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Market Commentary From Some of Our Portfolio Managers

by [Timross](#) @ 2008-10-10 - 08:53:24 am

Market Commentary From Some of Our Portfolio Managers

This market crisis is only temporary, as long as people pay their rent, pay their mortgages, pay the phone bill and utilities, watch TV, drive their cars, show up for work and shop for groceries and buy a few clothes, have babies, go out to restaurants, take a few pictures of their kids and friends, go on vacations, fix their car, pay their insurance, deposit their pay check at the bank, replace their vehicles from time to time, a few will die and have funerals, people will get inheritances, people decide they want to move or improve their home, put in new windows, paint the walls, cut their grass, plant a garden or buy some flowers, government sends out EI to those who loose their jobs, pays assistance to those that have nothing, people get sick and go to the hospital, see a nurse and or doctor, go to the gym, I could go on and on, I think everything should work out just fine.

Below is a list of a few current thoughts from some of our portfolio managers, there is lots more, and it may not cover all or any of your personal holdings, however it will give you a flavor of what they are thinking. I have added a disclosure that is a little wordy, short version is "nothings gauaranted, I'm not even sure if the sun's coming up tommorrow," I do know it has for the last 10,000 years of recorded history, so I confidently move forward and encourage you to do so as well.

Here is the read. Any questions please get a hold of me, it is always my pleasure.

Tight credit market conditions, larger-than-expected job losses, and the collapse of several large financial institutions set the stage for the U.S. government bailout. Following intense debate, Congress approved the bill on October 3 to provide US\$700 billion to buy distressed mortgage securities. The injection of fresh capital into the financial system should promote lending between financial institutions and to consumers. While the bill was controversial, many including Warren Buffet, believe it was necessary as Wall Street's problem moved to main street. Generally, investors are in favour of some government action. Following is a roundup of comments from our portfolio managers on the government rescue package.

William Sterling, Chief Investment Officer, Trilogy Global Advisors

This weekend's crisis with European banks has quickly overshadowed Friday's news of the U.S. financial rescue package. We think it is constructive that the U.S. government has responded to the seriousness of the problems gripping financial markets and put together a framework that should help avoid worst-case scenarios. More stimulus measures are likely to be forthcoming, and the Fed and other central banks may need to resort to more measures to unfreeze money markets, especially the market for commercial paper.

It is also clear that the US\$700 billion rescue package is no panacea. The global

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recession train has already left the station, with the U.S. in the front of the train, Europe and Japan in the middle, and the emerging markets in the caboose. Global growth over the next year is likely to be the weakest since 2001-2002, with shock waves from the Lehman bankruptcy adding downward impetus to what had already been an environment of anemic growth. Earnings downgrades will be fast and furious, particularly for global cyclical sectors.

If history is any guide, economic recoveries following financial crises tend to be sluggish due to the persistent headwinds of financial sector deleveraging. Significant risks remain, Europe is now struggling with its own banking crisis and emerging markets are facing weaker export markets. It is likely that inflows to emerging markets of financial capital and direct investment will be subdued compared to recent experience.

While some pundits may criticize the rescue package as the “end of capitalism,” the world has successfully weathered many financial crises in modern times through supportive government measures that set the stage for a resumption of private-sector initiatives – which is the key to long-term wealth creation. This time is likely to be no exception.

Alan Radlo, Portfolio Manager, Cambridge Funds

The reality of the bailout has set in. The corrective phase is under a cloud of confusion because it is unknown what is going to be purchased, at what price and from whom. Adding confusion is the fact that foreign governments are lagging the U.S. in addressing their banking problems. The guarantee of money market funds should help unclog the commercial paper market. Stock repurchases and dividend increases have been stopped due to cash hoarding and corporate takeovers have been halted. So protection to the stock market by way of the dividend increases, stock repurchase plans and takeovers is no longer in place.

However, there are still a large number of companies with record cash levels and those with loans in place may still be paying record low interest rates. Stock prices of major corporations are nearing lows and now represent good value. The backdrop of lower oil prices and a stronger U.S. dollar should help to underpin a market recovery.

William Priest, Chief Investment Officer, Epoch Investment Partners

With the passage of TARP (the Troubled Asset Relief Program), a turning point has been reached with respect to the vicious circle of deleveraging in the mortgage market, which accelerated when the government failed to commit public money to bail out Lehman Brothers in mid-September. That decision led to complete gridlock in the commercial paper market and a fear of a “break the buck” valuation for money market funds. If TARP helps banks and investors establish reliable prices for mortgage securities, lending may restart and that would help end the housing crisis next year.

Because TARP was conceived late, and made into law even later, some of the underlying problems in mortgages has spread to other debt instruments, such as auto, credit card, and student loans. These elements will still play out over the next year.

No one should believe this is the end of the fiscal response to the problem. Since the problem is now global, look for coordinated action and fiscal stimulus from monetary authorities worldwide. The ultimate solution requires a global approach that will result in an equity recapitalization of the financial system, combined with stimulus to spur real economic growth.

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Portfolio Manager Gerry Coleman - Harbour Advisors

There will be recession in the U.S – it hasn't happened yet, but I'd be surprised if the third quarter didn't have moderately negative growth. The market is already discounting a U.S. recession and global slowdown – it's built into current prices. The market usually bottoms six months before a recession ends. So, if the recession ends in '09, then the market should bottom before that. There will be continued short-term volatility – prices are going to keep bouncing around.

Interest rates

There's been a crisis of confidence, and when that happens people buy U.S. Treasury bills. They don't care about return; they just want to own them. As a result, short-term interest rates have been pushed down to 1%-2%. Rates will probably start to rebound once a sense of normalcy returns, which will hurt government bond returns going forward.

U.S. financial markets

A crisis of confidence is gripping the U.S. There's a lot of finger pointing going on and most of the fingers are pointing at Wall St. Wall St. was a big part of this, but it didn't create the housing mess on its own. Brokerage firms were a big part of it, so were deposit-taking banks, insurance companies, stock brokers, real estate brokers and regulatory agencies, such as the SEC. The regulatory agencies are overseen by government, so the government is also to blame. That's changing, now there will be severe regulations put into place. I think people will feel better after the House of Representatives passes the rescue package, but it shouldn't be viewed as a panacea because there are still other things that need to be done.

Crisis will end. We are in the midst of a full-fledged financial crisis in confidence. Panics are temporary and usually end because: prices become low enough that buyers move in and start to reverse the trend, government initiatives are introduced – and we're getting that now – central banks usually take action – so I wouldn't be surprised if the Fed cut the discount rate soon.

Two kinds of market losses

There are two ways to lose money in the stock market – permanent loss of capital and temporary loss of capital. Permanent loss of capital takes place when you invest in low-quality, speculative securities because when they go down, they never come back. When high-quality companies like well-capitalized banks, insurance companies, oil and gas companies like Suncor and EnCana, mineral companies like BHP Billiton and Rio Tinto, gold companies like Barrick and Goldcorp, and others like General Electric and Microsoft go down, it's a temporary loss of capital. When I see prices of those companies coming down, I'm convinced it's a temporary loss of capital and an opportunity.

Opportunities

There are some good opportunities that haven't been seen in a very long time. Liquidity is allowing us to take advantage of weakening prices. Both portfolios have a lot of cash – I'm anxious to get those positions down and take advantage of the weakness we're seeing in stocks. Our cash reserves will probably come down significantly in the next 30-60 days. I've been buying selectively across all sectors because stocks have come down indiscriminately. The way you profit is to take advantage of the irrationality and invest in high-quality companies when people are selling indiscriminately. This is a great opportunity if you're a long term investor with a time horizon of three or four years; it's an opportunity to be picking up high-quality companies at very reasonable prices.

RBC Asset Management - Dan Chornous

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And while no one can say exactly what will happen in the future, history has shown us that coming out of various banking crises the average one-year recovery has been 30%. Indications are that the U.S. is now in recession. However, we expect the recession to be mild and short-lived, likely lasting from Q4 2008 to Q1 2009. Inflationary pressures have abated allowing central banks more leeway to focus on kick-starting economic activity through interest rate cuts. Rate cuts remain a very powerful tool to influence economic growth. There is little opportunity in bonds – particularly government bonds, as soaring risk aversion moves government bond yields beneath equilibrium (remember, yields decrease as prices increase). There is a significant opportunity for equity investors as stock valuations have dropped to their lowest levels relative to equilibrium in over 25 years. That means that valuations today are lower relative to their equilibrium than they were at the end of the Tech Wreck in October 2002.

Tom Marsico, Chief Executive Officer, Chief Investment Officer Marsico Capital Management, LLC

Growth specialist for Counsel Select America. Counsel Select America is an underlying fund for many Counsel Portfolio's

In extreme market conditions, sometimes it is easy to “freeze” and stop working. I can assure you that we are doing as much as possible in response to market events. There is a lot to get through here, but we’re on the case. One major topic we are focused on is how deeply Wall Street’s woes will affect the real economy and to what extent the U.S. consumer will need to re-trench. Housing-related data is critical in

terms of its impact on economic growth; it is early, to be sure, but we are seeing some nascent signs of stabilization. And, inflationary pressures appear ready to subside – perhaps quite substantially and rapidly. In the past several weeks, as part of an effort to better understand economic growth trajectories around the world, we have sent several waves of Marsico Capital Management investment team members to China, Hong Kong, Japan, and Macau. Several trips to India, Europe and Latin America (with emphasis on Brazil) will take place soon. We are communicating constantly with our contacts in Washington, sometimes multiple times on a given day. We are doing the same with the companies in our investment universe. As always, we are spending a great deal of time meeting with or talking to company management teams around the world, evaluating their business strategies, studying industry and regulatory developments, analyzing a trove of macroeconomic data, and re-testing our investment thesis for every portfolio holding – and potential holding – on a daily basis. The tectonic plates have shifted on

Wall Street and we are doing as much as we can to understand what promises to be a very different U.S. financial system and regulatory environment in the future.

The disclosure I spoke about at the beginning:

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*** End of Disclosure *** Now on a more positive note!

At Professional Investments, we've seen a lot of difficult markets come and go. And we can certainly empathize with people who find the current environment troublesome and disturbing. We have always been here to help and will continue to be here to help and serve you, if we can, and to that end, here's what we offer: If you have any concerns please contact me. I am always happy to talk, respond to an email, meet with you, have a cup of coffee, and review your concerns.

Most importantly when I find you an opportunity to help you take advantage of the crisis, or if I feel a change is needed or necessary in your portfolio, I will be in touch with you. All I ask is that you come in and sit with me for a while, or maybe we simply spend some time on the phone and use a fax or email to make some changes, either way we'll review the recommendations for and with you. I'll explain why, in plain English. If it makes sense to you, we can make a decision to move forward and take action as required.

During times like this, you may have friends, family, associates who do not get this kind of proactive service or sound advice, and frankly they should be. Since we are taking on new clients, I will make the time to talk and meet with those you refer. Hopefully we can help them. You may wish to direct them to our website www.timothyross.com so they can get more background information, check out our testimonial pages, video's, blog's or explore the many financial and tax tools on the site. You can even simply send them this email if you like.

Our contact info is 613-926-1411 (800-667-4662), or email advisor@timothyross.com

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"Meanwhile, cash balances are building up all over the world to levels (even scaled to GDP and equity market capitalization) which have no precedent in history. If you're looking for something that might just be really different, look at global cash: when least expected, a spark may touch off the greatest buying panic any of us has ever seen.

Smith Barney's John Manley once said that the shortest interval of time measurable by man is between

the moment when it's too soon to buy stocks and the moment when it's too late.

We opportunists wait in joyful hope for that moment, and are in the meantime investing our cash as fast as we can. The opportunist is not worried about getting caught in the market's last capitulation-driven 20% down leg. He's worried about being left out of the next 100% uptick. " - Nick Murray

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