REAL LIFE NEEDS ACTIVE MANAGEMENT

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Market Timing

Cory Venable CIM, FCSI,CFP
Technical Market Analyst

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

J.C. HOOD INVESTMENT COUNSEL INC.

Venable - Park

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

www.venablepark.com

The Difficulties of Global Bi-partisanship…

Can the World stand to have Bush's foreign policy poke them in the eye for another four years? Bush, the proverbial dog digging up everyone else's back yard in search of terrorists and WMD (weapons of mass destruction), has to start mending global fences. A good start would be a review of the mechanisms of how, when, or if at all, a sovereign nation like the US can unilaterally go to war forgoing UN sanctions.

We write this as we near Remembrance Day and remember why we honour it.

The World distaste for Bush's policy of attack first and search for weapons later, can only serve to increase International opposition. The existing rules of intervention and pre-emption must be reiterated and absolutely clear. The repetition of protocols may help the likes of the 'other two' namely President Cheney (oops Freudian), Vice President Cheney and his soul mate Rumsfeld (the wrestler). If the last four years have suggested anything, it's that Mr. Halliburton (Mr. Cheney) and Mr. Rumsfeld are power players that require **a very short leash**.

From an economic standpoint, Bush has the distinction of being the only President since Ford to have ended his term with a total negative return in the stock market over the 4 years of his watch. He also takes an award for transforming the largest Government surplus and into the largest deficit in dollar terms, ever in American history.

That being said, no previous President has had to fight a faceless enemy bent on martyrdom, who is based in no particular country. It is clear that new rules of engagement must be agreed upon and adopted in order to succeed against such an unconventional enemy, be the method pre-emptive or otherwise.

Bush's re-election has now been confirmed. Initially at least, the market seems to like the idea of keeping the tax cuts and making them permanent. The Dow, EFA and NASDAQ markets are all up. Our buy signal for these markets came almost a month ago now so that bodes well. It is always foolish to render some subjective shot in the dark as to what to expect from the markets, however it seems to add some level of comfort to those that seek our opinion. So we will summarize some of the "Expert" opinions.

We could see a relief rally now into the New Year on the back of three main themes: firstly if the price of oil continues to decline from its recent high of $55+, second, the clarity that an unchallenged election brings, and third, based on patterns of seasonality, which suggests that the months from November to January are often the strongest gainers of the year.

As it stands today we will gladly ride the market higher, as it wishes, with the simple caveat that as prices rise, so too does our need to stay close to the exit. We note also the negative correlation between the US dollar and the price of Gold. Since the election results have been confirmed, the U$ index has declined back down to its previous Feb 04 low. It must hold this area or we will no doubt get a buy signal on the Gold Index. Gold would provide a partial hedge against any continued erosion of confidence in the US dollar by the International community. Bush's win has created a divided nation with members of his own party suggesting that things must change especially as it relates to domestic concerns and rebuilding bridges to traditional allies. Now that Bush has a clear agenda, let's hope he puts the authority to good use.

Since he cannot be re-elected at the end of this term, perhaps this time he will turn his thoughts more to the historical legacy he wishes to leave in his wake, rather than appealing to the insecurities of the popular vote. *One can only hope…*

The great person is he who in the midst of the crowd keeps with perfect sweetness the independence of solitude.

-Ralph Waldo Emerson

You won't encounter a lot of traffic taking the high road in Wall Street.

-Warren Buffett

We recently read an excellent biography on Warren Buffett. We were happy to note that while it is a widely held misconception that Buffett is strictly a buy and hold investor, the reality is that he has always taken an active approach to managing the price risk of his publicly traded holdings. First he does this by having very strict rules as to what is a fair price to pay. He will not buy even an excellent business when its share price is overblown. He has periodically warned new investors that a current market price for the shares of even his own company is to high and they would be better to wait for a downturn before buying in. Secondly, throughout the decades he has frequently gone to large cash holdings when market peaks become too lofty and sufficient liquidity permits.

> By 1987 Berkshire was stuffed with cash…The Bull market was in its heyday. In the spring, when Berkshire staged its annual meeting, the Dow was at an eye-opening 2,258 (and Berkshire at $3,450 a share). Buffett had quietly sold every stock in the portfolio save the "permanent" three: Cap Cities, GEICO, and Washington Post. But he was stumped for a place to reinvest. (p. 296)
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> Buffett's genius was largely a genius of character-of patience, discipline, and rationality. These were common enough virtues, but they were rare in the heat of financial passions, and indispensable to anyone who would test his mettle in the stock market. (p. XV)

- *Buffett, The Making of an American Capitalist*, Roger Lowenstein, (New York: Boradway Books, 1995.

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