

Market Timing

When will the clouds break? (The Markets' and the Summer)

We have commented on several occasions about the markets' tendency to discount the future earnings growth of the companies that comprise the markets.

A case in point is the current collective yawn occurring in the face of some of the most impressive earnings growth comparisons in years. It seems that investors have only a passing interest in actual profit numbers and instead are focusing on what CEOs are saying about future expectations for the second half of the year. Market participants are so collectively focused on future earnings expectations, that if the outlook for growth isn't all they had hoped, it's to the wood shed.

So far, the guidance on earnings given by corporate leaders has been mixed and hasn't seemed to satisfy investor confidence. This lack of "visibility" spells uncertainty, which in turn spells market declines or trading range. The current environment has the sellers overpowering the buyers. Even Greenspan's testimony at the FOMC last week, (it was clear as oatmeal) was deciphered to be cautiously optimistic. Notwithstanding the upbeat tone, he did mention the sporadic job growth numbers and the reluctance of corporations to hire. This was borne out by the capacity utilization numbers, which implied the economy still has considerable slack.

Greenspan cited the ability of companies to increase productivity by means of technological upgrades as a major contributor to the high productivity numbers being experienced and the rationale for not having to hire new workers. Of course outsourcing to countries with much lower labour costs is probably an additional drag on job creation in the US. Greenspan took the politically safe route on this one and shied away from such a heated topic.

The markets seem to be struggling more with what the magnitude of growth deceleration will be and whether in light of that, current equity prices reflect fair valuation or are overly generous. As the weeks and months tick by the consensus view is that valuations are still on the inflated side. To date the market has been selling into good news.

In keeping with the theme of margin compression, (lower profit margins), oil has been flirting with a new high beyond that set in April. High oil prices are like a tax on corporate profitability and consumer spending—a drag on the economy.



Cory Venable CIM, FCSI, CFP
Technical Market Analyst



Danielle Park LL.B., CFP, CFA
Associate Portfolio Manager

J.C. HOOD INVESTMENT COUNSEL INC.



33 Clapperton St.
Barrie ON L4M 3E6
Tel: (705) 792-3991
Toll Free: 866-792-3991
Fax: (705) 792-3992

www.venablepark.com

As to the current environment, we find it amazing how correlated (similar) the markets are. (I.e., a falling tide lowers all boats). Most assets, with the exception of cash are falling, or represent far too great a price risk. An example of price risk would be the oil sector. With crude above \$42.00 anything in this space is ripe with risk and would not be considered a prudent buy. This despite the calls from some “talking heads” who can be heard saying “its different this time” and that oil will stay at these levels.

There is hope that the leading edge of the decline that began with the semiconductor sector in January is beginning to slow. The Semiconductor Holders unit has fallen over 30% since the January high. Other sectors such as Biotech and a few country ETFs that are leveraged to U.S economic growth are also showing signs of sporadic inflows. For the immediate future however we shall continue to be the patient observer.

Although we did have a buy on NASDAQ a few weeks back, it was sold out of our accounts as of this week. This market seems unable to maintain crucial price levels, suggesting that further downside risk has become more likely than upside potential.

The longer the market stays in a downtrend, the larger the forth-coming advance once the profitability picture stabilizes. Late August to late October is traditionally the most seasonally weak period of the year. If the markets decide to follow habit and continue to decline through this period it should present a great buying opportunity for us when the storm finally breaks. In the meantime however, there is anxiety about the Olympics and theorists, the 9/11 anniversary, the recently released 9/11 report, and the heat of a close US presidential race. Caution continues to rule the day and, for now at least, cash continues to be King...

The stock market is a no-called-strike game. You don't have to swing at everything—you can wait for your pitch. The problem when you're a money manager is that your fans keep yelling, "Swing you bum!"

-Warren Buffet, 1999 Berkshire Hathaway Annual Meeting

The ideals which (sic) have lighted me on my way and time after time given me new courage to face life cheerfully, have been Truth, Goodness, and Beauty.

-Albert Einstein., The World as I see It. 1949.

www.venablepark.com

This publication is intended to convey information only. It is not to be construed as a solicitation or offer to buy or sell and of the securities mentioned in it. The author has taken all usual and reasonable precautions to determine that the information contained in this publication has been obtained from sources believed to be reliable and that the procedures used to summarize and analyze such information are based on approved practices and principles in the investment industry. However, the market forces underlying investment value are subject to sudden and dramatic changes and data availability varies from one moment to the next. Consequently, the author cannot make any warranty as to the accuracy or completeness of information, analysis or views contained in this publication or their usefulness or suitability in any particular circumstance. You should not undertake any investment or portfolio assessment or other transaction on the basis of this publication, but should first consult your advisor. The author accepts no liability of whatsoever kind for any damages or losses incurred by you as a result of reliance upon or use of this publication in contravention of this notice. All performance data represent past performance and are no indication of future performance.