

The hardest thing about this recession/ market correction is what a field day it's become for main stream and business media and readers and masochists of all stripes who, as we all know, thrive on bad news; in the past three months there's been an unrelentingly painful flow of terrible "news" which often is of little value for making realistic forward-looking investment decisions. Investors need to look beyond the headlines. Here's why:

- Mega-trends, such as the **global** recession we're in the middle of, are very painful and take huge effort and time to turn around, but turn around they do, just as suddenly as when it all started. Until then, everyone must brace themselves to live through (and ignore) a global tidal wave of miserable yet predictable bad economic and financial news: a recession means there are so-called "historic" levels of: national (Iceland?), corporate (GM? Sony?) and personal bankruptcies (Russian oligarchs?); plant and store closures (Circuit City etc.); double digit unemployment (as in 1974 and 1982); crashing trade numbers (Canada? Japan?) and ballooning government deficits (US, UK). These are all the foreseeable (though unfortunate) conditions that constitute a recession but they are all **lagging** indicators (things which markets/ investors should have already priced into all investments) confirming that we are in a recession, and a bad one at that. What investors need to look for is **leading** indicators to know when and what is moving the markets into the next phase. Indeed, if one looks at the charts, the S&P 500 and its little cousin, the TSX Composite, have been range bound since November 21 suggesting that we have hit bottom and in the absence of *any real news since November 21*, markets have gone nowhere. This *status quo* may continue for some time (6 - 12 months?), probably as long as confidence in the global financial sector remains weak. In the meantime, preferred shares and dividend paying blue chip stocks are providing stellar yields and realistic investors (those ignoring the constant stream of bad news) with well diversified portfolios (key) are earning very nice returns while awaiting the turn-around that must eventually come. Incidentally, the Baltic Dry Index (an obscure leading indicator measuring the cost of shipping raw goods) has gone up 150% (from a historic low) in the past 2 weeks. It's too early to tell if this is a false positive, yet it may be a tiny ray of hope.

- The Paradox of Thrift (or a good reason to keep spending on lattes): Few companies have benefited from the consumer boom of the last 15 years like Starbucks. In this recession, as consumers turn into penny-pinchers, Starbucks' sales have crashed closing hundreds of outlets and leaving many baristas unemployed. Much as we may think this is a well deserved comeuppance, what is happening to Starbucks amply illustrates John Maynard Keynes' Paradox of Thrift: the idea that while saving is beneficial to each individual, it is deleterious to the general economy because as aggregate demand falls so does economic output, investments and savings. One can well see how this applies, in a more serious way, to the automotive sector or to investments. The absence of consumer or investor confidence begets ever-greater losses which reinforce the original trend. Emotion (fear) overwhelms reason and without a turn-around in consumer and investor psychology, markets and economies will *seem* to be on the verge of collapse. In the end, either the panic exhausts itself or government or some other intervention saves the day: irrespective, markets always do turn-around, and tend to do so very sharply.

- Recession bites only some: In Alberta, not even the family pet is immune to the bite of recession as animal shelters report alarming spikes in surrendered animals. In Calgary, 228 pets were dropped off in January compared with 181 the year before. Indeed, the global recession is, as should have been expected, cutting deeply into BC and Alberta, previously regions of conspicuous growth, consumption and complacency (especially Alberta). Losses incurred in a recession are very real, but not to everyone. For example, the Circuit City bankruptcy will result in: a loss of some 40,000 jobs; \$625 million in debt that may not be paid; reduced advertising; over 18 million sq. ft. of vacant retail space; and will hurt the bottom lines of suppliers and business partners like Verizon, Sony, HP and Samsung. While it seems we are heading off the cliff, this destruction of value creates the very conditions necessary for recovery and also, as long as we are not Circuit City employees, shareholders, debt holders or major suppliers, it doesn't directly impact our life or portfolio. Perhaps investors are overcome with survivor guilt, but the reality is that while a recession will hurt 20% or even 30% of a population, sometimes in a highly concentrated fashion (say in Windsor), for most of us it's an abstraction that serves to make us very fearful. It is precisely when investors collectively become so fearful and willingly convert paper losses into real ones, that the recession and market downturn runs its full course and creates the conditions for recovery. Investors have, since October 2008, absorbed enormous losses yet most continue to do so as their investment dollars sit (by the trillions) in money market funds that barely, if at all, keep up with inflation. The reason: fear rather than reasonable caution.

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