

The Guardian Insight

Timely Perspectives from the
GCA Investment Committee

August 21st, 2009

"The evidence suggests there is still time..."

Current Sentiment:

With the summer doldrums seemingly setting in (the TSX is essentially flat since the last GCA Investment Committee meeting) we find ourselves in a holding pattern within the committee as well.

While a month can sometimes seem like an eternity when things are going awry, it really is a very short window for anything material to have taken place that would change our cautious views on this economic and market recovery.

Current Observations:

We are now through the bulk of the earnings season (though the Cdn banks are set to report their always oddly timed fiscal third quarter next week which could cause some sparks to fly if they pull a "Manulife" and do anything untoward to their dividends!) and the markets seem to be in that unfamiliar place of calm.

As we touched on last month, the majority of companies beat their lowered earning expectations in Q3, though at the same time they showed severely reduced revenue growth. As well, many economic indicators have put in better than expected showings, though again from dramatically lowered hurdle levels.

"Cash for Clunkers" in the US has been a runaway success, though we wonder what that program will do to consumer spending patterns for other goods and somehow doubt that the boost it is giving to the auto sector will be lasting.

Through all of this inflation, especially the more important core inflation (prices excluding the volatile energy and food components), has remained under control and on target. This has enabled the central banks to stick to their promises of rock-bottom short-term interest rates through well into 2010.

The knock-on effect of these low rates is perhaps to make reluctant (impatient?) 'bulls' out of those who astutely sidestepped some of the carnage from 6 months ago.

The fact remains that in the US the number of unemployed that remain unemployed longer than 15 weeks is at a 6 decade high, and foreclosure/bankruptcy levels continue to grind higher. With the end consumer making up 70% of GDP, we currently believe that at best we are going to have a shallow recovery if not a temporary relapse as we've seen so many times before throughout the course of history.

So once again, from our vantage point, there seems to be an equally powerful negative "Yin" for every positive "Yang" that the bulls put forward.

Conclusion:

Though far from guaranteed, more often than not September is a sub-par month for the equity markets. Given the lack of hard evidence on the ground that a higher equity weight is warranted, we'll continue to bide our time for now.

Equity remains slightly underweight in our portfolios, while bonds are full weight and cash is correspondingly overweight.

Guardian Capital Advisors Investment Committee

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