What mattered this month

October 2011

She Loves Me, She Loves Me Not, She Loves Me….

(A game of French origin, in which one person seeks to determine whether the object of their affection returns that affection or not.)

That seems to sum up the relationship between global equity markets and Greece during the month of October. Fortunately it ended with "she loves me" and both the Canadian and American markets ended strong for the month. In fact the S&P500 rose something like 11% for one of the strongest one month gains since 1974. In Canada the TSX was not as stellar, but still managed a gain of more than 5%. So the good news is your portfolio values will generally be notably higher than the closing value of September.

However the economic realities we have commented on in previous "What Mattered" are still very much a focal point. The European debt crisis is still not resolved and attention is now turning to Italy. Ongoing concerns about Chinese economic growth waning and lingering worries over unemployment, political uncertainty, and sluggish GDP number south of the border. So while October produced the following impressive gains for the key sectors: Energy+4.8% , Industrials +6.5% and base metal mining shares +21%. It was offset by Financials, the major sector of the TSX (32% weighting), being barely positive.

The bottom line: year to date the TSX is still a negative 8.9%. While we correctly predicted in May a significant period of outperformance of the US markets compared to Canada. The fact is the major US indices are just barely positive – nothing to cheer about.

We believe there will be a solution to the European Banking crisis that puts minds to rest, at least for a while, and we should enjoy better performance of the markets in the months ahead. Realistically though the broad economic concerns will not be resolved quickly and so our investment focus remains the same

- Take advantage of lower share prices and direct the bulk of new purchases to companies with a "captive customer base" that pay great dividends.
- Focus on financials, utilities, energy utilities, telecoms and selected REITS (Real estate investment trusts).
- We still favour the oil sector over mining and materials in the belief that demand for oil can only increase and so will keep our exposure more weighted to energy companies.
- Ensure overall our portfolios enjoy regular cash flow from our investments in conservative dividend paying stocks.
- Selectively add to our US equity exposure. The reality is American companies, especially multinationals, *ARE* reporting better sales and earnings numbers and consistently beating analysts expectations.

Conclusion: If we are correct in our "better news" from Europe scenario, there is a very good probability we will see the TSX closer to break even by year end. Realistically, though, better performance than that will be have to wait until 2012.

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