



New York Taxi medallions are up 24%.

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- **Taxi futures are up!** The stock market may at times look bleak, but the taxi business is bullish. It's become easier to get a taxi during rush hour in Manhattan in the past several months, yet, the secondary-market price of taxi medallions -- which confer the right of yellow-cab drivers to pick up "street hails" -- jumped 24% last year and this month hit a record high of \$750,000. Apparently this is because there are both fewer corporate limos and more 'schmucks' (would that be ex-bankers?) willing to invest in, if not drive, taxis. If there's a future for taxis there must one for stocks.

- Starting last Tuesday, markets rallied. We would say that so far it has been an impressive run. And immediately the question on many an investors mind was: "**is it time to get back in?**" or to increase equity exposure and much advice was proffered by various experts. The challenge is that it is very difficult to provide a definitive answer. For example, P/E ratios are widely used as a rule of thumb to see if markets are cheap or expensive. P/E ratios for the S&P 500 as a whole are running at about 10.5X, well below their long term average of 15X – 16X. Other will argue that at market bottoms, P/E ratios should be in single digits, so there is still some downside risk. Still others will note that P/E ratios measure trailing results and therefore naturally make the market look cheap against historical comparison, but are a poor gauge of future earnings. Future earnings are the key unknown factor, and, given the heightened level of macro-economic uncertainty, are impossible to predict with confidence. In addition, how does one contend with all the one-time write-downs and accounting provisions which distort earnings reports. The point is that P/E valuation is not a straightforward number-crunching exercise because analysts make many assumptions and judgments, and in times such as these, those qualitative aspects have a magnified impact. The same is true of many other rules of thumb.

- The attractiveness of a market's valuation may also depend upon prevailing interest rates. In general, government debt today is over-bought providing historically low returns. **The problem with bonds is that even in the best of times, they just do not generate enough return to support the obligations of pension plans or the expectations of most investors.** Outstanding income opportunities (6% or better) however are now available via preferred shares, from corporate bonds or as stock dividends. For now, many investors are still afraid to re-enter those markets, but the pressure is building as institutional portfolios, never mind retail holdings, have not been rebalanced since November. According to the Investment Funds Institute of Canada, mostly because of the relative changes in value, money market assets and fixed income funds have grown to \$129-billion while assets in equity funds have slumped 50% to \$169-billion. At some point, especially when equity markets are perceived to be stabilizing, the cost of remaining in bonds will become prohibitive and this pent up capacity will be released with a predictable impact on stock prices.

- **Jeffrey Rubin**, CIBC's courageous Chief Economist who made the \$200 oil prediction last summer, **expects the TSX will not make it past 9000** by year-end (it's over 8,000 now, a week after his prediction) and if a sustained recovery holds, it may make it to 11,000 in 2010. This is a gain of 37% but leaves the TSX at the end of 2010 well short of the 15,000 high reached in 2008. As a result, Mr. Rubin inexplicably recommends that investors reduce equity exposure to 48%, all the while admitting that bonds are a "problematic sanctuary" given that substantial monetary easing and massive deficits may lead to "reflation" (same as inflation, and just as painful). Not to pick on Mr. Rubin, but a common mistake he and many other investors are making is to constantly refer back to the market high of 15,000 as if a swift return to that point is a measure of market stability and value or even a point for re-entry. Clearly very much the opposite is true; *the market should have held at 15,000 if those valuations were stable and justified, but it didn't --- far from it!* In a reasonably priced or normal market, for the TSX index to be at 11,000 may actually be realistic. Based on our analysis and thinking, an index value of 11,000 – 12,000 represents a reversion to the long term mean rate of return. So, why would an investor want to reduce equity exposure or wait for the index to hit 15,000 again before reinvesting, especially if one could invest now and see capital gains of +30% in the next 18 months in addition to any dividends?

- **Home sales in Canada jump up 8.5%:** the Canadian Real Estate Association reported that, on a seasonally adjusted basis, existing home sales jumped 8.5% in February from January 2009, the largest such increase since March 2004 and the first since September. The increase in home sales occurred in 7 of 10 provinces and buyers were possibly spurred by the enticing combination of declining prices and falling mortgage rates. This sort of opportunistic buying is, even as unemployment is peaking and GDP is shrinking, what **John Aitkens** (TD's investment strategist) was telling us about last week as the early signs of the slowly growing recovery.

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