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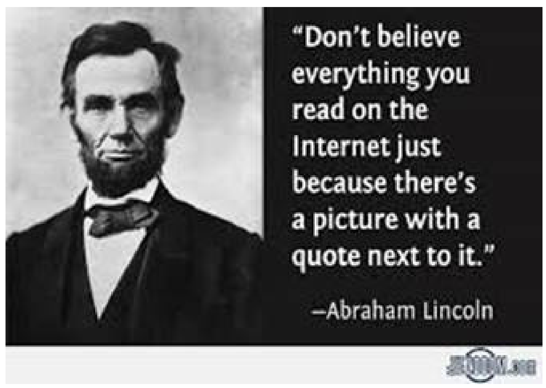
THE POWER OF PERCEPTION



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We can be pretty certain Abraham Lincoln didn't actually say that but it sure looks legit in print. There's reality and then there's reality. We are aware of half-truths but ***"the risk is believing the wrong half"*** (from an anonymous quote).

The chaotic behaviour of the financial markets over the past year and a half has created an abundance of opinion. This has flourished in the vacuum of sound market direction caused by the oil pricing event. The wise investor has seen this all before and tunes the noise out. But, these conditions allow doomsayers to resonate through business media chatter, fostering a notion that things can only get worse and that recession is imminent. The risk to hearing this enough is that it could potentially become self-fulfilling.

We are, undoubtedly, in a weak stock market cycle but history will eventually prove this to be yet just another period of deviation in an otherwise upward direction in values.

Over the past 18 months, we have heard about the impact on the stock market due to falling oil prices, the U.S. central bank raising interest rates, about recession and inflation, and most recently about inverted yield curves and the risk of bank failures. There is always a fire somewhere and yet the stock market continues to climb over time. The following is a chart of the Dow Jones Composite over the past 100 years. Below it are some significant events that threatened and interrupted it's performance temporarily only to fade as the market continued to climb.

Great Depression Korean War Vietnam War Interest rate hikes Y2K Recession

World War II Castro takes Cuba Energy Crisis Black Monday Crash $140 Oil Oil price plunge

By comparison, our current woes appear modest and it's important to keep in mind that much of the current environment continues to be geo-politically / media driven.

<u>Instead, economic fundamentals are the drivers of market performance.</u> Let's look at the fundamentals in the streets:

- **Inflation, the main condition preceding a recession, remains historically low.**
- **Low energy prices continue to be favourable for production and the consumer.**
- **Interest rates remain historically low and stimulative.**
- **Corporate earnings continue to be resilient, in many cases beating analyst expectations for revenue and earnings, despite being sold off.**
- **Stock market proceeds are flowing into the bond sector rather than being withdrawn from the market, resulting in low bond yields.**
- **The U.S. and China, the two biggest global economies, continue to demonstrate modest but positive GDP growth and employment levels have not materially deteriorated.**
- **It's the stock market which is the main stage for current events and the tendency is presently to sell into rallies rather than to buy on the dips.**

RECOMMENDED STRATEGY FOR THE TIMES:

- **CONTINUE TO MAINTAIN A DEFENSIVE POSTURE WITH INCOME, CASH RESERVES, MARKET HEDGES AND OPPORTUNISTIC TIMING OF ACTIVITIES CONTINUING TO BE NOTABLE FEATURES OF THE PORTFOLIO.**
- **RETAIN ONLY QUALITY EQUITIES IN CORE SECTORS HAVING A RELIABLE DIVIDEND HISTORY TO "PAY YOU WHILE YOU WAIT". THESE WILL RESPOND MOST IMMEDIATELY AND DRAMATICALLY WHEN STABILITY RETURNS TO THE MARKETS.**

Regards

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