

E.Q Trendwatch™

The Canadian market drops 1000 points in July

“Your last recourse against randomness is how you act — if you can’t control outcomes, you can control the elegance of your behaviour. You will always have the last word.”

-Nassim Taleb. Aug 1, 2008

In last month’s market letter, we were pointing out that through its over-exposure to energy and other commodities, and its lag to the US, the Canadian stock market was one of the most risk-exposed markets in the world. As Taleb’s quote above points out, we cannot control when price corrections ultimately take place, but we can assess probabilities and control the timing and extent that we allow our capital to be exposed to risk. In July, the global bear market continued, as feverish sellers drove the TSX composite down 1000 points or about 7%.

Here was the energy index last month. Here it is now.



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Here was the TSX Composite at the end of June.

Here it is one month later.



There are no signs of a bottom here yet. But at least the correction trend is moving along, as it must. Now that we are entering August to October (historically the 3 worst market months of the year) and with the credit crunch accelerating around the world, we are surely moving closer to meaningful opportunities as markets work lower.

Housing downturn is hitting Northern Ireland harder than bombs did during the “troubles”

“You can take me back to the days of the bombings,” says a business owner who has run a moving company in Belfast for 40 years. “Business was better then.”

This past January when we were visiting Ireland we were concerned to see first hand evidence of the dramatic housing bubble they too had been through. In many parts of the country housing prices had escalated 70-80% from 2005-2007. The saddest part was that the general populace had no idea as to how vulnerable this over-valued and over-levered cycle had rendered their economy. Ireland is now falling into the worst downturn they have seen in decades. Business owners say the credit crunch is hurting the Belfast-area more than the **violence** that ravaged Northern Ireland for 35 years.

See: [Housing Downturn hits Northern Ireland Economy harder than bombs.](#)

We are not political types by any stretch. We are sometimes more left than right and sometimes more right than left, depending on the topic. But we thought that this recent article [The Crisis is Upon Us](#) by Republican Congressman Ron Paul captures well the events and errors of judgement that

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have led to the current credit crisis and economic contraction in the world. We admit that the tenor of the piece may seem a bit dark at first.

But we see Paul in the optimistic realist camp, rather like ourselves. The bad news is that there have been a lot of big policy blunders in the past few years that have created a bit of a global mess at the moment. The good news is that we are now on the road towards recovery again. And although the road is likely to be longer and harder than many realize, it seems the world may be ready at last for major change in our economic policies, outlook and human behaviour. This offers great hope and opportunity for the future. Paul says this:

“America, with her traditions of free markets and property rights, led the way toward great wealth and progress throughout the world as well as at home. Since we have lost our confidence in the principles of liberty, self-reliance, hard work and frugality, and instead took on empire building, financed through inflation and debt, all this has changed. This is indeed frightening and an historic event.

The problem we face is not new in history. Authoritarianism has been around a long time. For centuries, inflation and debt have been used by tyrants to hold power, promote aggression, and provide “bread and circuses” for the people. The notion that a country can afford “guns and butter” with no significant penalty existed even before the 1960s when it became a popular slogan. It was then, though, we were told the Vietnam War and the massive expansion of the welfare state was not problems. The seventies proved that assumption wrong...

But the good news is that it need not be so bad if we do the right thing. I saw “Something Big” happening in the past 18 months on the campaign trail. I was encouraged that we are capable of waking up and doing the right thing. I have literally met thousands of high school and college kids who are quite willing to accept the challenge and responsibility of a free society and reject the cradle-to-grave welfare that is promised them by so many do-good politicians.

If more hear the message of liberty, more will join in this effort. The failure of our foreign policy, welfare system, and monetary policies and virtually all government solutions are so readily apparent, it doesn't take that much convincing. But the positive message of how freedom works and why it's possible is what is urgently needed.

One of the best parts of accepting self-reliance in a free society is that true personal satisfactions with one's own life can be achieved. This doesn't happen when the government assumes the role of guardian, parent or provider, because it eliminates a sense of pride. But the real problem is the government can't provide the safety and economic security that it claims. The so-called good that government claims it can deliver is always achieved at the expense of someone else's freedom. It's a failed system and the young people know it.”

If you are interested you can read Paul's full 4-page essay here: <http://www.lewrockwell.com/paul/paul466.html>

The world is going through a tough time at the moment. Those of us who have a home, some income, some savings, and have not lost capital in this bear market can count our blessings.

Best wishes for a fabulous August...Remember you can visit our blog: www.jugglingdynamite.com for our weekly commentary and media interviews.

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