



"We're going to need a bigger boat."

Roy Scheider in Jaws

This must be what the US government must be saying to themselves lately. At last count, the total amount that it has committed to bailouts and loans to save their economy and financial system now exceeds \$7 trillion which is about half of their GDP. That is a pile of money. As I've said before, though, when these actions begin to kick in and work their way through the economy, it should put downward pressure on the US dollar and have an inflationary effect which is what they want, frankly. How they will manage to keep inflation from overshooting to the upside is anyone's guess but whereas 2008 has been a bad year for commodities, 2009 should be much better. I see gold as a viable alternative for investors as this plays out.

One of the big surprises for me has been the fall in oil. Don't get me wrong, I didn't mind filling my tank last night at 78 cents a litre. I think everyone agrees, however, that we should enjoy these prices while we can as it likely won't last. I'm of the opinion that there is no geopolitical risk premium in the price of oil right now. Everyone is so focused on the economic turmoil that they've forgotten that Israel and Iran don't like each other very much and that Russia is getting very cozy with Cuba even going so far as to consider setting up missiles off the island country (Cuban Missile Crisis II?). The IEA recently came out with a 400 page report that says, among other things, that the demand for oil will be flattish to down next year. That got a lot of coverage in the press. What didn't get a lot of coverage was the IEA sounding alarm bells about declining world oil production. Mexico, for example, is expected to be a net importer of oil within just a few years and will likely be joined by others. Add to that the fact that oil companies are shutting down wells because it costs more to drill than to just sit there, and you've got the makings of a real supply crunch. Personally, I'm hoping for a different kind of war we used to have on a regular basis in Moncton - GAS WARS!

To add to all this financial mayhem, the CEOs of the big three (GM, Chrysler and Ford) went to Capitol Hill to ask for \$50 billion to keep them in business. To be clear, these are loans, not bailouts but they got suitably grilled by the congressional committee. They were sent away and asked to come back with a plan and will present these plans on December 8, I believe. Ford is by far in the best shape financially and otherwise. My opinion is that they will get help because to let them go into bankruptcy and risk millions of further job losses in the US economy just doesn't seem to be an option. And the Democrats wouldn't put on a big political show by inviting them back if they didn't intend to do something for them. To give you an idea of how big their financial issues are (pension and healthcare benefits), I read last week that the GM healthcare plan is the largest purchaser of Viagra in the world. I wonder how much that breaks down per vehicle...

The stock market continues to be volatile but is behaving as we would have expected after a large drop: it has bounced along the bottom and appears poised to rally until the end of the year and beyond. As I've said previously, I don't expect this to be the start of another bull market but we'll take it and use it as an opportunity to potentially raise some cash.

I'd like to end by sharing what I like to refer to as a cautionary tale. The markets in 2001 and 2002 were very, very difficult. It wasn't just the depth but the length of that bear market that really started to wear investors down. I could hear it in my clients' voices and see it in their eyes. In October of 2002, I got a call from a client to whom I had spoken at least 6 or 7 times during that year. He had some equities that he was very concerned about and I kept telling him to hold on -

that the market would come back and if he sold at those levels, all he would do is crystalize the losses he had in his portfolio. This time, I couldn't convince him and he instructed me to sell everything he had in stocks. That broke my heart because I knew he was making the classic investor mistake by selling at the bottom. As it turns out, it wasn't THE bottom - it was the DAY BEFORE the bottom.


My point is this: don't let the doom and gloom headlines get to you because there will be more to come. We'll get through this just like we have every other time in the last hundred years. Ignore the crisis and look for the opportunities. I'm seeing lots of them.


Regards,

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