



MARKET UPDATE

BWMG

PERSPECTIVE ON THE CURRENT EQUITY MARKET CORRECTION

When the stock market is newsworthy to the extent of moving from the business section to the front page of the local newspapers or newscasts something is amiss. The recent stock market decline has resulted from the impending recession in the US due to the dramatic decline in housing prices and its impact on US consumer spending. Outside the US, the global economy is widely expected to expand in 2008 but could be negatively impacted by a US recession. Despite that, global stock markets have declined as much or more than the US market over the last few weeks. While a US recession may not have a huge impact on global economies, fear and panic have spread globally. It is the uncertainty of how lengthy and deep any recession could be and whether there are still any major sub-prime “disasters” which have yet to be announced which has led to panic and thus the recent market sell off.

■ US Markets

We do not know how deep or lengthy this market correction will be. The chart below shows that the US stock market is a leading indicator for a recession and normally peaks several months before a recession starts and then rebounds before the recession ends. It also shows that the median market decline in a US recession is almost 17%. The current peak (October 2007) to trough decline is about 15%. So the correction could get worse before its conclusion.

S&P 500 - Peaks and Troughs

Business Cycle		Peak of S&P 500		Lead (+)/Lag (-) Months	Trough of S&P 500		Lead (+)/Lag (-) Months	S&P 500 Peak to Trough % Change
Peak	Trough	Date	Level		Date	Level		
Jul-53	May-54	Jan-53	26.18	(+6)	Sep-53	23.27	(+8)	-11.12%
Aug-57	Apr-58	Jul-57	48.51	(+1)	Dec-57	40.33	(+4)	-16.86%
Apr-60	Feb-61	Dec-59	59.06	(+4)	Oct-60	53.73	(+4)	-9.02%
Dec-69	Nov-70	May-69	104.62	(+7)	Jun-70	75.59	(+5)	-27.75%
Nov-73	Mar-75	Jan-73	118.42	(+10)	Dec-74	67.07	(+3)	-43.36%
Jan-80	Jul-80	Feb-80	115.34	(-1)	Apr-80	102.97	(+3)	-10.72%
Jul-81	Nov-82	Apr-81	134.43	(+3)	Jul-82	109.38	(+3)	-18.63%
Jul-90	Mar-91	Jun-90	360.35	(+1)	Oct-90	307.12	(+5)	-14.77%
Mar-01	Nov-01	Aug-00	1485.46	(+7)	Sep-01	1044.64	(+2)	-29.68%

Decline - Average -20.21%

Source: Northern Trust Global Economic Research

Decline - Median -16.86%

However, what we do know is that at some point the stock market will bounce back, probably before the end of any recession, and possibly in dramatic fashion.

Canadian Markets

The chart below provides a history of the Canadian Equity market corrections over the last 30 years. The average duration of a correction has been 6 months while the average loss has been 21.8% (the current decline since the peak in July is 17%). However, the average stock market gain between corrections has been 60.9%.

S&P/TSX Corrections Over the Last 30 Years

Correction Start Date	Correction End Date	Duration (months) - Negative Market	% Loss During Correction	% Gain from Last Correction	Duration (months) - Positive Market
05-Oct-1979	25-Oct-1979	1	-15.70%	87.80%	
29-Feb-1980	27-Mar-1980	2	-22.40%	44.20%	4
28-Nov-1980	25-Sep-1981	10	-24.50%	41.10%	8
26-Sep-1983	24-Jul-1984	10	-20.00%	43.40%	24
13-Aug-1987	28-Oct-1987	2	-31.00%	97.80%	37
23-Mar-1994	24-Jun-1994	3	-14.10%	62.40%	78
10-Mar-1997	14-Apr-1997	1	-10.30%	59.90%	33
07-Oct-1997	12-Jan-1998	3	-13.50%	27.00%	6
22-Apr-1998	05-Oct-1998	6	-31.80%	25.40%	3
24-Mar-2000	14-Apr-2000	1	-15.70%	88.40%	18
10-Sep-2000	09-Oct-2002	25	-50.00%	34.40%	5
19-Apr-2006	13-Jun-2006	2	-12.70%	119.30%	42
Average		6	-21.80%	60.90%	23
19-Jul-2007	21-Jan-2008	6	-17.00%	34.10%	12

Source: LeaderLane Financial Group

The purpose of our message is not to whitewash the extent of the stock market decline over the last few weeks or to provide a rosy outlook for the near term, but to provide perspective in a difficult time. In bull markets, stocks are often overpriced yet investors are eager to invest additional cash. In bear markets, stocks are arguably cheap, yet investors are hesitant to invest additional funds. This is normal human behavior as we get caught up in the moment. While we know it is difficult to commit to additional investments in these markets, we also believe strongly that now is not the time to sell. Furthermore, now is a great opportunity to truly reflect upon your risk tolerance. If these markets are causing you to seriously “lose sleep” then you should consider changing your long term asset mix now.

When Benjamin Graham, the “Father of Modern Security Analysis”, was asked what it takes to be a successful investor he replied “People don’t need extraordinary insight or intelligence. What they need most is the character to adopt simple rules and stick to them”. We believe all our clients, with our assistance, have developed rational long term investment plans which will be able to weather this storm and inevitably others like it as markets cycle over the future.

As always, if you have any questions or concerns please call us.

BWMG Team – January 24, 2008