

Market Timing

Summer mark-downs—coming soon to markets near you!

Tokyo, come in Tokyo? How strange to hear the market message being picked up clearly at last. Finally many commentators seem to be acknowledging what we have been reading in the market for months. Sure you still have most analysts touting the merits of buying for the long-term or recommending sector rotation for “relative performance benefits”. But by “relative performance” they mean that more defensive sectors like drugs and consumer staples, tend to drop less in major down cycles than other more aggressive sectors. For some, the most bearish comment they can ever say is, “we may see some PE contraction in here”. De-crypted that means world markets are going down.

In this final 6th stage of the business cycle: stocks, bonds and commodities all drop together. It’s as if out of nowhere, risk to market prices, especially on the commodities front, is being recognized. (source: www.pring.com)

- Stage 1: Bonds turn up (stocks and commodities falling)
- Stage 2: Stocks turn up (bonds rising, commodities falling)
- Stage 3: Commodities turn up (all three markets rising)
- Stage 4: Bonds turn down (stocks and commodities rising)
- Stage 5: Stocks turn down (bonds dropping, commodities rising)
- Stage 6: Commodities turn down (all three markets dropping- cash is king)**

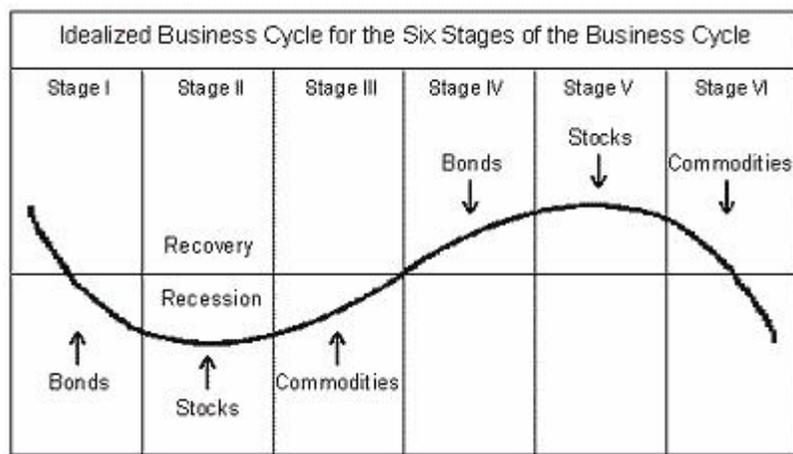


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Clients with accounts at other financial institutions will be noticing by now, that their portfolios have sprung a leak. The month of May was one of the worst in years. **Interestingly, mid way through the US Presidential cycle (as we are presently, for the election in Nov 2008), the worst performing month of the year has historically been June! So we are interested to see how June goes!**

What always makes the coming losses more painful, is that over the course of the past year, as prices continued to rise, many brokers and investors have been increasing their risk exposure rather than decreasing it. The inevitable outcome of this behavior has been the same since market history began: it starts with investors wanting to pay any price to get in, and it ends with investors taking any price, regardless of how low, to get out. The cruel irony about the market is that all too often it is the same investors who do both.

If it seems as though we are getting a little pleasure from these developments, you are right. We apologize in advance. It's just that we can't help thinking of the old fable about the ant and the grasshopper. All through the past year, we have been patiently working away preparing for the winter that we knew was inevitable. While carefree grasshoppers were noisily partying, we seemed cautious and boring. Now the investment winter is upon them. Now comes the time of reward for our clients. It is time for reward that you have earned by being patient and calm, and not being lured back into the party by the racket of the grasshoppers.

The decline that has recently started to accelerate is being felt worldwide.

In our last newsletter at the end of April, we noted that the TSX was at 12,250, down 250 points from its 12,500 high.

As we write this, the TSX is at 11,500 down another 750 points in the past month. A -1000 point decline or -8% so far this year, is a nice start, but there is more to come. US interest rates that were previously widely predicted to top out at 4.75 on the overnight rate, are now at 5% and the markets are reluctantly accepting that a further hike to 5.25% at the end of this month is likely. The Federal bankers are still worried about building inflation.

Why investors deny the natural order of the market and ignore price swings below and above the mean is hard to rationalize. But that is because the behaviour is not logical. Let the market lead the economic cycle as it has done for over a century. For our part we shall watch these declines secure in the knowledge that when the majority of sellers are worn out, we shall find the value and the rewards that flow from lower prices.

In the meantime, relax, enjoy your summer, you have earned it!

For our part, we will keep the shopping list on hand so that we are ready to buy once prices are attractive.

If anyone would like an in person meeting, update or review, please do not hesitate to call us and set one up.