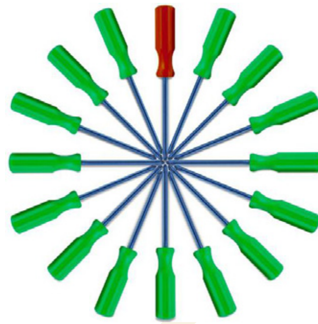
CastleMoore News

Buy, Hold... *and* Know When to Sell™

THEORIES SOMETIMES WORK; PRICE ALWAYS DOES

By Ken Norquay, CMT, Partner

Economic Theory is very interesting stuff. It's basic logic and it's all about supply and demand. When a government increases money supply, it's like throwing a log on the economic fire: it gets hotter. And when they indulge in tight money policy, it's like choking off the air supply to that fire. When the theory works, it is a delight to behold.



Former Canadian prime minister Lester Boles Pearson once described this wondrous process: "Economic policy is the skilful use of blunt instruments." Our American cousins are getting a serious up close look at the bluntness of their central bank's instruments. And they would not use the words I chose: "delight to behold" and "wondrous process" are not in their economic vocabulary as their presidential election campaign heats up.

The problem stems from faulty mortgage lending in the first seven years of this century. The so-called subprime mortgage fiasco triggered a blow-off in the US housing market: too much easy money for US home buyers who could not afford to repay their mortgage loans led to a serious barn-burner in real estate prices. The home building industry turned to ashes. The US economy burned out along with the US manufacturing industry. There was a flame-out in the US finance business: bail-outs everywhere; foreclosures and bank failures everywhere. The problem was that billions of US dollars of American wealth had disappeared when house prices declined.

In the face of this disaster, US officials resorted to basic old fashioned economic theory: they flooded their country with easy money. They rolled out three plans: Quantitative Easing (QE) one, two, and three. Their goal was to stabilize US house prices, to re-inflate the real estate market. Yes, that's right, their goal was to create inflation in the USA, particularly in the real estate sector.

But the continuing weakness of the US economy illustrates the bluntness to which Prime Minister Pearson was referring. The easy money that was intended to fuel American house prices instead fueled American stock prices, commodities prices and basic materials prices. Corporate earnings recovered, but after three years of easing monetary policy, house prices remained weak. It wasn't until this year, 2012 that American house prices finally reversed and stabilized. Ever since the 1950s, economic cycles have been 3 ½ to 4 years. But this time, it's already been 3 years since the economic low of September 2009 and the economy has barely started to recover. Why is this cycle so anemic? Why aren't the old ways working so well this time?

In my investment book, Beyond the Bull, I caution investors to tread lightly into the world of economics. Successful investing is not so much about getting the economy right as it is about getting the financial markets right. It's nice to understand the wonders of modern economics, but it's not a practical way to make investment decisions. We suspect that Beyond the Bull's "tread lightly" rule-of-thumb will become even more important as the US economy continues through the real estate crisis. Clearly, the rules of Economic Theory have changed because of the subprime mortgage bon fire. Easy money no longer produces the same results. But the rules of the markets have not changed. The logic of supply and demand, of price trends and of market psychology has not changed. Those are the rules CastleMoore uses to manage our clients' investments. Although our minds are fascinated by the ins and outs of economic theory, our investment decisions are based on the logic of our investment models.

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HOW DO INVESTORS MAKE MONEY IN BONDS: A BRIEF FIXED INCOME PRIMER (WITH AN UPDATE TWO YEARS LATER)

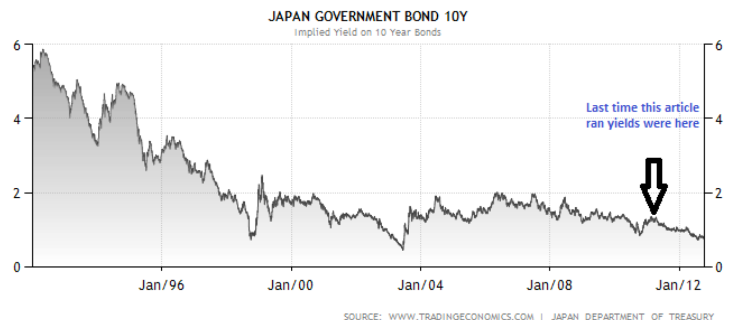
This article ran exactly two years ago exactly. I've updated the state of fixed income since that time. Reviewing past observations is healthy, especially if you are in the business of advice.

By Robert 'Hap' Sneddon, FCSI, President

Setting aside the macroeconomic debate for a moment – growth or slower historical growth vs. deflation or disinflation –many investors wonder how you can make a decent profit in bonds when say the 10 year Government of Canada benchmark is only yielding 3%. Or, how can one lock up your money for 10 years at that rate? Or, if fixed income it where it's at why shouldn't investors just purchase bank guaranteed deposits (GICs) and be done with it?

Let's have a little **bond primer** and answer these questions in the reverse order.

If fixed income is a desirable asset class why not purchase a GIC at the bank and just collect the interest income? Investors won't profit beyond the rate set at signing and they are locked in to the term. If a $100,000 straight 4% 5yr GIC is purchased one will receive $4,000 per year or $20,000 over the life of the certificate. Now if the same investor chose a tradable government or corporate bond with the same interest and maturity, they are entitled to hold it to maturity or sell it at any time. Why sell? Well there can be various reasons such as; interest rates have fallen raising the capital value of the bond, and capital gain gives us a higher overall return and lower taxes. Or, we may sell because interest rates are starting to rise, reducing the future capital value making it better to sit on the side lines waiting to purchase at a higher yield. Or, we may sell because the funds are required for liquidity reasons. So its flexibility tradable bonds provide over bank GIC's.



This chart has been updated since this article was first published two years ago.

Surely for some a question arises: "How can you lock up your money for 10 years at that rate?" (The rate or yield used was 3%). Investors know that if you purchase a 10 year government or corporate bond it does not mean you have to hold it for 10 years or to maturity. One may do so, but it's not required as it is of a GIC. The reason an investor would hold a 10 year bond at 3% is because it is profitable. In this instance I am referring to the yield and herein lay the rub of it all. In understanding how yields work we are also answering the first question: How can you make a decent profit in low coupon bonds?

Yield is determined by dividing the cash flow (interest payment or coupon) by the capital value. If one buys $100,000 of the same 10 year bond at issuance paying 3%, then the yield for the 10 year period would be 3% ($3,000/$100,000=3% yield). Here it is important to note tradable bonds are usually issued close to par where par equals 100. This is a pricing mechanism for the markets to adjust the yield to the prevailing interest rate levels. For example, if markets push down longer term interest rates for the same term to 2.5% the capital value will rise, producing a capital gain in addition to the interest payment. The example would then change to: $3,000 (interest payment does not change) / $120,000 (bond capital rising) = 2.5% current yield. The price of the bond has now gone to 120 from 100 and the yield has dropped. Investors select longer dated bonds with low interest rates to seek out capital gains in addition to cash flow. Of course, if rates increase the opposite effect, capital loss, is possible.

continued on next page

Holding long term bonds in times of falling interest rates is very profitable.

Bond Primer Part 2

There are two basic types of fixed income: government bonds and corporate bonds. Within the corporate space there are also two types: bonds which are backed by an asset pledge and debentures which are backed only by the credit-worthiness of the issuing company. There is also another sub-category of corporates called convertibles. Convertible bonds are exchangeable for common shares of the company at certain ratios. For example, each $1000 of face value is convertible into 20 shares. Here if the company shares are trading above $50.00 (20x50=1000) an investor may wish to switch into the common; if they trade below this they may prefer to collect the income payment from the bond until it makes sense to switch.

Corporate bonds prices are influenced by inflation expectations and corporate profitability. Inflation expectation is the most critical factor in determining prices. If the market expects inflation to rise or to continue to rise bond prices will fall. For example, if a bond you are holding is yielding 5% and inflation is running at 2% your true yield is close to 3%. The other primary factor is corporate profitability, specifically as it relates to interest coverage. It's fine to buy a high yielding corporate bond, but if the company runs into cash flow problems they may elect to hold off paying interest or in severe cases go bankrupt. Often, an increasingly higher yielding bond is telling you of impending problems.

All bonds - government and corporates - like borrowers walking into a bank branch have different credit scores. Some are A's, some are B's; bonds graded beneath these are usually called junk bonds. The whole Greek and European bond crisis centred on sovereign nations' ability to meet the interest obligations. During the crisis the yields on those troubled countries' bonds sky rocketed to account for the increased risk of default (Spain, Greece, Italy, Portugal, and Ireland – now apparently Finland is the new kid on the block). Investors holding these bonds before and through the market "adjustment" lost capital. Investors purchasing after would receive the new higher yield accounting for the increased risk being taken on. The market reacts and sets the new yield according to the conditions surrounding the issuer and does so quickly and efficiently.

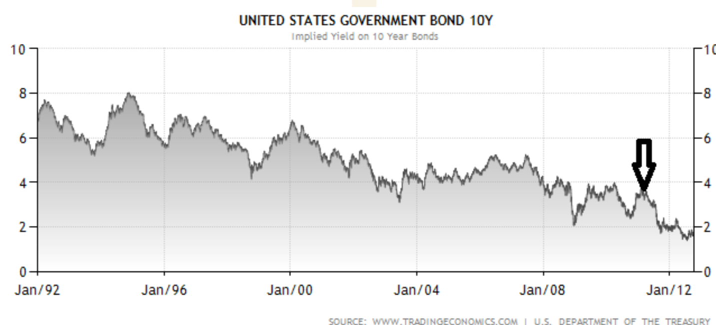
Government of Canada bonds and lesser government bonds, such as provincials or municipals will often perform poorly during periods of economic strength due to rising inflation expectations or preferential profit opportunities. For example, throughout the booming 90's such bonds performed poorly largely due to hot equity markets, particularly high tech, and modestly rising inflation.

Government bonds can get into trouble when it appears the country in question is considering a default, such as the situation in Greece. Yields rose dramatically but the price of Greek bonds eventually stabilized due to the backing of the IMF, the larger European Money Union and Greek financial reform.

Default is the exception. The norm is that countries muddle through rough patches as Canada found herself doing in the last decade. The reason: taxation. The global investment community considers this sacred cash flow supreme in meeting bond obligations. Companies do not have such sources of cash flow.

To summarize, all bonds are affected by inflation expectations, the ability to pay interest and return capital and the allure of better markets elsewhere. As these factors change, bond prices change. It's these changes in bond prices that give rise to capital gains in the bond market. CastleMoore's bond strategies are designed to produce capital gain, not just interest. That's why it makes sense to hold bonds that appear to be only paying a small interest payment by comparison with periods of actual inflation, and unlike the current disinflation or deflation.

Bond Update



SSince we last ran this article bonds of AAA-rated Western nations have fallen further as well providing much more upside than Japanese JGB's did over the same period. The above chart shows yields falling and bond investors profiting nicely. The recent action of the Fed (QEternity) in no uncertain terms tells us what they are concerned with: deflation. While you do not want to fight the Fed per se – trying to for force investors into risky assets to produce a "wealth effect" surely a balanced portfolio containing both equities and long term bonds serves investors well today. Whether performed by the Chinese or the US engineering, economies are possible only for a period of time. Eventually, forces bigger exert themselves.

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THE CHART PAGES

GOLD BULLION

We are sitting tight now with 2 of our 3 tranches in bullion purchased. The most recent was completed upon the break out from the declining trend line shown above. The risk-to-reward was in our favour for both client transactions. Now we await a break out to new highs or a consolidation through time or price as we consider the next addition.

CANADIAN BONDS

Long bonds - both CDN and US government – represent the longest bull trend in the investment world, going back over 30 years. This monthly three year chart shows that the trend has not changed. Over the last two years each correction or consolidation has seen the RSI indicator bottom mid-way instead at the lower end of the scale, an indication of the underlying "bid" or bullishness. We are inclined to add to our 20% client holdings with further proof of a reacceleration that may take the 30yr rate sub 2%.

LOONIE

In later summer the market had begun to front run Buzz Bernanke's "to infinity and beyond" move with a break out over a longer term moving average and the downtrend in place (not drawn) since mid-2011. As had been the case since the equity market bottom in the spring of 2009 investors today must consider the hurdle of a strengthening Loonie when making any non-Canadian investments choices. First resistance is $1.06 then $1.15/

US DOLLAR

As always for Canadian investors the other side of the equation is the US dollar. The dollar index, a measurement of the US dollar against a global basket of currencies, broke a little later in the summer than the C$/US$ but too ahead of the September 13th announcement. Note that it bounced off the longer term moving average. We are not yet convinced the US Fed get its inflation – ah, no "growth". The next couple of months will be telling post US election into the new year.

THE CHART PAGES

CANDIAN EQUITIES

The TSX is a little behind the Loonie if you compare the two charts. The TSX has broken the downtrend in place from early 2011, though it's still down almost 11% over that time. A look at the lower panel shows two distinct periods of behaviour. The first period saw the cycle bottom at the mid-point and travel to the upper extreme as the market was bullish; the second and more recent one show it bound by a lower range with the mid-point acting as resistance as the market was bearish. This change does suggest at least a more balanced portfolio mix between "risk on" and "risk off securities"

US EQUITIES

The US S&P peaked on September 14 (intra-day) at 1474. Though the thesis of "diminishing returns" from government stimulus may yet play out at break above that high would see US stocks run bullishly into early winter. A break of 1425 would bring support at 1300ish into focus.

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WHAT HAPPENED TO MARK TWAIN'S AND ISAAC NEWTON'S PORTFOLIOS DURING THE CRASH ?

By Thomas Kleinschmidt
Executive Liaison, Assoc. Portfolio Manager

I hit the phones recently, calling on those folks who at some point joined our investor centre. I wanted to know what kind of investors they were and what happens to their portfolios during market crashes.

Most of my clients are either "Class" or "Focus" investors. What are those types? In the Investment Philosophy section of our website are the "Levels of Investor Sophistication" audio tracks. These outline a framework for determining what kind of investor you are – Saver, Class, Focus or Two Way – as more of a "gut-check". Almost all investors, used to the big runs in the stock market, are what we call Buyers of Investment Products. What I am finding is that they really feel they are either Class or Focus investors, not wanting to participate in market downtrends and seek market uptrends. And, they will do just what Mr. Twain and Mr. Newton would do next crash.

That's what I'm finding out…folks just love to Buy and Hold Investment Products! They trust their financial advisor that Next Time: they will get it right, make the money back no-problem, be allocated in a safe way, or just be reassured that they are long-term investors. They have some kind of selective memory that makes it so Next Time will be different.

Just like Mr. Twain and Mr. Newton. Both smart guys who did what you will do, that you are almost compelled to do due to human psychology. Not an easy thing to believe but an easy thing to do.

"No, it won't happen to me" or "The markets will recover". "I hope not (chuckle)".

Unbelievable! Here you are, hard-working, living below your means, saving for your retirement and rolling the "market dice" with your portfolio risk measured against the statistical probability for it to survive and grow according to plan.

Real numbers, common sense and a risk management system based on price is where you might want to take a peak. Even just to know that such options exist. Friends, Mark Twain said it best: "There are three kinds of lies: lies, damned lies, and statistics". Ah, but wait, you say, Mr. Twain did not understand:

1. Equity markets go up 70% of the time and I'm a long term investor
2. Any corrections or even crashes are to be expected and always recover
3. When the market is low that is the time to average down
4. I use two firms: one for my investments and another for my wife's, just in case
5. Diversification in equities and having a portion in bonds will ensure my future goals
6. Losses are a part of investing…I don't like losses but my target is only 8% annualized growth

continued on next page

7. Price action is based from fundamental analysis, crunching the numbers

8. My portfolio experienced a drawdown of about 1/3 during the last crash but since has recovered so I don't see how changing now will do anything more than increase fees, time and uncertainty.

I beg to differ. Perhaps investors would reconsider their investment approach from a different viewpoint, such as (point for point):

1 Sure, don't worry about market timing if you have more than $50 million as you should think like a pension fund manager

2. Okay, just prepare yourself for major and sudden price shocks in all asset classes going forward

3. Have patience as you average right down to where the Big Banks, funds and the algorithmic trading machines make those bottoms

4. Most couples have one as the "buyer and holder" and the other spouse as the stock trader

5. In a crash, diversification to protect or cushion falls has never worked nor will it ever work going forward because it cannot…only selling works as it is based on price, not statistics

6. Investors should not accept losses like they have… that game's for venture capitalists

7. Ah, but that thinking does not figure with bullion or bonds and results in only a handful of stocks

8. Yes, and that is why your portfolio will suffer huge losses again and again and you will be on the "I-really-hope-that-those-statistical- adjustments-done-will-work-out" fence with the market dog at the bottom trying to eat you.

Mark Twain, Isaac Newton and a host of other smart, rich folks got burned with their investments so we know that there is more to it than what we think. More than an outdated "cash-bonds-stocks" model. More than an efficient frontier talk. More than "why is the EURO trading at a 26% premium to the US dollar??" debate.

Investors need to take the time to determine what level of sophistication management style they really want to hold to their portfolio. Having a belief in something that has not worked well for you in the past and hope that it will This Time just does not make sense.

Emotions are hard to face but facts are facts. Investors also need to know that even the big research firms are rewriting their buy/sell models as these times are indeed different. Except for fear and greed of course! These are steadfast. If they go then so go the markets.

So, you have no capital to lose to have a listen to the tracks in the Investor Centre and find out if you have grown beyond being a buyer and holder of investment products. IFF you think that you have, the next step my friend is to find a methodology or an advisor who thinks like you!

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THE BUY SIDE, THE SELL SIDE

By Jason Dubbeldam

Here at CastleMoore, you may have heard us refer to ourselves as an Investment Counsellor/Portfolio Manager (ICPM) and how that sets us apart. But what does that mean exactly? Do we simply provide investment advice like anyone else? Not exactly.

As an ICPM, we sit on the same side of the table as you do, what's referred to as the buy side. Think of us as a personal shopper, going to the market on your behalf, bringing back the best merchandise we can find. As it relates to asset management, we get to know you and your investment preferences – risk tolerance, experience, objectives - and, within those bounds, select the most appropriate investment vehicles for you from different asset classes such as bonds, equities, gold, cash and currency. The nature of a buy side relationship is that the relationship between client and advisor is in harmony, with no inherent conflicts of interest. However, in the majority of investment relationships the client is a buyer of product or services from their advisor; they are in a sell side structure. Brokers and mutual fund salesmen sell funds, ETFs, stocks and a host of other products to their clients for a fee. CastleMoore, on the other hand, does not sell anything other than our expertise, our methodology. We don't have to worry about or feel any pressure to sell a product that may or may not be right for you.

This comes through in our independence as well. We are a standalone business, with no debt and who is not owned by any other institution. Our only business is making decisions which best serve our clients and the management of their portfolios. We aren't weighed down or tied to a research department, we don't sell insurance, and we don't have a book of funds that need marketing. We are experts in one field and we offer that service to our clients.

Our interest is aligned with yours in how we charge for our service as well. The majority of investment management services are offered on a commission basis. Whenever a transaction is executed, typically a buy or sell, a portion of the amount of the transaction is kept by the advisor. These commissions make up the vast majority of advisor income and have been the standard for decades. The theory behind charging in this manner was that the advisor gets paid and rewarded for doing something, and if no action is taken no payment is made. Unfortunately this is also the major flaw of the system. In order to be paid, the advisor merely has to recommend a change. This also means that it is most profitable to always be 100% invested. But what if no changes are prudent? What if an allocation to cash is the most responsible choice? Should your manager not be paid for making the best decision possible for your account? These are the reasons we believe our fee-for-service platform is the most appropriate. We charge a flat rate on the assets under management. This way, we only make more money if you make more money and there is no pressure to make unnecessary changes, take too much risk or be over-invested.

We've built CastleMoore on these pillars with the conviction that they allow us to offer our clients the best possible investment management relationship, experience and performance.

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We punish politicians, punish i

RUBBER BAND SIGNALS

by Makul Pal

If it was once a fortnight, once a week or once a day, it would have been nice. But signals and signal generators have no religion. If you need a signal, the market has it; for any market, for anytime. And, if you are not going to challenge the signal, it could come stamped with 100 per cent accuracy.

Signals have become like a rubber band. You can stretch them for any time frame and from any side, long or short. Too much information creates noise and conflict. This is why a society generating a lot of signals might still fail to use the signals efficiently to outperform the market. This is the reason passive indices claim, “What good is active anyway?” We live in the times of limited Alpha (risk adjusted return) but unlimited signals.

We punish politicians, punish insiders, punish scamsters, but how ethical are we ‘the signal society’ which seeks and delivers signals. “Please give us a signal, don’t explain us cycles, history, perspectives, risk; just tell us what to do, buy or sell?” Now that the markets have moved sideways for years, how happier did we get triggering trade signals over years?

Okay, what should the signal society do? What can it do better? Can we simplify? How can it bring objectivity? Apart from building signal systems that work across asset classes, signals that can be indexed, signals that also assume lower risk, we can relook at the whole signal generation process, the big picture view.

Since we are looking at the same elephant, the rubber band can be viewed differently. If the market is indeed a rubber band, speculators, investors and other market participants pull the band at extremes. The best performers see consistent interest as they move higher. While the worst performers continue to see continued selling pressure as speculators suppress price and investors exit, tired of waiting for a reversal.

The trigger happy society simply dumps the non-exciting losers. This is how extremes are created. The middle of the band consists of market indices, sector indices, and blue chips. The rubber band mean consists of components that are not easy to manipulate, not only because of their sheer size but also because of the way they are constructed, as averages.

After a point, the rubber band reaches a limit. The speculative pressure exhausts and the extreme ends reverse. The winners stagnate or fall while the losers consolidate and move up. The two ends of the rubber band are the points of largest recoil. The larger the recoil, the larger the price move. And larger the price move, the larger the price gain (loss). However, while the extremes revert with force, the averages and blue chips at the mean may simply go unchanged. We have illustrated this phenomenon on prior occasions, where we have shown how the best and worst can diverge more than 100 per cent from each other annually, while the Dow Industrials might sleep.

Behavioural finance and investment psychology tells us we don’t let our winners run. How can you let your holdings run a marathon, when you are trained for sprints? Eighty per cent of the investing community never makes money because of this holding period mismatch. Above this, the cocktail of leverage with signals is turning into a “Knightmare” (Knight Capital). The rubber band also explains market philosophy. The market has pulled the leverage to an extreme while ignoring delivery-based investing. The rubber band has coiled again. If the markets are punishing leverage and high frequency are they going to reward slow investing systems?

It’s no surprise that intermediate multi-week signals have delivered better than active multi-day signals on many global Indices since 2006, buying if the 5 week average was higher than the 10 week price average. Okay! We can fit a better case favouring active versus passive. But I think you get my point. Life on the fast pace is exciting, but if the rubber band retorts and we have another 36 months of slow investing action, high frequency will fall on its knees.

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Orpheus Capitals’ vision is to revolutionize the world’s understanding of TIME and build research analytics around it.

GUEST COLUMNIST

WEALTH EFFECT R.I.P.?

By David Rosenberg of Gluskin-Sheff

So the Fed is pinning its hopes on stimulating the economy via the wealth effect again, as it did when it revived the post-tech-wreck asset bubble in housing and credit in that now infamous 2003-07 period of radical excess. But here's the rub. While there is a wealth effect on spending, the correlation going back to 1952 is only 57%. But the correlation between spending and after-tax personal incomes is more like 75%. The impact is leagues apart. And that is the problem here, as we saw real disposable personal income decline 0.3% in August for the largest setback of the year. The QE2 trend of 1.7% is about half the 3.2% trend that was in place at the time of 0E2. Not only that, but the personal savings rate is too low to kick-start spending, even if the Fed is successful in generating significant asset price inflation. The savings rate now is at a mere 3.7%, whereas it was 6% at the time of QE1 back in 2009 and over 5% at the time of QE2 2010 — in other words, there is less pent-up demand right now and a much greater need to rebuild rather than draw down the personal savings rate. This is a key obstacle even in the face of higher net worth.

What is fascinating is that the rise in net worth looks fairly tenuous. Yes, home prices have risen on the back of tighter supplies but the builders have ramped up production by nearly 30% over the past year. And the first-time buyer is dormant, which means that the key source of demand in the food chain is still missing, and investor-based buying will only go so far in terms of sustaining any further home price appreciation.

But it is the action in the equity market that is most telling. This is the first time after any major central bank incursion — QE1, QE2, Operation Twist and LTRO — that 13 (trading) days after the announcement, the stock market is lower. The S&P 500 has dropped 1% since the day of the Fed meeting whereas it was up an average of 4% at this juncture following the other four announcements. I had said earlier that the Fed has likely established a firm floor but it looks clear that the more ominous global economic backdrop has also established a ceiling — I mean, weren't the lagging hedge funds supposed to have been piling in by now? And all of the cyclical sectors are lower which again is highly atypical—all down around 2%. And if there was a group that the Fed was really trying to support it was the Financials and this sector is down 3% along with basic materials. Go figure. The more defensive areas like Health care, Utilities and staples have outperformed, which is very rare after a QE announcement out of the Fed.

At the same time, the yield on the 10-year T-note. which is usually steady around this time following a post-QE announcement, has fallen more than 10 basis points this time around. The TSX has turned in a similar though less dramatic swing this time - Financials and Materials, which had cheapened up far more going into this than their U.S. counterparts, have actually hung in, as has the overall Canadian market (though to be fair, it is usually up 2% by now).

As the accompanied charts illustrate, one obstacle for the equity market of late has been sentiment and positioning. The Market Vane Bullishness index is at the high end of the range and as the latest CFTC (Commodity Futures Trading Commission) data indicate, the net speculative long positions on the S&P 500 and Nasdaq on the CME have already surged to record high levels. In other words, a lot of the buying power that pundits were expecting has already been exhausted.

CHART 5: DIMINISHING RETURNS ARE SETTING IN

Stock Market Performance 13 Trading Days after the Announcement of each Program
(percent)

S&P 500 and sectors	Ancmnt. date	Info tech	Financials	Energy	Health care	Cons. staples	Industrials	Cons. discret.	Materials	Utilities	Telecom	S&P 500
QE1	25/11/2008	4.4%	-1.5%	0.0%	2.5%	-1.5%	0.8%	7.5%	3.9%	-3.6%	0.9%	**1.3%**
QE2	26/08/2010	7.8%	9.9%	7.1%	6.6%	4.5%	8.8%	8.3%	9.0%	2.5%	5.5%	**7.4%**
Operation Twist	21/09/2011	2.2%	4.2%	2.1%	1.6%	1.1%	3.8%	3.3%	0.8%	0.9%	1.4%	**2.4%**
LTRO	21/12/2011	4.7%	8.2%	2.8%	3.2%	-0.9%	5.8%	4.3%	7.7%	-1.7%	0.8%	**3.9%**
	Avg. prior to QE3	4.8%	5.2%	3.0%	3.5%	0.8%	4.8%	5.8%	5.3%	-0.5%	2.2%	**3.8%**
QE3	13/09/2012	-2.4%	-2.9%	-1.8%	1.9%	0.4%	-1.6%	-1.8%	-3.1%	-0.5%	-1.1%	**-1.4%**

TSX and sectors	Ancmnt. date	Info tech	Financials	Energy	Health care	Cons. staples	Industrials	Cons. Discret.	Materials	Utilities	Telecom	TSX
QE1	25/11/2008	-2.6%	-2.1%	2.6%	4.7%	6.2%	4.2%	-0.8%	15.9%	0.0%	-24.3%	**0.9%**
QE2	26/08/2010	-4.0%	8.7%	3.0%	9.7%	0.4%	5.1%	2.9%	1.9%	4.5%	0.7%	**4.2%**
Operation Twist	21/09/2011	7.9%	2.2%	-0.3%	-1.7%	1.2%	5.9%	2.6%	-7.6%	2.3%	2.0%	**-0.7%**
LTRO	21/12/2011	6.0%	5.5%	2.5%	8.2%	-0.8%	6.5%	5.6%	6.3%	0.1%	1.0%	**4.4%**
	Avg. prior to QE3	1.8%	3.6%	2.0%	5.2%	1.8%	5.4%	2.6%	4.1%	1.7%	-5.1%	**2.2%**
QE3	13/09/2012	1.6%	0.1%	-1.1%	-1.1%	-0.6%	-1.5%	0.0%	1.6%	2.3%	0.2%	**0.0%**

Source: Bloomberg, Gluskin Sheff

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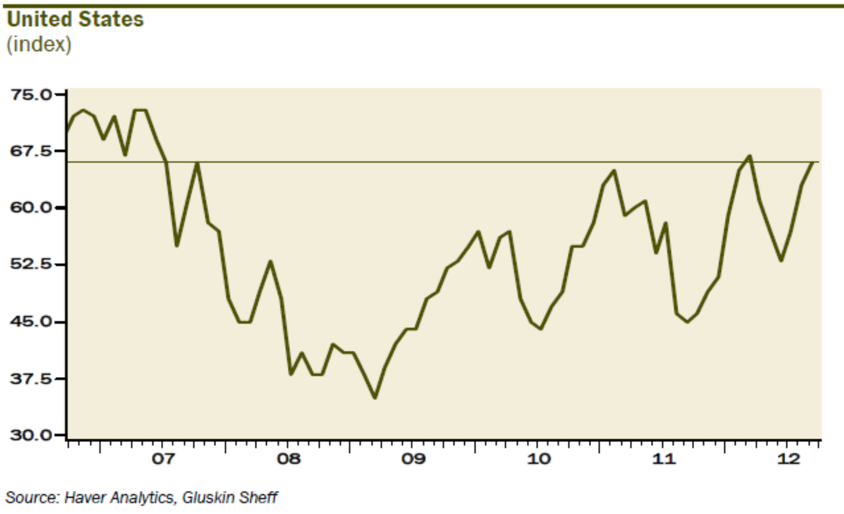

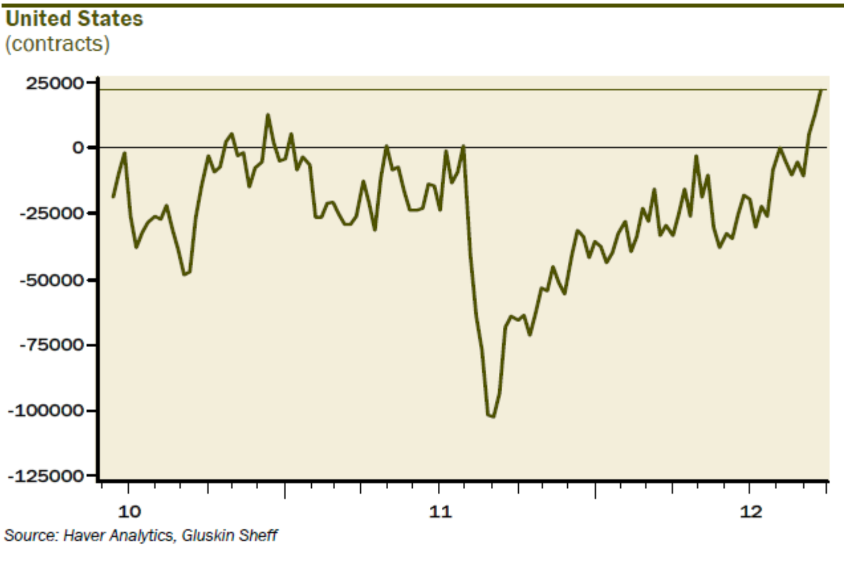

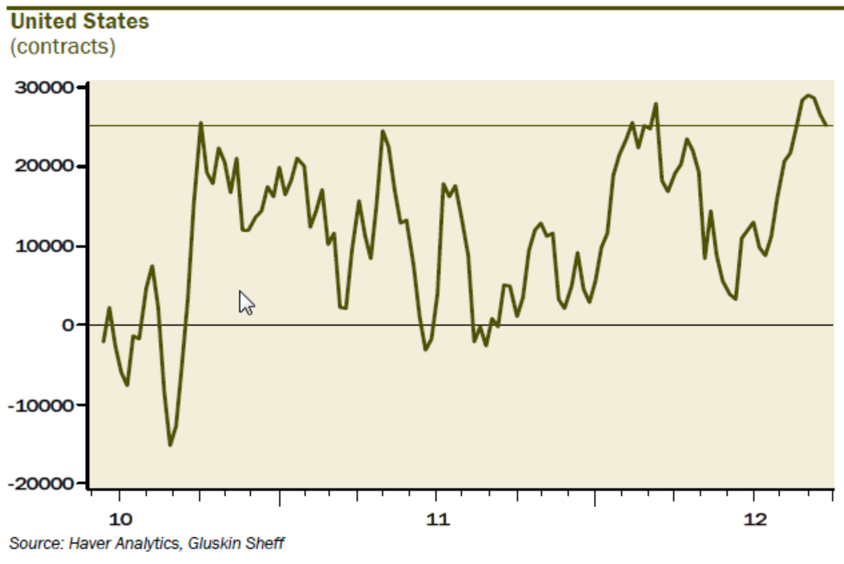

The pace of economic activity is weakening, with all deference to ISM. With profits faltering and wage earnings slowing down, we have a situation where Gross Domestic Income softened to a mere 1.7% annual rate in Q2 from 6.1% in Q1 and 4.6% in Q4 of last year. This was the weakest performance since the third quarter of 2009 just as the worst recession in seven decades was ebbing. In real terms, GDI actually stagnated — up a mere 0.16% annual rate, a buzz-cut from the 3.8% pace in Q1 and 4.5% in Q4, again the weakest tally since Q3 last year and the second weakest since Q2 2009. This puts the GDP slowdown in Q2 into perspective. GDP is all about spending. GDI is all about income. And it is income that drives confidence, spending, and ultimately prosperity — not the other way around.

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