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This too shall pass.

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This too shall pass.

Here we are again: fearful investors sell their stocks one week only to reverse course on Monday of the next week. True, over the weekend the European Union (EU) launched a U.S. $1.1 trillion bail out package, but there was little doubt that a rescue package was coming (albeit painfully slowly). The market psychology is this: after being rear-ended in 2008, investors and analyst remain fearful and are investing with their focus on their rearview mirror rather than looking down the road. Investing should be a forward looking enterprise.

Let's back up to last week.

Last week Greece was the most important that it's been in some 2500 years. Little ol' Greece represents just 3% of the Europe's economy but its unmanaged debt of approximately U.S. $167 billion, is, according to some, 'the first domino'.

The other dominoes are: Spain with debt of U.S. $781 billion, Ireland at U.S. $645 billion and Portugal, which weighs in with U.S. $134 billion. The EU's budget deficit limit is 3% of GDP but these countries have had annual deficits going into the double digits for some time. The leading creditors are also European: Germany (U.S. $524 billion), France (U.S. $385 billion) and the United Kingdom (U.S. $350 billion). The U.S. bank's exposure to European debt is approximately U.S. $236 billion and primarily Irish, which is a good thing since Ireland is doing a better job of cutting costs and has a better fiscal track record.

The Euro debt situation lays bare the inherent weaknesses of the European experiment with fractured economic and fiscal union and how much more stable the U.S. is (which is ironic).

So, are stock market investors right in thinking that a sustained global credit freeze is now upon us and that it will suck the life out of the global economic growth? Are investors justifiably afraid that little ol' Greece's problems are going to derail progress in Canada and in the U.S.?

The likelihood is that, beyond the immediate future, the European melodrama will not stall the global economy. Sure, banks in the near terms will profit very nicely from interest rate spreads wherever and whenever they can, and hedge funds will play various Euro bonds all the way down to the bottom making things seem desperate, but the primary trend around the world is still growth. World industrial production earlier in Q1 was on tear – a record pace. Sure, we'll see some reduction in activity in Q2, but over all the direction is expansion.

What about a credit crunch? Well, credit will be tighter in Europe with negative consequences and there may be some spill-over to other markets for a while, but not sustained contagion on a global scale. Why should there be? The dire straits that the PIGS (Portugal, Ireland, Greece and Spain) have got themselves into is foreign credit exposure. Their biggest problem is --- notably unlike Japan which has awful demographics and a higher debt-to-GDP level but a very high personal savings rate --- that the PIGS cannot finance their deficits internally because private balance sheets are also out of whack. As a result Greece and other have significant exposure to fickle foreign lenders and volatile credit markets. Other mature national economies, such as Italy, France, Germany and the U.S. (to name a few) either have decent savings rates (notably Germany) or they have the capacity for economic growth, to raise taxes and or reduce government spending. Greece on the other hand has pretty much run out of options and is becoming an even more marginal economy and country.

It is also likely that the European mess may benefit U.S., Canadian, Brazilian, Australian and other stock markets as investors look to reinvest in more appealing and safer economies.

Investment conclusion for the conservative large cap investor: shun Europe (including the U.K.) and focus on North America. As the EU lends money to Greece or to any other problem country in the zone, collective debt ratios (including contingent liabilities) in the region rise further (how will credit rating agencies deal with this?). On top of that, implementing a bail out package on the scale announced, does not generally go smoothly (remember TARP's problems) so there will be plenty of uncertainty. In short, Europe's too messy for a conservative investor just now.

Both Canada and the U.S. have strong forward earnings forecasts and have the potential to deliver (with a reasonable level of risk) index returns this year in the range of 8% - 10%. And expect disruptions: the road to recovery is full of potholes. The time to worry and be fearful is not now, but when everyone else has stopped worrying and confidence is unbounded.

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

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