5% per annum extra cash yield from dividends. Consequently equities continue to be significantly more attractive asset class than bonds.

The bottom line: maintain your composure, remain diversified, discount extreme investment views and emphasize large cap equities, especially in the US where growth opportunities may be the best. Our equity exposure remains at the 65-70% maximum going into Q1 2010.

**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.