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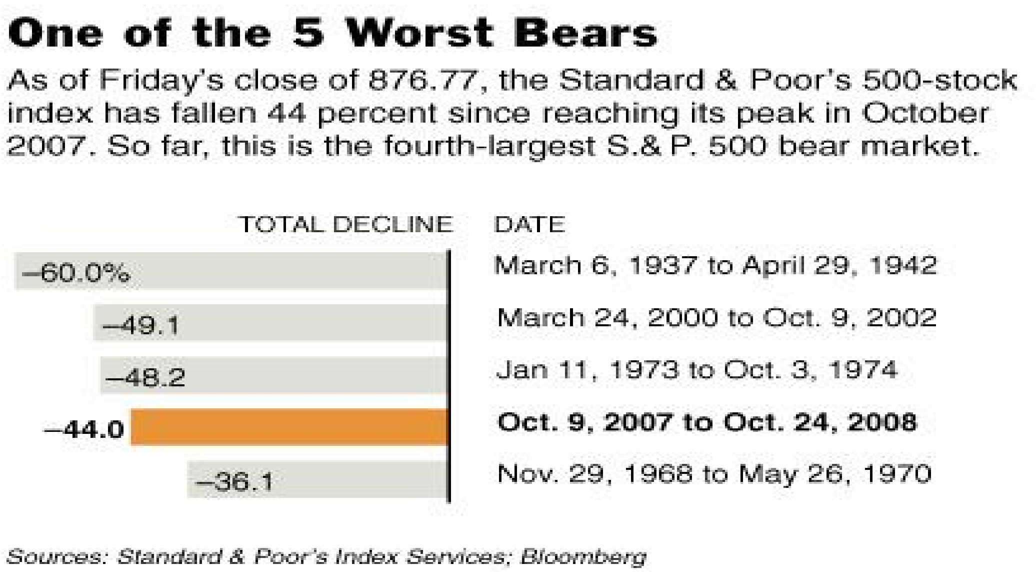
E.Q Trendwatch™

October goes down in the history books

October was the worst month for the Standard & Poor's index of 500 stocks in 21 years since the 1987 stock market crash. (NYT)

The bear market of 2008 goes down (at least to the end of October) as the 4th worst bear market in history.



The Dow dropped 14% over the past four weeks -- the biggest October decline since 1987, when the crash sent markets down 23% for the month. The S&P 500 was down 17%, and NASDAQ fell 18%. This ranked as the 15th worst monthly decline for the Dow Industrials since 1900.

Global equities in October shed $9.5 trillion. (Barron's)

October 2008 was <u>the most</u> volatile in the 80-year history of the S&P. 500. The Volatility Index (VIX) which had spent 13 months in 2006/07 at a comatose

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reading of less than 15, spent the month of October in the unprecedented range of 40 to 80!

Here are a few more stats of note on October:

• We had the most down days in a single month since August 1973. (Marketwatch)

• Compare 3 recent SPX Bear Markets: 2008 bear is -46% from October 2007; 1973-74 bear down 48% over 23 months. The 2000-03 bear down 49 percent over nearly 3 years.

• The S&P 500 had the most volatile month since November 1929 (1% moves higher or lower).

• October had two days where the indices were up more than 9% -- the 10th time this has occurred over the past 80 years. (NYT)

• During an eight-day losing streak at the beginning of the month, the Dow lost 2,396 points.

• October 2008 had 9 days with 4% moves up or down. That beats the prior record for this set at 8 in September 1932 (NYT). There were zero days with 4% up or down moves during the entire bull market from 2003 to 2007.

• The Dow had its second-biggest point drop on record, of 733 points. The Dow posted two of it biggest point gains, climbing by 936 points (October 13th) and 889 (October 28th).

Meanwhile the US dollar soared

The US-led recession since December 2007 has continued spreading like a virus around the globe. Throughout, the greenback has been steadily gaining against other world currencies. This October the US dollar exploded to an extremely over-bought level on our technical parameters. As a result, we sold the US positions that we had held in client accounts since our buy last November. Being up more than 21% in 1 year while sitting in US T-Bills we were quite content to sell and capture the gain. The following chart shows the dramatic price action of the US versus our Canadian dollar over the past year.

And commodities have been in a free fall for several weeks.

Led by plunging commodities of all kinds, the Canadian TSX ended October off 29% from its peak.

March 2000 was the first time the TSX was at the present level of 9600. So the 2008 bear market has now wiped out almost 9 years of growth on the TSX.

The NASDAQ is now back at the same level it first achieved in February 1998.

International markets have fared considerably worse than North America to date, with most foreign markets down most by greater than 40%. The broad based International Index (EFA) has lost 46% over the past year.

So where to now?

We believe that one year in, we may be half way through the US-led global recession. With Canada and the rest of the world having lagged the US into the downturn, the rest of the world may well be less than half way through it. That said, we suspect that we may have reached an exhaustion point or hiatus of the profound selling pressure recorded by equity markets over the past year. We think it is possible the markets may have put in a low at least for 2008. It would not surprise us to see some money flow coming back into equities and other risk assets over the next several weeks, perhaps months. As a result, we are prepared to accept some equity exposure should our buy metrics be triggered in the near future. As at October 31 we could be close to some buys. We are watching for our final confirmation before toeing capital back in. When we do get some buys, we will re-enter in tranches rather than jumping all at once.

While present price levels are arguably attractive on a fundamental level, we remain quite cautious of the overall market action, and will be watching carefully for the possibility that prices may yet breakdown in the months ahead to retest the October 2008 low. It is even possible that the broad markets could break to a fresh lower, low before this bear cycle is complete.

We are mindful that during the great bear of 1973-74, markets lost 40% to an October 1973 low, before rebounding 13% to March 1974 and then breaking down again to register a 2nd consecutive loss of -26% in 1974. If a similar pattern were to follow this time, we may see a rally from now until February or March before breaking down to a fresh low sometime in 2009. If recent market strength does begin to deteriorate we will have no qualms about following our sell rules to the sidelines again if need be.

Year to date 2008 at the end of October our balanced accounts have enjoyed a net return of 7.43%. This is a strong return given the climate and we are grateful for it. Most of all we are excited that when the next bull cycle does begin in earnest, unlike others, our capital will not spend years trying to claw its way back from this bear market's losses. While most others will spend the first 3 to 4 years of the next recovery just getting their capital back to even, we will be off and running.

Happy wishes for the autumn. And now for the snow….

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