What mattered this month

September 2011

A dismal quarter

Mid month we contacted you to caution that two situations were having a deeper impact on equity markets than most had anticipated: economies world wide were slowing rapidly and there were ongoing concerns on European banking stability. Thus, as we anticipated, September ended with most stock markets having their poorest performance since 2008. In North America, on both sides of the border, the major indices were down 11-13%. Overseas, the results, if anything, were worse with Europe losing 23% for the quarter.

Developments this month, on both sides of the Atlantic, have gone a long way to calm investors concerns:

- German Chancellor Merkel and French President Sarkozy have agreed to **do whatever it takes to stabilize the European banking system**.
- In the USA, **Ben Bernanke** spoke to the Joint Economic Committee of Congress on Tuesday, October 4th and that afternoon saw a huge reversal of the mid day selling and during the last 45 minutes of trading the Dow Jones Industrials rose 400 points to close higher on the day.
- In Canada the October 6th **employment numbers** showed a massive 60,900 additional jobs in September along with a lowering of our unemployment rate to 7.1%. This report was very strong, comprising entirely of full time jobs.
- The good news caused a sharp rally in the **Canadian dollar and a 300 point gain** on the Toronto Market. It is this kind of price movement that often signals a bottom, but only time will tell.

The issues we face in Europe are not easily solved and the unemployment and sluggish economies will not turn around overnight. Never the less we firmly believe that solutions will be forthcoming and as such there are opportunities for the investor with a longer term focus. Volatility is a reality in investing and therefore the **only way that investors can benefit from capital gains and the long term growth in dividends is to be invested for the long term**.

Our strategy for the next few months:

- Take advantage of lower share prices and direct the bulk of new purchases to companies that pay decent dividends and have a “captive client base”..
- Focus on financials, utilities, telecommunication companies and selected REITS (Real estate investment trusts).
- We want to reduce (but not eliminate) our positions in resource and materials companies in the belief that the anticipated growth expectations for China is too high and any disappointments could lead to sharply lower share prices.
- Instead we want to own broad market ETF’s (Exchange Traded Funds). By doing so we can ensure that we capture the total upside appreciation in Toronto Stock Market Index but lower our volatility.
- Ensure our portfolios enjoy regular cash flow from our investments in conservative dividend paying stocks.

Reminder: past issues of ***“What Mattered”*** and Sandra’s ***“Bag Lady Musings”*** are always available on our website under “News and Views”

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