

June 2008

As we enter the summer months, I felt that it would be a great opportunity to offer a few insights on the state of the markets for the first half of the year and what we can expect moving forward. My last communication provided information on the sub-prime meltdown of global financial banks with the concern that the U.S was entering a recession. The term "write-down" was commonly used in the media which meant that most financial institutions were writing-off billions of dollars off their books to compensate for the drop in value of the CDO's (collateralized debt obligations) or mortgage pools they owned. Most of the bank's CEOs wanted to write-off as much bad debt as possible for 2007 in order to work off a clean slate for 2008 earnings. This activity led to a significant drop in the global stock markets from the peak in July 2007. Since the fallout of the sub-prime market, global financial institutions have written-off just over two thirds of CDO's worldwide. In short, there may still be more write-downs to come but the good news is we weathered most of it!

I mentioned the market peaked in July of 2007 to illustrate my next point. Since 2003, we experienced four years of a steady "bull market". We had some minor pullbacks during that time period but by and large the market was steadily increasing. Since July of 2007, we started to experience a steady decline or "correction". Most analysts predicted January 2008 as the bottom of this correction and that the major markets advanced since then. By definition, a market correction is a drop off 10-20% and usually lasts for 10 months. A correction usually takes place once every five years. If you look at the facts, July 2007 to the present is 10 months already. Are we out of the woods yet? It is hard to say but from what I am seeing with Q1 and Q2 earnings for 2008, the damage is not as severe. It is true that earnings do not look as good as a year ago, but they are not as bad as analysts predicted. Furthermore, the major central banks worldwide have continued to drop interest rates and may continue to do so moving forward. The underlying concern that still remains is the health of the U.S economy. It is quite clear that the U.S has slowed considerably with most analysts concluding that the U.S is in fact in a recession. The continued tailspin in the U.S housing market has seen it's benchmark home price index fall to a 33 year low. Even when home sales begin to pick up it will take time for inventories of unsold homes to be worked off and prices to stabilize. The consensus is that prices will continue to fall and existing home prices to reach a level between 15-20% below their peak in 2006.

From a stock market index perspective, the S&P/TSX Composite Index (Toronto Stock Market) is the only index that is in positive territory year to date. All the other major indices are negative (U.S, Europe, Asia, etc.). More importantly, the S&P/TSX broke through the 15,000 mark for the first time ever. This record is largely due to three main sectors; energy, materials, and IT. With the price of oil hitting an all-time high, it is only natural that the energy laden Canadian Market would benefit from this rise. Having said that, the constant volatility in the energy/resource sectors of the market provide the greatest amount of risk to an individual's portfolio. For this reason I stress the importance of diversification in other sectors of the market such as financials (banks), and bonds to name a few.

Lastly, I enclose a quick summary of the Federal Budget highlights which would mainly pertain to our everyday lives. If you have any questions, please feel free to contact me at (416) 964-0440 or l.belmonte@securityfinancial.ca.

Have a great summer,



Leo Belmonte BA, CFP, FMA, FCSI, AMP
Certified Financial Planner