

Barometric Pressure = 101.1 kilopascals

Before we get into the hot topics of the past five days lets talk about the weather. Yes, for much of history the weather has been a topic of discussion for both idle chit chat as well as major global events. Today the weather has taken on a whole new importance in the investing world. Just this past week an article in the Globe and Mail described the success a former TV weatherman had in converting himself into a consultant for investment clients spanning the globe. This entrepreneur is providing guidance for billions of dollars of investment in agricultural commodities. With prices for many commodities soaring, demand for private weather forecasts has surged, especially among institutional investors who have ploughed more than \$200 billion into agricultural commodities in recent years.

I'm guessing that next to investment managers, there is no other profession that has been the brunt of more ridicule over their inability to accurately forecast their subject than meteorologists. That being said, it obviously has little impact in the investment crowds' confidence in spinning the wheel on what tomorrow will bring. This is today's investment climate, excuse the pun. Commodity investing is taking on a life of its own as it has been a fabulous space to make money and may continue to be for some time given the dynamics at work.

Let's not kid ourselves, anything that is partly dependant on weather forecasts is very difficult to get right consistently. Our feeling has always been to try to stick to what you have a competence at over many cycles rather than guess at stuff which is in favour in the current cycle. If we had the choice to invest in the commodities the meteorologist is advising on, or to invest in the meteorologists business itself we'd pick the latter. As the cycle of profits in this sector continues, more and more investors will be lured in looking for the big win and the "expertise" of meteorologists will be a good business. Now there is an investment idea, we have yet to see a private weather forecasting firm go public!

Economic news this week was plentiful and interesting to say the least. I know having the words "economic news" and "interesting" in the same sentence may be a bit of a stretch, but economists are people too you know. The Bank of Canada this week surprised the market by leaving interest rates unchanged at 3.0%. Economists unanimously expected another 25 basis point cut and stock markets sold off heavily on the day of the announcement. The decision to leave rates unchanged was in concert with other central banks around the world which have become more vocal on

their inflation concerns. Even Chairman Bernanke downplayed the recent weak employment report in the U.S. and highlighted growing inflation pressure. The markets took this as a sign that interest rates may not be cut further and in fact possibly rise later this year. Funny how fast things change.

In the U.S. the stock market cheered the better than expected retail sales data but the bond market continued its slide with the yield on the benchmark U.S. ten-year note up to 4.20%. The potential of growing inflation pressure is becoming a greater concern to the bond market. We would expect this to remain for some time. What worries bonds today will worry stocks tomorrow. Stock investors are waiting for a better economic background as this should drive earnings growth and share prices. Bond investors though see their purchasing power eroding if the economy and inflation is stronger than expected. Stock investors will too become concerned if bond yields start to move up to quickly and compete with stock returns.

Our guess continues to be that the U.S. economy will take time to improve and the retail sales data is one economic data point which has likely been skewed by the U.S. government rebates. The threat of the Fed raising rates in the U.S. economy given the precarious nature of the housing market, financial health of the consumer, and banking system seems a bit of a stretch to us. One can make pretty good arguments for an inflationary surge as well as a deflationary one. For this reason we are less concerned about watching the day to day ups and downs of the market and predicting its outcome rather than looking for how today's concerns are providing opportunity.

One area of the market that is starting to become more interesting to us is the consumer discretionary sector. Retail stocks in Canada had done very well since the market bottom in 2002, aided by a healthy consumer and a stronger Canadian dollar. The headwinds have been increasing as the dollar and the economy have both slowed their ascent. Year-to-date this has been one of the worst performing areas in the market. Finally, many companies' share prices are discounting a slowdown in what has been unsustainably high earnings growth. We believe they will likely continue to come under further pressure as analysts downgrade their earnings. At least now you don't have to pay as much for unrealistic expectations as you did say six months ago. Avoiding a 25-50% drop in many of these companies' shares is the secret to survival and now the opportunity for future profit.