

Market Commentary



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August 5, 2011

- We remain bullish. We're fully invested and we're using this opportunity to allocate recently accumulated cash into our existing equity portfolios.
- This is not 2008 – conditions are much better. Back then we were heading into a retrenchment. There were excesses to be worked off in the housing, financial and consumer sectors. The negatives of 2008 are no longer a drag. The banking system is now overcapitalized, consumers have deleveraged, there is no funding/liquidity crisis as swap spreads are tight and corporations are flush with cash. The one incremental negative is that government spending now needs to retrench, but this will be positive in the longer term, just as it has been positive for consumers and corporations. Although governments will be spending less, consumers and corporations are now in a position to spend more.
- Volatility creates opportunity. Investors should expect aftershocks from the 2008 financial crisis to continue. The volatility will test the resolve of investors, but it will create buying opportunities for those with a long-term view – which is what we are taking advantage of now.
- At this point, equities offer good risk/reward, particularly when compared to government bonds. 10-year government bonds in Canada and the U.S. are at very low yields of 2.6% and 2.5%, respectively. The comparable measure for the stock markets is the earnings yield, which is the inverse of price to earnings ratio. On forward earnings, for the TSX, it is 8.7% and for the S&P 500 it is 9.4%.
- We are active within the portfolios. We have reduced exposure to some companies and reallocated into assets into companies in other sectors. Gold may have a blow-off move through \$2,000, but it's not certain that the market will give credit to the gold mining companies. We see a better risk/reward in other areas of the market including, agriculture stocks, which have a multi-year cycle ahead. We are also selectively deploying cash into Canadian banks, which are at attractive valuations and have rich dividend yields.

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