Infomail

September 30, 2011

Goodbye Q3

Today is the last day of the quarter.

That will be the best thing I can say in this Infomail. Consider the following numbers:

	Month to Date (Sept. 2011)	**3rd Quarter** (2011)
TSX	Down 8.4%	Down 12.2%
Dow Jones	Down 4.0%	Down 11.3%
S&P 500	Down 5.0%	Down 13.3%

Of course, those figures don't include what can happen today. Which given recent volatility can be up or down another 2-3%?

It was the worst quarter since the fall of 2008.

Watching the screen day to day, nothing seems rational. Commodity names, the darlings but months ago, have been hammered. The agricultural stocks, which had billions of people to feed, have been beat up. Did all those people go away?

The good thing is, year to date, the numbers aren't as bad (given this quarter's numbers):

	Year to Date (2011)
TSX	Down 13.0%
Dow Jones	Down 4.0%
S&P 500	Down 8.0%

It feels worse, but the first quarter was actually a decent one.

So optimism is low, pessimism is high, expectations are even worse. Based on sentiment, one has to be positive.

What I think needs to happen to turn this around:

1. Eurozone – Greece and Portugal (most likely) are already in default. That is widely accepted. With one year Greek bonds at 135%, you don't need to work at NASA to know that. If the EU can create an orderly default and "firewall" the spread to Spain and Italy it will turn things around. I believe that is what they are currently working on, but it takes time to get it organized when 17 countries have to ratify it. They will also drop their interest rates.

2. China – Has been raising rates and raising bank margins to try to cool things. Looks like mission accomplished. I think they will say their economy and inflation has cooled enough to reapply the gas pedal. Commodities (and the TSX) go up.

3. USA – Obama's polls remain low and sinking. He's got 15 months before the US election to get unemployment down and the economy rolling. I believe he will pull out all the stops.

Seems like a lot to have happen. Sure is. But by most calculations and metrics, today's markets are less expensive than they were in March 2009, which I think may end up being the buying opportunity of our generation. If one can stomach this current phase we are in, there is extraordinary value in today's markets.

So take a deep breath. It's still going to be volatile, but in my opinion, we've gone through a 30 year spending and debt bubble, highlighted by leverage and a real estate and stock bubble, and now fiscal prudence and austerity are back in vogue. Overtime, that can't be a bad thing.

Stay Tuned

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