



WEALTH MANAGEMENT



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2009 Year End Market Commentary

Eeny Meeny Miny Mo

We entered 2009 in the midst of financial crisis, recession and despair. As the fear subsided we felt some optimism and hope. 2009 ended with feelings of uncertainty and being at a three-pronged fork in the road. The intention is not to draw a comparison to a Robert Frost poem because unlike the classic poem, in this case other people will be choosing the road we take and despite their good intentions it may turn out to be a less than pleasant journey.

2009 was a volatile year with the markets continuing to plummet until early March in reaction to the financial crisis and severe recession. Fortunately fears of a global depression did not come to pass. As investors realized that we were not facing a depression the markets rebounded strongly to the upside and recovered about half of the declines. We finished the year moving mostly sideways for the final weeks.

During the crisis riskier assets had been sold to remarkably low levels. These led the advance as that “fear factor” was removed from pricing. The Toronto Stock Exchange index, the TSX, had its best year since 1980 with a rise of over 35%. The Canadian dollar also showed strength with an increase of 17% versus the US dollar although much of that was due to US dollar weakness.

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Coordinated efforts by central banks, record low interest rates and unprecedented spending by governments (including rescue packages) helped to mend the financial system (for now) and stave off something far worse than what occurred. While markets have since stabilized and risk seeking behaviour has returned, the main issue now is the uncertainty of the global economic recovery. Stimulus effects are wearing off and the economy is left to its own devices and these devices may not be strong enough to provide adequate growth. Forecasts for growth in 2010 and 2011 are moderate and constrained by the weak job and housing markets in the US. Since consumers are the biggest factor in the growth of the economy, until jobs and housing show signs of improvement, consumers are unlikely to kick start the economy.

The concern now is the timing and the rate at which all of these stimulus activities will be removed from the economy. If it is too soon it could lead us back into recession. If they wait too long it could lead to significantly higher inflation. Policy makers are well aware of these issues and have a delicate balancing act to perform.

So here we are at that three-pronged fork. One road will lead us back to recession. Another road leads to high inflation. The good news is there is also a middle road which will take us on a nice, smooth ride home with reasonably steady growth and moderate inflation. The bad news is that central bankers and government leaders will decide which road we take, and it's dark and they have no headlights.

They did a remarkable job of navigating through the credit crisis during a raging storm. Hopefully the weather is better for the drive home.

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