REVIEW & COMMENTARY
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Half empty, half full

While the investors continue to get constantly bombarded with news, it is interesting to watch their reactions. The new buzz words "risk off, risk on" are espoused in equal amounts every day. One side (risk off) are investors who have missed most attractive equity gains of the past few years and wait vigilantly for another massive correction. On the other hand (risk on) are those who may feel similar trepidation but consider the future will be brighter than the past and invest in equities. Ample news provides both sides with enough evidence for their resolve. However, given the volatility of the markets, it would appear that many investors change their mind regularly. Markets turn violently at the drop of a hat. While we have learned from decades of experience that no one tells the future with any better consistency than anyone else, we have always maintained that times of trouble are better times to invest. Admittedly, even when times are buoyant, we stay the course. We believe that there is enough evidence to suggest that the recent multi- year rally will continue.

Of course, the naysayers will point to Europe and a weakening China. While we don't dismiss a certain amount of posturing by EU leaders, there appears to be an undercurrent that Central Banks and their bankers have come to grips with the severity of the financial duress. Whether they and their countrymen will have the resolve to follow through with the various programs remains to be seen. Debates continue to rage as to whether austerity will take too high a toll on these economies and their constituents, however, there seems to be little alternative. When faced with default, many countries have realized that the price to be paid for the alternative was far too high. There is little doubt that the austerity programs will dampen economic activity for some time but if the countries in question stay with it, time will provide a necessary boost to investors' confidence.

China watching has become even more intense. Any indication either way is quickly reflected in commodity markets which in turn dramatically affect markets around the globe, specifically here at home. They recently reported a rise in GDP of an otherwise outstanding 8.1%, but when markets were expecting something higher, it was considered a 'half empty' result. And these days, markets don't take time to deliberate. Better safe than sorry, "risk off", in a hurry.

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So if that is a brief glimpse at the "half empty" perspective, what about the "risk on" or 'half full' version of the world? China indeed is slowing- they have announced their intentions quite deliberately and repeatedly. They have tightened monetary policy and increased reserve requirements at their banks. However, when the second largest economy in the world grows by over 8%, it suggests that there is some underlying strength. Importantly, China's economy may be volatile but it will continue to grow in an absolute sense. Statistically, the numbers are quite staggering. Since 2000, US exports to China, according to Bloomberg, have grown 542%. US exports to the rest of the world over that time period grew by a mere 80%. Last year these exports totalled almost 104 Billion dollars! In the same year, China sold the US over 2.5 times that amount in goods. Clearly China and the US are co-dependents but it also suggests that their influence on the rest of the world is significant. With a burgeoning population, China's demand for imports of all goods and service will only increase. Further, one need only look at the infrastructure requirements China will have to put into place to not only realize that growth will continue, but will continue for decades to come. And all the resources required to facilitate this growth will be a boon to resource economies such as Canada.

Back here in North America, corporations remain profitable. There are pockets of strain but even Real Estate prices in the United States appear to be moderating. Corporate North America remains financially strong. Good earnings and a significant percentage of companies have increased their dividends in the last 6 months. This is testimony, in part, to management's confidence in their company's immediate future; companies don't increase dividends unless they feel quite confident business will continue to improve. Apple, who hasn't paid a dividend for close to 20 years, recently declared an initial dividend of almost 10 billion dollars annually to shareholders- this isn't a bad shot in the arm for the economy. Add the other increases and equity shareholders just will get a nice raise in 2012!

These companies are as financially strong, if not stronger, than at any other time of economic uncertainty. According to J.P. Morgan, almost 700 billion dollars of excess cash sits on US publically traded corporate balance sheets. If we are wrong and the world economies do untangle, they will be in relatively good shape to weather the storm- probably better than most sovereign nations. So while the debate continues whether the glass is half empty or it is "risk on", continue to invest in good companies, which pay dividends. There are far too many investors yet to embrace this and when they do the glass could fill up rather quickly.

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