"Do I feel lucky?" Well, do ya, punk?"

Who doesn't know the iconic lines from the 1971 Clint Eastwood movie *Dirty Harry?*

Well, that perhaps sums up the dilemma facing equity investors after a very turbulent start to the month of August. While the end of July saw the major North American indices reach all-time highs, August has seen nothing but volatility and price declines. Daily swings of a 1,000 points in the Dow Jones almost seemed de rigueur. The reasons are not hard to find, as I have talked about them all year, but suddenly the onset of new proposed tariffs (since delayed until December), disappointing economic data from Europe, unrest in Hong Kong plus new lows in interest rates and the yield curve inverting have all worked together to make **"Recession"** the topic du jour (see last week's *The Week that Was*).

While last week still ended in a net loss for most indices, some soothing rhetoric and a strong Friday up-move has led **many strategists and technical analysts, after reviewing the chart patterns of the major indices, to predict the worst may be over**.

While the major long-term up-trend line of the key North American indices are perhaps some 7 to 10% lower than current levels - *nothing says those low points have to be reached to sound the all clear*. Thus the questions, **DO we feel lucky?** Is the worst over? and, should equities, many of which have declined noticeably over the last few weeks, be purchased?

To be sure, many concerns remain:

- The likelihood of a global slowdown has risen even more.
- China is facing both turmoil in Hong Kong and tariffs, Neither can be conducive to capital inflows or growth.
- America and Canada are both facing pivotal elections within a year or so.
- North America has experienced 10 years of growth, low unemployment and rewarding stock markets that are long in the tooth.
- Negative yield curves have an impressive record of forecasting recessions.

However, one can argue the above is well known and may already be "built into" share prices. **To support the bullish view**:

- There is a very strong possibility the trade issue will be resolved before the US election.
- Despite the recent data, economies in Europe and many global countries are still in good shape along with low unemployment.
- Interest rates are at historical lows, even negative in many countries, making the long-term holding of bonds very unrewarding versus the appeal of dividends and potential for capital appreciation.

- The yield curve may not be a good predictor this time as long-term rates have been forced down by nervous investors and short-term rates have been cut by central banks, totally opposite of previous cases when central banks have forced short-term rates UP to curtail inflation and hot economies.
- History shows stock markets have a pattern of anticipating the future, so perhaps global equities, which have been notable underperformers over the last two years, may well move higher over the next few months in anticipation of better times ahead.

We will stick to our process of holding a diversified portfolio of shares we believe have long term growth potential and an appropriate percentage of quality dividend paying companies. Lastly, we have been holding higher than normal cash reserves all year which will cushion any downturn and prove a resource for any "bargains".

History shows one can never time the market to perfection and so the biggest mistake would be to go 100% to cash. While the risk of further price declines has risen, how much more or for how long will the sell-off last, one will never know, except in hindsight.