

Market Timing

“Oil in freefall despite OPEC cuts” –*Globe and Mail, Dec 11, 2004*

In our last two newsletters we commented on the trend of higher oil prices being technically overdone, despite the popular buzz that they were only headed further up.

We are pleased to report that oil's up-trend has been reversing with a vengeance over the past few weeks, and oil prices have now dropped over 25% since October. A continuation of this downward trend is one of the key pins to continued global growth and so far, on this issue.



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Technical Market Analyst

Canadian Dollar delivers its biggest weekly drop in 20 years.

We also mentioned in recent newsletters the importance of having our dollar depreciate in value as against the US in order to sustain our economic growth as an export economy.

Again we are happy to report that the US dollar has been appreciating as against the Loonie for the past couple of weeks at a record pace. This too bodes better for us as Canadian investors in the US market.



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Global Free Trade or Isolationism?

The next question at hand is whether or not Bush's economic team can successfully reduce the twin US deficits (trade deficit and national debt) without stalling the global economy.

Greenspan and company are attempting to address these issues by using the combined forces of cheap money (low interest rates) and a cheap US dollar. The low interest rate environment is there to ensure that the US consumer continues to consume, while the cheap dollar provides incentive for the consumption of goods and services from the home front rather than of imports.

At a time when there is a noticeable deceleration in global GDP growth, it seems prudent to re-ignite the engine of the US economy, in an attempt to spur a turnaround in the less than robust growth worldwide. The unfortunate side effect of the current medication, is the pressure it places on US trade partners. Record low interest rates leave most trading partners with little wiggle room, since if central banks can't lower rates any further there is little more the governments can do to provide stimulus.

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The weak rate and dollar policy implemented by the US means that Canada's export driven economy has been struggling under the weight of our lofty currency. Our goods once seen as attractive due to price and quality are now deemed expensive. Canadian exporters become less competitive and demand for our goods suffer. Manufacturers are forced to reduce production levels and lay off workers in response to decreased export demand. It can become a vicious circle.

But this is where the market mechanism takes over and the natural self-correcting magic of supply and demand take root. As the increased C\$ decelerates international demand for our exports, lower demand pushes our dollar downward again making the cost of Canadian goods once again competitive and bringing our economy back to life.

The big issue now is whether the recent US policies will in retrospect prove to have been isolationist or whether they will promote synchronized global GDP growth. The once heady thoughts of globalization have been put on ice for now while the US consumer is dissuaded from shopping abroad. The US government hopes that its citizens will continue shopping at home, and so far the Americans seem to be acting on cue.

It is our hope that there will be a little pull back in equity prices for the short-term as market forces find consensus. A dip would allow us to recommit the remaining cash we have on the sidelines, hopefully riding a market rally into the spring.

Best wishes for a safe and wonderful holiday season from our family to yours! Cheers to 2005!

The received wisdom is that Berkshire Hathaway chairman Warren Buffett built his fortune by buying good companies and holding them for the long term. If it were that simple, there would have been many more beatified, balding billionaires residing on the Western Plains at the end of the 20th century. In truth, patience was only half of Buffett's secret. An ace market timer, Buffett knew when to hold and when to fold.... Warren Buffett was not concerned with catching the top of the wave. He was far more interested in not wiping out. While most investors are motivated by a desire to make money, Buffett focused first on not losing money. In that way, Buffett behaved like Old Money. The majority of investors agonize over the prospect of getting out too early and missing out on the profits that would have made them rich. But the very rich don't fret so much about making money. They have money. Their greatest fear is losing it. This explains why, when the bidding escalates—whether in a stock market, a "hot" real estate market or at a Sotheby's auction—Old money tends to step aside, letting new money carry the day.

Mahar, Maggie. (2003) *Bull! A History of the Boom, 1982-1999*. New York: HarperCollins, p. 35 & 43.

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