



## **My View**

By: Victor A. Didkowsky CFP, CSA

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### ***Staying relaxed and seizing the opportunities.***

Summer is usually thought of as the time to kick back and enjoy the lazy, hazy days which this brief segment of the year affords us, and to maybe even take a bit of a vacation. This year however, we are also being treated to an additional excursion, and I do not mean a gentle sightseeing trip, but rather, a wild roller coaster adventure. So let's talk about that . . .

***It seems that we are in the midst of a change in the way the playing field is laid out with respect to the financial markets. Some of the underlying reasons are:***

- The U.S. credit market has become the big 'wild card'. This focuses around the sub-prime loans issue, which causes questions to be asked about how far reaching will it be, not only within the American borders, but how will it impact the rest of the world.
- The American economy is riding the wave of what potentially could be a 'perfect storm'. By this, I mean that it has cheap products and cheap credit to buy them with. The cost of gasoline at the pumps and of heating fuel for homes and factories is going up. Mortgage and housing demands are down, and retail sales are, for the most part, flat or down. Just like here, the west coast seems to be faring better than the eastern seaboard which for us includes Ontario and Quebec. Although we joke about Ontario and more specifically Toronto, being 'the centre of the universe', the reality is that it is the manufacturing heartland of Canada. When it hurts, sooner or later, we all feel the pain. Back to the U.S., where consumer consumables are down dramatically, there are lower price per earnings ratios (P/E), lower growth opportunities . . . this looks like it will be a longer-term retail adjustment. Profit growth is slowing and our portfolio managers will need to be much more focused on selecting the right stock. In general, the U.S. market is repositioning itself towards more growth-oriented securities.
- This is both a technical adjustment (global growth), and a fundamental one (U.S. consumer spending and credit).
- In general, the markets have lots of liquidity, but they are becoming much more selective as to the specific projects and sectors they will support.

- Lots of money seems to be available for Oil Sands and alternative energy ventures.
- No money is going to mortgage basket securities or mortgage loans. Our American neighbours are becoming really concerned about the creation of new housing and the need for new mortgages, and especially consumer spending by those who are on a tight cash flow already (in part due to sub prime loans that they cannot service).
- If the cost of a barrel of oil continues to go up, that will further expose some very large consumer strains south of the boarder.
- Outside of the U.S., there are good fundamentals in earnings and cash flow. The common view seems to be that there will not be a strong or long-term negative effect caused by the American sub-prime woes, nor is it likely to kill the global markets.
- Many of the other global markets are doing very well, and thereby are creating a balancing equilibrium with those economies that are currently struggling.
- In the past year, the market has broken through several significant new thresholds. It is not atypical that when reaching new highs, the market tests and the retests the foundation set by prior thresholds in order to make sure that it is structurally sound enough to support the additional weight of the new growth . . . as it is currently doing, yet again.

***Looking specifically at the conditions in Canada:***

- We are traditionally viewed as a higher ‘beta’ market, meaning more volatility or ups and downs, which ***create opportunities to buy on the downside when great holdings are being temporarily discounted.*** (Hint: a great time to add to your own portfolios)
- The Bank of Canada is not required to raise interest rates in the foreseeable future to cool any inflationary pressure, because our strong Canadian Dollar has a similar dampening effect on the economy. If it does raise rates, this may result in a bit of a ‘boomerang’ effect, which could cause us some anxiety later on.
- Believe it or not, our dollar still has room to go up further, and may actually surpass the American greenback for the first time since 1976, maybe even with a premium, at least for a little while!
- With respect to Bonds, we are in a bear market . . . absolute returns are very low, and they are not correlating with the growth in the market. The sector is very flat, and with all the good news stories already priced in, this is probably not where we want to be.
- Cash is stable, but by no means will it keep up with Equity returns.

- In the U.S., interest rates may be cut to protect the consumer, and the housing/mortgage industry. This will be positive for Canada, and the World economies in general. Certainly, it will be good for our currency, but probably not great for manufacturers who export outside of our borders. Canada does have a lot of very good corporate success stories, and is much less political than many other countries.

***Currently, we are seeing a ‘wall of worry’. This is normal in a bull market. As I have already mentioned, it creates a short-term buying opportunity. When everyone catches on to this notion and starts buying frantically, then it will be time to think twice and maybe exit . . . but currently, I do not believe that this is the case.***

A little lengthy, but an important topic that I hope will help you to relax and to ‘stay cool’ during these lazy, hazy, days of summer.

That’s my view,

Victor

