

The Telegraph Market

It's the telegraph market; stop.
We've decided to take most of this week off to spend time with our son; stop.
Thinking of calling us; stop.
Thinking of emailing us; stop.
Thinking of shorting the U.S. dollar; stop.
Thinking of buying stocks; stop.
Thinking of buying commodities; stop.
Thinking of buying bonds; stop.

Indeed, we have been unabashedly bullish on most asset classes since March 2, 2009, although we have turned cautious a few times over the past eight months. To be sure, said asset classes were at least three standard deviations undervalued back in March. Since then, most have normalized to median valuation levels. Accordingly, as we enter the New Year, we are once again turning cautious because the Treasury bond market is breaking down (read: higher interest rates) and the U.S. dollar is rallying. After being dollar-negative since 4Q01, we turned neutral to constructive on the "buck" in 4Q07 and recommended shutting down all negative U.S. dollar positions. More recently, we suggested the "greenback" might be in for a pretty decent rally. If so, the ubiquitous "dollar carry trade" is in jeopardy of unwinding with downside consequences for most asset classes. Therefore, we think it prudent to "bank" some trading profits and hedge some investment positions as we approach the New Year.

That said, we still believe the nascent economic recovery will gain traction in 2010, and that earnings comparisons will look good in 1H10. The question then becomes just how much of that has already been discounted by the 68% rally off of the March lows? Also worth consideration is if this is a rally in an ongoing trading range stock market, or the beginning of a new secular bull market. Currently, we don't have a clue, but are happy that we have enjoyed the eight-month rise. We think the trick from here, at least in the short/intermediate-term, is to protect the profits that have been made.

The call for this week: "Breakout, or fake out," is the question *de jour* on participants' minds this week as the new high recorded by the S&P 500 last week had a bunch of "hair" on it! We'll reserve our opinion until the troops return next week. Happy New Year everybody.

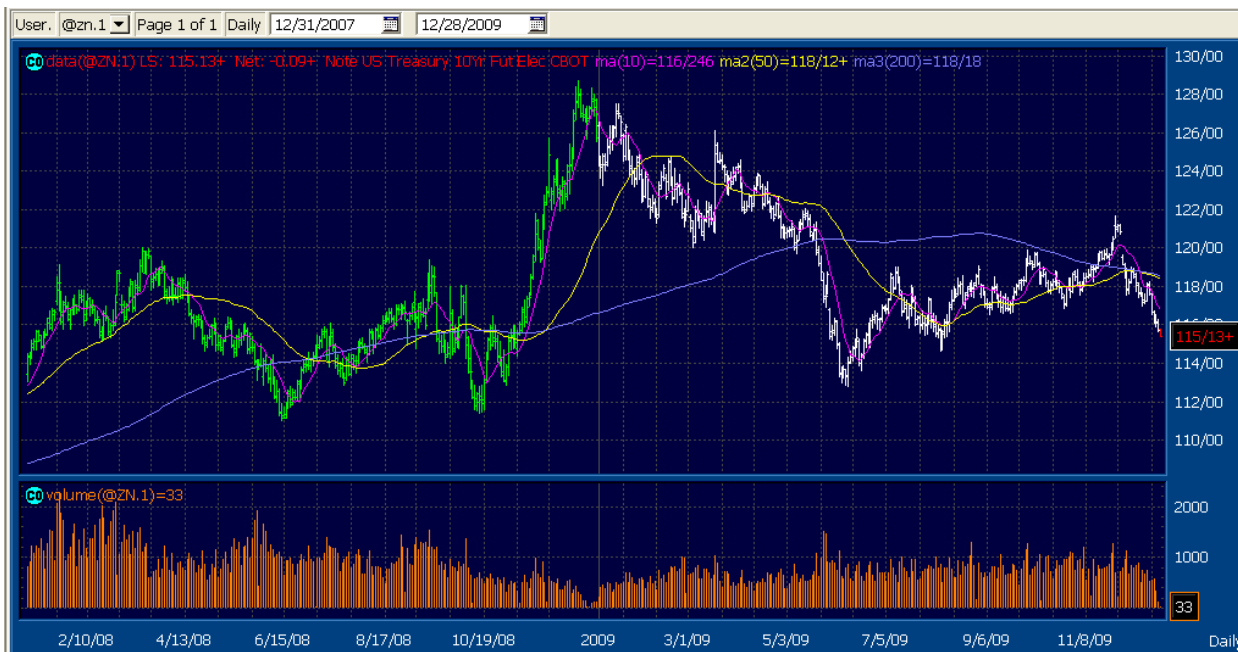
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U.S. Dollar Index



Source: Thomson Reuters.

10-year T-note



Source: Thomson Reuters.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

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