



My View

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Who ever said that life is a bowl of cherries?

Yesterday's announcements of Lehman Brothers seeking bankruptcy protection and Merrill Lynch being sold to Bank of America for fifty billion in a no cash deal sent the global stock markets into a tailspin.

So *"is this the end of the beginning"* or *"the beginning of the end"*? In a nut shell, the U.S. banking system has committed a terrorist act on itself, the effects of which will be felt for years to come. With this calculated act begins a much needed cleansing process which will deliver us *"the end of the beginning"*. Think of a game of "musical chairs", the music has been playing for a number of years and everyone has been walking around without the need or concern to secure a chair. U.S. investment banks, mortgage companies, and highly leveraged hedge funds have enjoyed playing the game. Well, the music has stopped and some players don't have a chair! Bear Sterns, Lehman Brothers, Merrill Lynch, and highly leveraged hedge funds...fortunately the Canadian banks, commodity companies, and others, in general, have chairs. Lots of other companies and sectors throughout the world also have chairs.

Although not pleasant in the short term, this cleansing process had become absolutely necessary for the future viability of the North American and global markets. With the failure of Lehman Brothers, the U.S. Federal Reserve is saying that they will no longer use taxpayers' money to bail out Wall Street. If the U.S. did not deal with this and allow financial companies to fail, then it could well find itself in a situation like Japan in the late 1980s. Japan never dealt with their financial difficulties, did not allow companies to fail, and now twenty years later their economy and market has never really recovered. Although a very unpleasant pill for the American Federal Reserve and government to swallow, especially so close to the election...kudos to them for doing so, even if a great many investors feel like this is the *"beginning of the end"* by letting their emotions get the best of them, *it is actually the opposite which is taking place.*

What can you possibly expect going forward? Capital will begin to flow to those seated in chairs, however, it isn't going to be a rocket ride upwards. The classic "V" shaped recovery that we have become accustomed to over the last few years is giving way to a "U" or a "W" shaped recovery that will be longer and more drawn out. Unlike 2001, there won't be a consumer-led recovery, the consumer is tapped out. For those companies and sectors that are well positioned, they must deal with the "collateral damage" from the effects of failures. Good sound companies will rise to the top, acquiring opportunities along the way. Well diversified portfolios will not escape the blood letting, however it will be to a much lesser degree and the emotions will be much more manageable. All of this will pass in time. For the survivors, the opportunities will be remarkable.

Some things you may observe in the near future:

- Reserve banks will begin the process of a global synchronized rate reduction process; inflation is dead for the time being.
- With the exception of oil, most commodities have likely bottomed. Oil will test \$80-\$85.
- U.S. dollar will remain in dire straights.

Some advice:

- Buy investments where you cannot "manufacture inventory". Buy commodities.
- Buy real companies that generate real profits.
- The value of diversification becomes even more apparent.
- Those who listen to sound advice and do not let their emotions dictate their actions will do well.

Although not a true comparison (thankfully), after 9/11 the Canadian market took only 47 days to fully recoup the financial losses created by that day's events. After the Russian financial crisis in August 1998, the S&P/TSX Composite fell by more than 20% and then gained 109% over the next two years. Long term, this is a very good thing that has happened.

Thank-you for your continued trust and support.

Victor

