

## ***MY VIEW***

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### **DOES HISTORY REPEAT ITSELF?**

*The drums pound, the warriors dance... and the powers-to-be strategize on not only the upcoming conflict, but also on the spoils that will result from their victory.* Could this describe what has happened time and time again over the course of history? The American government has been in this situation before, maybe even more times than they would care to admit to.

Far be it for me to pass judgment on whether this conflict is over human rights, the preservation of mankind, maybe to enforce good old American know-how and values, to rid the world of a madman, or maybe just to secure a vast and rich supply of natural resources.

Thirteen years ago, President George Bush Sr. engaged Saddam Hussein in Kuwait, in what was called the Gulf War, or more commonly remembered as “Desert Storm”. If history does repeat itself, then let’s take a look and see how the markets reacted back then.

- Gold spiked and then started to decline prior to the actual war.
- Crude oil jumped 132% in the third quarter of 1990 and started to decline as well, prior to actual conflict.
- A 20% drop in the stock market occurred in the third quarter of 1990 with only the energy sector managing to gain any ground.
- With the war over, but the oil wells still ablaze, all ten sectors of the S&P 500 gained during the first six months of 1991.
- The market actually started to rally as soon as the certainty of war had been confirmed in the fourth quarter of 1990.

*Visually this is what it looked like*

	<b>S&amp;P/TSX Composite</b>	<b>S&amp;P 500 Composite</b>	<b>NASDAQ Composite</b>	<b>MSCI World (US\$)</b>	<b>MSCI EAFE (US\$)</b>	<b>GOLD SPOT</b>	<b>W.TEXAS CRUDE INTERMED. OIL</b>
<b>All of 1990</b>	-14.80%	-3.10%	-16.13%	-16.51%	-23.20%	-3.10%	30.49%
<b>Q3 1990</b>	-10.01%	-13.73%	-25.01%	-18.13%	-21.13%	15.95%	131.67%
<b>Q4 1990</b>	4.20%	8.95%	8.95%	9.86%	10.63%	-5.43%	-27.98%
<b>Q1 1991</b>	8.31%	14.50%	29.39%	9.97%	7.52%	-7.90%	-30.93%
<b>Q2 1991</b>	0.31%	-0.24%	-0.75%	-3.25%	-5.38%	3.57%	4.58%
<b>Q3 1991</b>	-1.44%	5.34%	11.02%	7.18%	8.66%	-3.65%	8.28%
<b>Q4 1991</b>	4.62%	8.37%	11.54%	4.33%	1.76%	-0.49%	-14.16%
<b>All of 1991</b>	12.02%	30.40%	59.02%	18.97%	12.50%	-8.54%	-32.86%

To me, that war was a very strange experience, because it was more like watching a TV show or a movie than a real war with people dying, property being destroyed, dreams being shattered, and history being written. We watched it from the comfort of our favorite chair at home, and somehow that sterilized it and made it OK!

It is sad that mankind has advanced so far, on so many fronts, in what we have created and achieved but still we resort back to our basic human instincts and responses. Man is the only inhabitant of this planet that not only hunts it's own kind but also kills with no need to satisfy hunger.

***What is the correct answer to resolving this situation?*** I think each of us must decide that for ourselves. My role is to try to look at the facts as they relate to what is going on around us, act as the voice of logic and reason, and steer our financial ship through these most challenging and turbulent waters and not allow decisions to be made on emotions, but on macro-economic logic.

As I have maintained over the last three years, overall the major economies in the world are healthy and working well. Nevertheless, we have seen a financial market meltdown no less significant than that of 1929. The world we live in is of course different from then and therefore the paradigm we see is different, but one thing remains constant: ***“greed and fear”*** or ***“euphoria and despair”***, and the effect those emotions have on not only our markets, but also on our paper wealth.

I know that at times it's difficult to keep the faith, especially going into our fourth year of negative returns. But the reality is that the best deals are had when the streets are the bloodiest.

May you stay well and continue to believe not only in yourself, but also that good will emerge from this chaos.

Regards,

Victor

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