



**"Is that 3.80% growth and a \$34 billion deficit?"**

**WEEKLY INVESTMENT PRE/ REVIEW -----January 27<sup>th</sup>, 2009.**

***Overwhelming the consensus view of the markets is pessimistic and fear-driven. This is our bid to counter that narrow opinion. Weekly we will preview or review investment stories as we see them. The stories illustrate that while the future is always unknown and should sometimes to be feared, most of the time, one can and should invest cautiously and wisely.***

- *Barrick Gold Corp. (\$48.79) ended the week up 9.15% and with a market cap of \$42.5 billion, and is the new TSX heavyweight title holder. Investors, finding little reward in cash and looking for anything to bid up, have latched on to gold which may hit \$1000.00/ oz soon.*
- *Freddie Mac wants another US\$35 billion; RBS' quarterly loss is +US\$40 billion; BoA CEO Ken Lewis boots out Merrill boss John Thain just 3 weeks after the merger. Will this dysfunctional sector please complete its therapy? Economic recovery needs healthy banks or else we might as well let Messrs. Brown and Obama complete the nationalization of this sector.*
- *The BoC cut its target rate 50 bps to 1% for a total cut of 350 bps since December 2007. That's no surprise: what shocked everyone was the Governor's very upbeat forecast of 3.8% growth in 2010. Some think Mr. Carney is exaggerating to support Mr. Harper's budget --- but maybe he isn't. Today's free-spending budget plus accommodative monetary policy, plus the global fiscal stimulus may be just the recipe for Canada if global demand for commodities recovers.*
- *Speaking of the budget: we expect the \$34 billion deficit will be as much due to a steep and sudden shortfall in revenue as it is to a rise in spending, and at the end of the day, all that will matter is this: "does this stimulus package (along with others worldwide) provide a sufficient dose of confidence to get the global economy going again in 2009?"*
- *The National Bank in its research points out that the S&P TSX dividend yield is at the highest level since 1983 and the spread against 10 year government bonds is at a record. We've known that for a while and have invested accordingly. Like NBF, we expect that dividends will be cut from the current yield of 4.4% to about 3% to return to historical norms. Markets too expect dividends to be cut, but we are concerned that in their current over-the-top negativism, investors will read into the dividend cuts more end-of-the-world scenarios.*
- *RBC's research findings are pretty gloomy: their quant guys see a possible 75% decline in S&P TSX recurring earnings resulting in an index loss of 23%. This is because earnings have grown 280% in the past 79 months and 110% since 2001 (the last peak). Based on history and regression analysis, the subsequent adjustment will reduce the index to 6,910 from Friday's close of 8,627. RBC also reported that the December 2008 trailing earnings multiple for the S&P TSX Composite declined to 9.5x from 17.4 a year earlier, the lowest level since July 1982. Well --- what did you think a recession would look like? Of course earnings are going to crash, but a corresponding decline in the index from the current already historically low levels is less likely, and if so, not a long lasting scenario.*

***Enough already! If you want more bad news watch BNN. If you want to invest, the logic is that markets are not collapsing or defaulting and therefore must turn around. Yields are excellent (in contrast to government bonds) and if one can only bear with the volatility and avoid single stock risk by using diversified index investment instruments, there are historic rewards to be gained in the coming 18 months. Brian Milner in Saturday's Globe pointed out that the Great Depression was a boon to equity investors. His research shows that after the seven worst annual performances in the past 145 years, markets re-bounded an average 24% in the next year.***

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