

## July 2009

Every year, folks in Southern California, where OCM is headquartered, live through the giant tease that is June Gloom. For those not familiar, June Gloom is a weather pattern that brings perpetual foggy mornings that turn into cloudy early-afternoons. Finally, in the latter part of the day, it warms enough to burn off the clouds, gift a beautiful sunset, and make one plan for a weekend barbecue, to be canceled the next morning when the fog socks the coast in once more. To make planning even more frustrating, there are occasional days when it's sunny and clear from dawn to dusk. It's the reason beach house rentals can't double their fees until July, when consecutive spectacular days are all but promised.

Why the weather report? Well, in the last few Folios, we've repeatedly said that, yes, the economy is struggling, but it's going to turn the corner soon. And recent financial news might have you believing that our forecast has come to fruition. So, is that time now? Well, the definitive answer is...maybe, but not likely. Think of the current market as June in Southern California...summer's coming, no doubt, and there are days when it's time to throw on the swim trunks and grab a towel. But don't be surprised if tomorrow brings June Gloom.

Stimulus packages around the globe are starting to take hold. In fact, the global stimulus package is helping U.S. and Canadian companies much faster than the domestic stimulus. Many companies are reporting their China business is back to peak levels as China moves aggressively with their infrastructure builds. Fast food companies are also seeing rapid expansion in China as Yum Brands, parent of KFC, Pizza Hut, and Taco Bell, plans on opening 475 new restaurants this year alone.

China is focused on infrastructure and consumer demand. They will have a harder time with the consumer, but increased work and employment, and higher wages, may be enough stimulus for them. The contrast can be seen in the numbers: China will spend approximately 37.5% (\$220 billion) of their \$585 billion stimulus on infrastructure while the U.S., in contrast, plans on spending just \$70 billion (about 10%) of theirs on infrastructure. This can be traced to China's ability to get stimulus work going in nine weeks while the U.S. takes at least nine months.

Compared to China, the U.S. outlook might look a bit, well, gloomy. However, there are huge positives working for the U.S. For example, we agree with Gerald Seib, who wrote in Tuesday's (July 7) Wall Street Journal that, "More than a third (260 billion) of the 787 billion dollar economic stimulus package consists of tax cuts, which are just starting to have an effect." Additionally, nine U.S. companies have already paid back their TARP money and more will follow in the months ahead. This combined with the decreased need for government money has led the Fed to announce it is scaling back its programs of adding liquidity into the financial system. In fact, all of North America is in a better position than Europe or Japan to benefit from the improving economy.

Rebounds in the U.S. and Chinese economies will give a lift to exports and commodity prices here in Canada. While China continues to increase their demand for raw materials, helping commodity prices, they still represent just 5.9% of world GDP – not enough to send commodity prices soaring. In addition, a strong Canadian dollar would create a headwind to growth in both exports and commodities.

You most likely noticed that we increased our allocation to China in the first half of the year. In addition, we more aggressively re-balanced portfolios to bring equity allocations to target during the last 90 days.

Still, foggy days abound. Unemployment in the U.S. hit 9.5% last week while Canada hovers around 6.8%, but as we've mentioned in the past, it is a lagging indicator, meaning it won't turn before the economy but after we are in recovery. Housing continues to give mixed signals, and manufacturing is improving but has a ways to go. However, if you'll let us continue the metaphor just once more, the June Gloom that is today's economy will pass, and sunny mornings loom.