



My View

By: Victor A. Didkowsky CFP, CSA

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Looking forward to 2010, 2011, 2012?

As this short and somewhat erratic summer draws to an end, the kids are going back to school, the temperature at night is dipping towards zero, and I thought it fitting that we spend a moment to review where the global markets and economies have been, and where we could be heading over the next few years.

The facts are that what we have just gone through is the third global recession on record and that we are currently witnessing major globalization and linking of economies.

China will lead the world because...

- It is the only country with cash
- It is coming out of recession now
- Savings are going down and spending is increasing
- One billion people want to buy staples and enter the ranks of middle class

North America has experienced the longest and deepest recession in history and...

- Household and personal debt are falling
- The US consumer is now saving at a rate of 5% and that is increasing
- 1.8 trillion in deficit spending equals 12% of GDP. They are buying jobs and buying time, all in order to regain a solid economic footing
- We saw interest rates get cut very quickly while in Japan's case it took them five years to get it done, and because of that, all these years later they are still reeling from the effects

Canada's TSX will outperform the American S&P because...

- Our bankruptcies are down
- Corporate profits are in some case lower, but minimally. When looking at oil producers, their profits will be down compared to last year, but with oil having been at \$147 USD/barrel and now standing at \$74 USD/barrel, that is to be expected. At least these profits are now closer to earth than the stratosphere!
- We will not need to print as much money as US

- Inflation will be lower versus US, so our dollar will gain strength
- TSX is not expensive; it is below the long-term, ten year average
- A lot of cash is not invested: approximately 150 billion in excess capital or 8% of all capitalization. Therefore, there is an opportunity to take advantage of the current market prices
- Corporate Canada has in excess of 230 billion in cash waiting on the sidelines
- Canada will benefit from the commodity story

In general, what we see is...

- The banking crisis is over; there is no real systematic risk of banks failing in mass
- Mortgage rates have come down and lots of refinancing is going on
- Money supply has risen by 40% while the money multiplier is down, so no inflation as of yet!
- Inflation will rise as confidence improves, because of how much money has been over-printed
- Historically, Canada has always done well as the US comes out of a recession
- Coal, oil, and potash will lead the commodity price increases
- Oil will level off at between \$80-90 USD/barrel
- Gold will rise and the US dollar will weaken, but that won't be a really big story

As a summary, the crisis is not over, however, we are turning the corner. This crisis has led to a change in behaviour and attitude, resulting in a 'back to basics' approach. We need to get back to an investment return reality as well and understand that a 5-6% annual growth rate on a broad-based, balanced portfolio is the new paradigm. Obviously, stepping out of that comfort level from both a portfolio risk (volatility) perspective and in terms of return expectations, will lead to different results.

Talk about an overreaction! Focusing on negativity is what propelled this economic situation into what became a perfect storm. My advice is to be careful of what you focus on; it will become your reality.

That's my view,

Victor

