

# E.Q Trendwatch™

## May we have some return with that risk please?

There was much hoopla of late about the Dow Jones Industrial Average (DIA) touching its previous peak from the last market cycle high in 2000. It is true that market concerns have sparked a flight to quality that has buoyed the Dow in recent weeks. The other truth perhaps over-looked, is that it has taken capital invested in the DIA 6 long years to make back the peak it made at the top of the last economic cycle. Meanwhile, breadth remains weak as less than half of the 30 companies in the DIA are making new price highs.

The mantra of investment sales tells us to buy risk in order to reap rewards. Their mantra does not talk much about the times (like these last 6 years), when buying risk, only brought risk—with no real reward. Notwithstanding the DIA's recent revival, the first 9 months of 2006 have been exactly this—risk without commensurate reward.

### 2006 Equity Market Returns for Canadian Investors

(January 1 to September 25, 2006 (in Cdn \$))

	In C\$
Energy Index:	- 17.2%
Gold Index:	- 6.5%
NASDAQ 100 (US)	- 3.6%
S&P 500 (US)	0.9%
S&P/TSX Cdn market	2.7%
MSCI World Index	3.2%
Cdn Financial Index:	4.3%
Dow Jones Industrial Average	5.0%

For those who think that equity market returns in the area of 2 to 4% seem reasonable for 9 months (we doubt there are many), consider that throughout the last nine months of significant volatility an investor endured to earn the above returns, government of Canada T bills have averaged over 4%. This means we could earn 4% while waiting out of equity markets and taking on the equivalent of no risk at all to our capital. As you hopefully know, that is in fact what we at VP have done over the past 9 months with the majority of our equity capital. We admit it has been a little dry to sit things out. We have felt a little like the gangly girl at the high school dance, too shy to dance. But as we see it, why give up a perfectly good seat when the prospective dance partners appear only



**Cory Venable CIM, FCSI, CMT**  
Technical Market Analyst



**Danielle Park LL.B., CFP, CFA**  
Portfolio Manager

**Venable Park Investment  
Counsel Inc.**

Venable Park Investment Counsel Inc.



[www.venablepark.com](http://www.venablepark.com)

33 Clapperton St.  
Barrie ON L4M 3E6  
Tel: (705) 792-3991  
Toll Free: 866-792-3991  
Fax: (705) 792-3992

This publication is intended to convey information only. It is not to be construed as a solicitation or offer to buy or sell and of the securities mentioned in it. The author has taken all usual and reasonable precautions to determine that the information contained in this publication is to summarize and analyze such information are based on approved practices in the industry. However, the market forces underlying investment value are subject to sudden and dramatic changes and data availability varies from one moment to the next. Consequently, the author cannot make any warranty as to the accuracy or completeness of information, analysis or views contained in this publication or their usefulness or suitability in any particular circumstance. You should not undertake any investment or portfolio assessment or other transaction on the basis of this publication, but should first consult your advisor. The author accepts no liability of whatsoever kind for any damages or losses incurred by you as a result of reliance upon or use of this publication in contravention of this notice. All performance data represent past performance and are no indication of future performance.

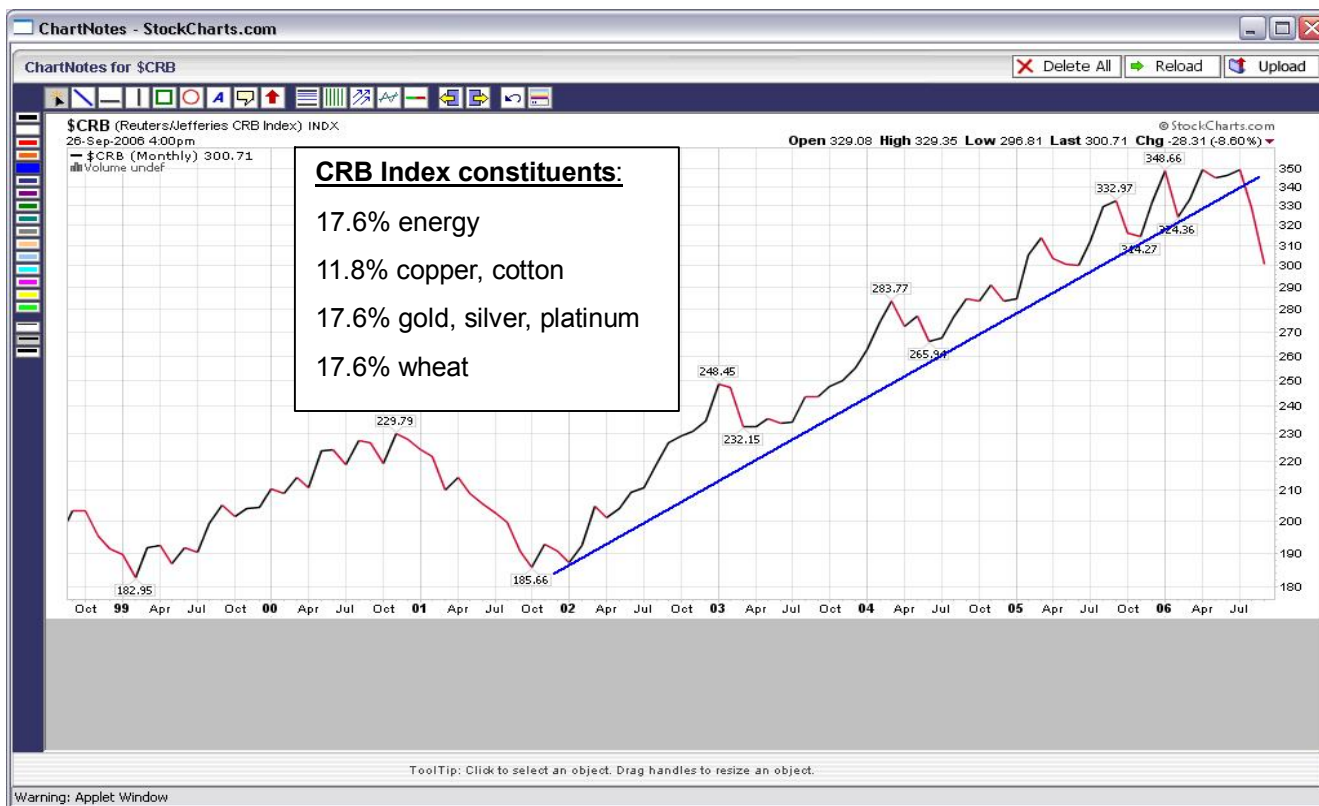
sub-par? If we were going to put capital in harm's way, we would rather wait until there is the likelihood of some reasonable reward to pay us for the risk.

And now we enter October. October is infamous as being one of the most volatile months for equity markets. We shall see how things unfold.

### **North American bond markets continue to signal an upcoming recession**

The slowing US economic story continues to play out, with deteriorating housing markets, big 3 auto lay-offs, still-peaking inflation and falling corporate profits. How hard this cycle's landing, is the question of the day. The coincident indicators are looking pretty harsh, while the lagging economic indicators are also showing signs of erosion. The yield curve is now significantly inverted again in the US and in Canada the overnight rate is at 4.25 while the 10 and 30 year notes yield less than 4%. And still the Volatility Index (VIX) remains at all time lows. This signals that the masses remain complacent to the risk and are still hoping for a smooth or soft slowdown. Many have not yet entered into a state of belief. They continue to hold out some hope that the business cycle may be dead or that it might be "different this time."

### **Commodities Index (CRB) breaks down**



In previous newsletters we have written about the final stages of a business cycle and that in the early contraction (stage 6), stocks, bonds and commodities all drop in unison. Commodities have been slow to signal this time around. However in the month of September, all the key commodity groups have dropped across the board.

*This publication is intended to convey information only. It is not to be construed as a solicitation or offer to buy or sell and of the securities mentioned in it. The author has taken all usual and reasonable precautions to determine that the information contained in this publication and to summarize and analyze such information are based on approved practices in the industry. However, the market forces underlying investment value are subject to sudden and dramatic changes and data availability varies from one moment to the next. Consequently, the author cannot make any warranty as to the accuracy or completeness of information, analysis or views contained in this publication or their usefulness or suitability in any particular circumstance. You should not undertake any investment or portfolio assessment or other transaction on the basis of this publication, but should first consult your advisor. The author accepts no liability of whatsoever kind for any damages or losses incurred by you as a result of reliance upon or use of this publication in contravention of this notice. All performance data represent past performance and are no indication of future performance.*

As can be seen in the above chart of the commodities Index (CRB), since late July, commodities have broken down through the four-year up-trend they had enjoyed since the last economic cycle bottom in October 2002. This 14% drop to date is significant. From its current level of 300, our work suggests that the commodities index could retrace a further 13 to 24%. This will ultimately be helpful in lowering inflationary pressures in the economy, but only after a considerable lag time between the price decline and the resulting lower input costs. The catalyst for this drop is quite simply slowing world consumption. Meanwhile commodity producers continue to produce at peak output and this will continue to ramp up supply in the near term. This downtrend in commodities is one of the major threats to the Canadian stock market at current levels, given their overweight in the TSX.

**Book worth reading: *Confessions of a Wall Street Analyst*, (2006). by Dan Reingold**

We are indebted to a client who brought to our attention this month the book “**Confessions of a Wall Street Analyst. A True Story of Inside Information and Corruption in the Stock Market**”. It is a worthwhile read. Its author Dan Reingold was a top rated Telecom Analyst on Wall Street from the late 80’s to 2003 when he retired. In this role, Reingold was a key player in the mayhem of the market and its makers during the deregulation mania that swept Telco’s during that 14-year period. Throughout his career, Reingold struggled to serve his professional duty as a Chartered Financial Analyst and its code of ethics.

After all the hype and all the sales of the underwriters and the corporations they promote, Reingold concludes with the number one take away that he hopes readers will get from his book:

*“Tell Individual Investors the Painful Truth.*

*Individuals should not be buying individual stocks. I know this is a radical statement, especially coming from a guy who researched individual stocks for a living. But there are simply too many insiders with too many unfair advantages. Biased research or not, insider trading or not, the markets are and will remain, rampant with uneven information flow ...To be an investor in this environment is like being a drug-free athlete whose competitors are all juiced up on steroids...in my opinion, it is better to buy stock indexes or broad-based mutual funds...”*

It was this same realization that we at VP came to in the late 90’s when we decided to drop the ego and use stock indices rather than individual stock picks as our equity tool. Our technical analysis expertise helps us track what the insiders are doing versus what they are saying as an added element in our sole purpose to protect and nurture client capital. We exist to cut through the noise and protect our clients. Having been around the street ourselves for over 16 years now, we know first hand, how rare we are in our mission.

**REPORT ON BUSINESS TELEVISION (ROBTV- Channel 64 on Cable)**

For those that are interested, **Cory** will be the **guest Technical Analyst with Pat Bolland on *The Chart Room*, Friday November 10, at 3:30** and **Danielle** will be the **guest Portfolio Manager on *The Street* at 9:20am on Friday, October 27 and Wednesday November 22**. The clips can also be viewed for the week following the appearances on the ROB website at [http://www.robtv.com/shows/past\\_archive](http://www.robtv.com/shows/past_archive) under past video archive for the date and time in question as well as through a link on our web home page at [www.venablepark.com](http://www.venablepark.com).