

A Crisis in Confidence: the Subject Line from my financial guy's email in October Excerpts follow:

(Re: TSX) Most of the damage this has occurred in the month of September / beginning of October, where the index has realized declines of roughly 27%. The fall has been fast, violent, and without a doubt...fear driven. Indisputably, there is a crisis in confidence in the investment markets. We are in a global credit crunch. **In the US, the belief is that money lent, is money gone, never to be repaid.**

The anatomy of the average bear market since the beginning of the century is a 31% decline in that country's equity markets and they typically last 13 months. In this bear market, globally we're in our 12th month now, and our Canadian market is down 28.02% year to date (Oct 6). The Dow Jones is down 25%, the Nasdaq 30%, the S&P 500 26%, Brazil 34%, DJ Euro Stoxx 35%, FTSE 100 29%, Nikkei 225 32%, and the Hang Seng 40%. Clearly we are in a global bear market.

Down 30% in 30 days is not normal, in any market, at any time. These market environments are as bad as they were during 9/11. Same fear, same panic. From that day it took 12 months to finally hit bottom on the Dow Jones in September 2002 at 7197. By then most people had stopped following the markets, apathy and dismal returns had waned interest. The Dow Jones peaked at 14 021, 4 years and 10 months later.

The media gets paid to write a story every day. Their job is to attract readers, attention, subscribers, whatever. They know this. We all know that fear sells. Rarely do we read rose-coloured story. No one invests for a day, or a month. Its very hard to invest for a year. The media hits at you everyday. **There has never been such unparalleled access to information and the investment markets as there is today.** In my opinion, this is one of the reasons we see such incredible volatility. These are not the markets of a generation ago. These are markets at the height of technology, information and accessibility. It is extremely hard to take, for everyone.

He is a young guy – 30-something. There is lots of this type of talk out there these days but certainly a few of his lines (underlined) bear further consideration. USA debt is in the trillions no matter which way you measure it (see wikipedia). Some have alluded to the global scenario precipitated by a USA led credit crisis as a "House of Cards". Debt is fine as long as someone will lend the money. With the fall of the Lehman Brothers the full brunt of the crisis was spawned as world creditors panicked as to whether the USA would back their debt or not. Whatever your opinion on Bush is, note that much of the current regulatory structures were created under Clinton.

The second underlined point goes to the heart of where we are with commodity pricing. We have experienced wide swings – both up and down – in the Oil market – way beyond anything that can be foundationally based. The Internet world and immediate media causes this extreme overreaction (one way or the other) without basis or parallel to historical norms.

An article in the DOB published this summer in which it discussed having to balance the issues of climate change, energy security and fuel poverty. It was the first time I had read the 3 concepts together and in particular the use of the term "fuel poverty". There is no doubt that once the world adjusts itself to whatever global finance structure comes out of the Halloween month these three pillars will play a role in our lives going forward.

Dion came out with the "Green Shift" as the Liberal platform in the recent Federal election. He did so on the precipice of the global financial crisis. The accent on the Environment quickly became a secondary matter in the face of Economics. People are environmentalists when they can afford to be so (i.e. the Hollywood factor). The shift is dramatic when money walks.

Perhaps more telling was the true nature of the Green Shift. The term "revenue-neutral" was bantered about. I suppose one could say governments (and therefore taxes) are all revenue-neutral. In a perfect world they balance the budget – no surplus / no deficit. In any case I digress – the real point to all of this is that it would (or could) dramatically shift the tax structure in our country. At the far end of the scale income taxes could be eliminated (over time) or rebated to affect the same so that polluters would truly pay. Academically it may have made sense but to sell such a radical shift to the populous is a momentous task. *We are from the government and we are here to help you. After all the government knows best. Right?*

Anyways just some of my thoughts on recent events. Of course by the time this prints who knows where things will be in terms of the financial crisis. I will leave you with this from CIBC's Market Commentary (Oct 15): *Missing the rebounds is costly: Since 1987 the TSX has been through four bear markets (not counting the current one) in which it declined more than 20%. It is interesting to note that in each case the market bottomed in the month of October. If investors chose to sell that month, they would have paid a dear price. On average the TSX gained 24% in the 12-month period following the October lows.*

The trouble most of us have as investors is that we cannot predict the bottom and when the market turns the rebound is usually much quicker than the investor can react. In any case here in Canada the month of Halloween can be a scary one.

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From the Thursday Files:

The sin sector – alcohol, tobacco, and gambling generally withstand economic downturns. People drink and smoke more in stressful times.

Various Sources on the Internet

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