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THE BOUNCING MARKET BAROMETER

Isn't the bouncing around we have gone through over the last 3 years wearing you down? Going through a several years in the middle of the last decade, with everything seeming to run quite smoothly, then taking us full speed through the worst market decline and recession since the 30's and now….. "WHAT?!?! AGAIN?!?! The economy is much better looking now than it was just over 2 years ago however, if you're like me, I'm sure you are feeling it's the ultimate in emotional fortitude testing.

The ratings changes in the U.S. and potentially in other countries (most of which could very well be in Europe), are noteworthy. What it does do is actually good and not negative or really surprising, as the market, which focuses more on short term weather reports, would have us believe. It actually helps pave the way for greater attention being paid to a governments fiscal houses. The market knows developed market governments (namely Europe, the U.S. and Japan) are heavily in debt. The turning of these huge cruise ships will take years to head completely change course. But the fact remains, with these downgrades, the turning has started. That is much needed.

These behemoth corners of the world have a lot of people complaining about their countries change in spending. The ship's passengers and ultimate payers of the bills don't want to give up the amenities they have enjoyed for so long and are kicking and screaming at the ship's crew to keep things the way they are. However, the changes are being laid out and starting. Now it's the uncertainty of how much the ship will list while it's turning and how much discomfort and pain the passengers will feel and experience during the whole ordeal.

That is the crux of the selling currently. Uncertainty. Markets abhor uncertainty and don't do well in an environment of it. So, to take out the nautical analogies, the uncertainty is deeply rooted in the question of, is another recession coming OR do things slow down a bit and economic growth cycle that started in mid 2009 continue? The majority of investment managers I have received or heard comments from in the past several days is that the economic growth will continue. Sliding back into a recession is possible but not likely.

We saw a similar downdraft period in the investment markets late last spring, although, not to the same magnitude as we have seen through the last part of July and into early August. However, the issues of concern then were all very much the same as they are today.

If you strip away the government debt noise we are being bombarded with, you will find that the economy is still moving forward, albeit not at nearly the same clip it was doing so several months ago. Again, uncertainty is the underlying issue and it's being exacerbated by our continued nervousness carried over from the winter of 2008.

If you are concerned or nervous about the downside on your portfolio from, here are some facts that clearly show we are in a much better position than we were in 2008. These include:

THE SYSTEM IS VERY LIQUID - U.S. credit markets are not showing signs of stress. Interest rates on U.S. government debt are still very, very low. Corporate balance sheets are flush with cash. Banks have a lot

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of capital and reserves. U.S. consumers have been saving 7% of their income for the past 3 years. This is exactly the opposite of what we saw in late 2008 / early 2009.

U.S. CONSUMERS AND CORPORATIONS HAVE THE WIND AT THEIR BACK - Oil prices are much lower than they were and so are interest rates. This gives people more breathing room for paying down debt.

EQUITIES ARE CHEAP, ESPECIALLY VERSUS BONDS - The after tax yield on U.S. dividends is higher than 10 year Treasury bonds. Other than briefly at the end of 2008, it's the first time this has happened since Ringo Starr replaced Pete Best as drummer for the Beatles.

THE INVESTMENT MARKETS ARE HIGHLY OVERSOLD - The "Relative Strength Index" (RSI) and many other technical measurements are hitting all time lows. That hasn't been seen since March 2009, just before investment markets turned upwards quickly and improved dramatically.

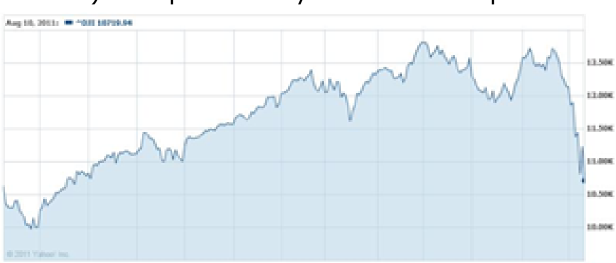
COMPANIES CONTINUE TO PROSPER - Though economic and macro surprises have largely been on the negative side over the past few weeks, the companies that many of us have invested in, continue to perform well. Of the 500 companies which make up the S&P500 index, 407 of them have reported earnings. 72% of them have beat earnings estimates. The expected growth rate of their earnings is 16.4%. Those earnings will continue to move dividends upwards and that will, in the long run, boost company share prices. In the interim plug your ears to the noise of people pushing, shoving, yelling and pointing at why things are so bad.

So, as the ship turns, be prepared for more drama and testing of our emotional fortitude. However, for each trying time we go through, we become better investors, ones who can maintain discipline and rational thought.

DO YOU LIKE BIG DISCOUNT SALES? THERE IS A HIGH QUALITY INVESTMENT SALE GOING ON NOW!

If you have cash building up in chequing or savings accounts paying you 0.5% to 1.5% interest? Eventually you have to put that money to work. Leaving it where it is will have the inflation rate of today (3.1%) slowly eating away at the value of your money. For each $10,000 you have invested your are earning $150 per year of interest (that's assuming you pay $0 tax) however the cost of gas, groceries etc is going up by $310 per year. That is exactly how inflation is eating away at your money. Now is an opportune time to take advantage of the sale that is taking place TODAY on good quality investments. You can get your investments to pay you much more than those gas and groceries are costing you, rather than less.

Unlike governments of the developed world and to a lesser extent citizens, large global companies have continued to accumulate billions of dollars in their coffers. They are flush with cash. Now is an opportune time to invest in a well diversified portfolio of investments at greatly reduced prices (see chart of DOW index for past 12 months). In particular you'll want companies that are using some of their mountains of cash to pay out dividends.



For U.S. listed companies, dividend payouts are only 27% of net earnings. That is at a 100 year low and the average is almost 2 times that amount. In time, those dividend payouts will increase and the share prices will increase with them. 1, 2, 5 and 10 years from now will only be remembered by the smart investments you made at the cheaper prices of today.

Not that adventurous? High yield corporate bonds and bonds of governments whose finances are in great shape were, before the last few weeks, becoming fairly priced. However, they still offered very healthy returns. Today, you can buy those same investments but now with higher interest than a few weeks ago. For a well diversified bond portfolio you can collect approximately 5-6% of interest. This won't last long though. Before you know it you will have lost the opportunity to make a sound, very timely investment with high interest rates (and potentially even get some capital gains on top of that interest). Just ask some of my clients who invested millions of dollars in high yield corporate bonds since March 2009 with the cash they HAD on the sidelines. Call or email me if you want to do the same at these investment sale prices we are seeing today.

THE 8 PERILS OF JOINT OWNERSHIP

Joint ownership is something I find a lot of my "older than 59" clients ask me about for various advantages however there can actually be more downside than upside. Here are the risks:

YOU WILL NOT SAVE TAX— any interest, dividends, capital gains will be taxed in your name, even if you had the assets in your name and want to transfer it to your spouse. It's no different with children or anyone else for that matter, even when you eventually die.

(Continued from page 2)

A TAX BILL WILL BE TRIGGERED— as soon as you add another owner to an asset (other than your spouse), CRA will consider 50% to be disposed of at today's fair market value. If it's something you bought a long time ago for much less than it is worth today, you're going to face a tax bill.

TAX ON YOUR PRINCIPAL RESIDENCE— A very common consideration is wanting to put a principal residence into joint names with a son or daughter. Because you can only have 1 principal residence, if they own their own home already, half of your principal residence will now be taxable when it is eventually sold.

JOINT OWNERSHIP MEANS LOSS OF CONTROL AND THE CHANGE COULD BE PERMANENT — You can change the joint ownership back into your hands only if the other owner agrees. You are no longer in control of the 50% you gave away. This can also affect what you may want to do with your remaining half going forward.

POTENTIAL LOSS TO CREDITORS— You are confident in your present and future financial stability however, how do you know that the person whom you are sharing your asset with is not going to get in a financial mess in the future, or isn't in one now? That potential could set you up for a forced sale of an asset or you bailing them out.

YOUR ESTATE MAY NOT BE DIVIDED UP FAIRLY— If you are wanting to share your assets equally when you die, joint ownership could significantly alter that. There is no requirement for your joint owner to share the asset with others. Legally, it becomes 100% theirs upon your death.

FAMILY DISPUTES AND COURT CASES— Everyone has a potential "Mr Hyde" and it can surface when an estate and a lot of money is involved making things ugly for everyone. You have to make your intentions very clear IN WRITING but even then, history leaves a long list of legal wrangling's due to the settling of an estate.

MINIMIZING YOUR HEIR TAX WILL NOT BE POSSIBLE— It is possible, when you die, to leave assets to a Testamentary Trust, for the benefit of your heirs. This trust becomes a separate tax payer. So rather than income tax being added to your son or daughter's very healthy income, you could have the tax paid by the trust while your heirs enjoy the income. Putting assets in joint ownership before you die closes that year after year after year income tax reduction opportunity.

An Unequally Divided Estate Is At Significant Risk To Be Contested (but there is a fix)

B.C.'s estates legislation is going through a once in a 100 year major overhaul and the changes will come into force by the end of this year. One of the key new provisions of the new Wills, Estates and Succession Act deals with "undue influence" in the drafting of a Will. Within that, the person who is getting more than someone else from an estate will have to prove that they didn't have undue influence in the writing of the Will of which they are a beneficiary of. In other words, you are guilty until you can prove your innocence. Currently, it is the person challenging the Will who needs to prove that undue influence was at play in the making of the Will.

Are you the executor of a Will and a significant beneficiary in that Will? You need to be aware of this issue. If one of the other beneficiaries, one who is getting less, contests the Will, prepare yourself for a court battle when the estate is being settled. The burden of proof will fall on you and if you can't prove, you'll get a lot less.

There is a way to eliminate this risk. Other than getting the Will writer to change their Will and put you down for less (who in wants to do that?), you can suggest to put assets into some form of life insurance contract such as a "seg" (segregated) fund or deposit with a life insurance company. Doing this allows beneficiaries to be put directly on the contract and thus completely bypasses the estate and the whole Wills, Estates and Succession Act eliminating any potential legal fights (this will also save thousands of dollars in probate fees).

Web Gems

Globe & Mail— As you have probably noticed from the HHHhhhmmm section over the years is that I poke around Globe & Mail a lot. I read less and less paper print and the Globe & Mail is no exception. G&M is so much better on the web than on paper. You can read all of the current news of the day, search previously published stories, get video news reports from other sources (ie I just watched a piece that appeared on CTV about a petition that has popped up to get Sesame Street's Ernie and Bert…. married?!?!) etc etc ETC. Who says paper is better? More than that they have a very user friendly app for smartphones. I can preselect categories I am most interested in so whenever I click on the app on my Blackberry I don't see all the other stuff. This is all in a very clean interface with no ads or little icons. Go to www.theglobeandmail.com and see what I mean.

Hhhhhmmmmm......

In most U.S. states you can openly carry a handgun (fully loaded) except for Texas and a couple of other states where you can't carry. In California you can carry a handgun as long as it's not loaded. Time, March 2010

Moscow is the home of the most billionaires, 79, topping New York's 58. For the first time in a decade, there are more billionaires in Asia, 332, than in Europe, 300. China has 101. USA Today, March 2011

Many homeowners in Alberta are struggling to meet their mortgage payments as Calgary suffers a 6 year real estate decline that is only recently showing signs of improvement. Homeowners there are nearly twice as likely to fall behind than those in the rest of Canada. And the proportion struggling to make mortgage payments is the highest it has been since at least 1990. G&M, May 2011

We view the Canadian dollar as being overvalued, on a purchasing power parity basis, by about 25% to the US dollar, by 10% to the Euro and 19% to the Sterling. Black Creek Investment Management, April 2011

Ironically, but not surprisingly enough I heard very recently a comment by a Chief Economist from one of the major Canadian banks who said (and I'm paraphrasing) Because of the support the Canadian dollar has shown during this market downswing, the Canadian dollar could see $1.15 vis a vis the U.S. dollar.

Someone earning $127,611 or more in 2011 is limited to RRSP contributions of $22,450. Individual Pension Plan (IPP) contributions based on the same earnings would be $31,900 for a 55 year old, $35,000 for a 60 year old and $38,700 for someone age 65. GBL Actuaries & Consultants (Calgary)

Relative to the broader market European banks have only been cheaper once in the last 30 years than they are today. That was in March 2009, at the height of the financial crisis. Portland Investment Counsel, July 2011

30 million people over 18 years old in the EU do not have a bank account, with 6 to 7 million turned down because of poor credit history, no proof of income or failing to meet residency requirements. G&M, July 2011.

Rising wages and an expected increase in the value of China's currency means that mid-tier manufacturing wages in China will reach parity with minimum wage levels in the United States by 2017. G&M, July 2011

Re: China..."If fertility drops much below 2.1 babies per woman, the population will shrink unless it is offset by higher immigration. For this reason, a demographic cloud hangs over China. It may be 'the first country to grow old before it grows rich.' ... Its fertility rate is below two and its working-age population will start to decline around 2015." Greg Ip, Economics Editor, Economist magazine

"The average Mexican lives longer now than the average Briton did in 1955. Infant mortality is lower today in Nepal than it was in Italy in 1951. The proportion of Vietnamese living on less than $2 a day has dropped from 90 per cent to 30 per cent in twenty years. The rich have got richer, but the poor have done even better." Matt Ridley, Author (most recent book, "The Rational Optimist")

Carey

PS. Do you want to stay more fully connected and communicated with, particularly during these tumultuous times? Search for me on Twitter LinkedIn and / or Facebook then.... "Follow", "Connect" and / or add me as a "Friend".