

# Altitude

Views and opinions  
for the clients and friends of



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## Leading economic indicators and past recessions

Excerpts from Myles Zyblock

Despite showing signs of being overbought, RBC Capital Markets believes the market rally should continue as long as signs of economic and financial system healing come into view. This recession, like all of its predecessors, will end. However, it might be a very long time from now before we hear any sort of official pronouncement of the recession's demise as the National Bureau of Economic Research (NBER) dating committee has announced the end of economic recession 15 months, on average, after the fact.

Therefore, investors will need to look to other sources, outside of the NBER, to acquire timely information about the odds of sustainable economic healing. One indicator with

a solid track record is the ISM Manufacturing Index:

**ISM Manufacturing Index:** A rise above 41 on the ISM has preceded positive GDP growth within one quarter 89% of the time, and within two quarters 100% of the time, since 1948. Currently, the ISM stands at 41.2.

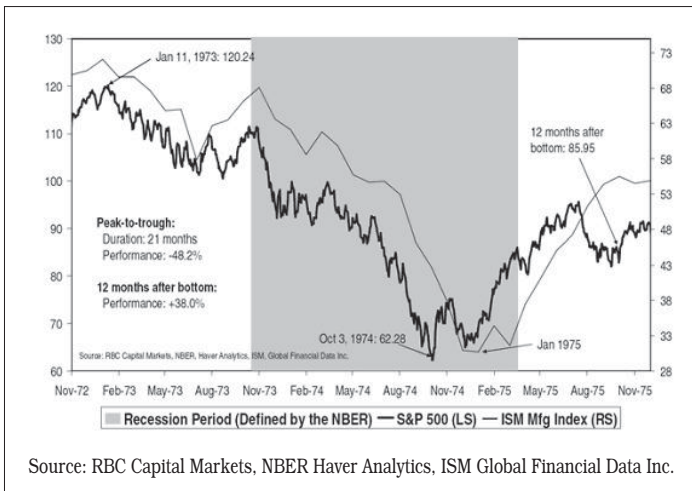
How good was the ISM at predicting future moves in the S&P 500 during the past recession?



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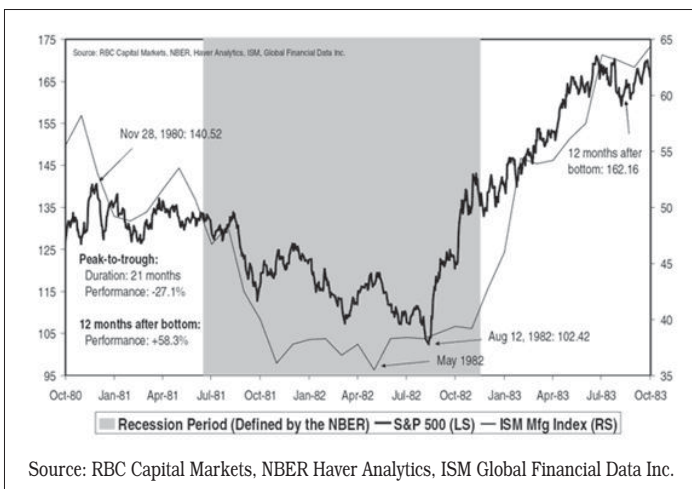
### The 1970s – Good Predictor: the ISM lagged the S&P 500 by 3 months

- A grueling 21-month sell-off erased 48.2% from the market before a major low was finally established in October 1974.
- The stock market turned up three-months ahead of the ISM and five months before the end of the recession.
- The market was up by 13.5% by the time the ISM turned up.



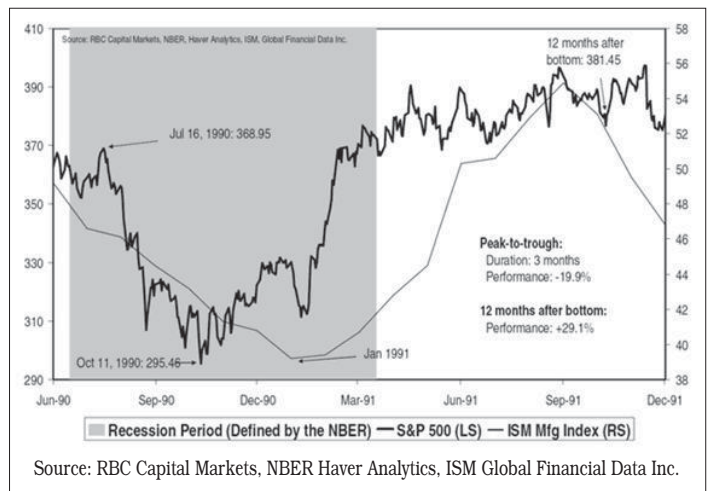
### The 1980s – Decent Predictor: the ISM had two bottoms before the S&P bottomed

- The ISM turned up three months earlier than the stock market during the early-1980s recession related bear market.
- Equity prices bottomed in August 1982 – three-months ahead of the end of the recession.
- The equity market surged by 58.3% in the 12-month period following its August 1982 low.



### The 1990s – Good Predictor: the ISM lagged the S&P 500 by 5 months

- After losing 19.9% of its value, the stock market bottomed in October 1990 – a full five months before the end of the economic recession.
- By the time the ISM bottomed in January, the market had already risen by 6.7%.
- The stock market increased by 29.1% in the 12-month period after this early-1990 bear market bottom.



### Observations from RBC Capital Markets

- The stock market usually rallies by 34% in the 12 months after the ultimate low point in a bear market.
- Equities turn up two to three months in advance of an upturn in the ISM. In recession-related bear markets, the median lag time is three months. In bear markets absent an economic downturn, the stock market usually turns higher two months ahead of the ISM.
- The stock market is usually up by 17% in the first three months after the bear market ends. This provides a rough approximation of what might be given up by waiting for the ISM to turn higher. It is important to note that the ISM actually turned up coincident with, or ahead of, the stock market in one-third of the bear markets.

# PROPOSED CHANGES TO CANADA PENSION PLAN

## As issued in Mackenzie Investments

On May 25, 2009 Finance Canada announced some proposed changes to how Canada Pension Plan will work. In brief, the changes are proposed to take effect over a period of time from 2011 to 2016, so will affect anyone planning to retire after 2010.

a) early retirement (before age 65) will result in a reduction in CPP benefits by 7.2% per year, which is up from the traditional 6%. This means that if you begin to take your pension at age 60, your payments will be cut by 36%, not 30%.

b) on the flip side of this, late retirement (after age 65 but before age 71), CPP benefits will be increased, not by 7.2% but by 8.4%, which is up from the traditional 6%. this means that if you wait until age 70 to take your CPP, the benefit payments will be 42% higher, compared to the 30% higher today.



c) if you want to begin to collect CPP while you are still working (which may happen in a recession such as this because people are having to get new employment that does not pay as much as the last job did so they need to supplement their income), then instead of having to stay out of work for 2 months like you do now, you can begin to collect CPP at age 60 even if you continue to work - AND after age 65 if you are collecting CPP but want to continue to work, the proposal is that you can contribute to CPP again through your work in order to increase your benefits.

d) the calculation for CPP will change as well - currently the lowest 7 years of earnings is deleted from the calculation - under the proposals, the lowest 8 years will be omitted so that the benefits are not weighed down by low earning years.

Please contact us if you would like to have a copy of the announcement from the Ministry of Finance which will give you further background. These changes do not affect the Quebec Pension Plan.

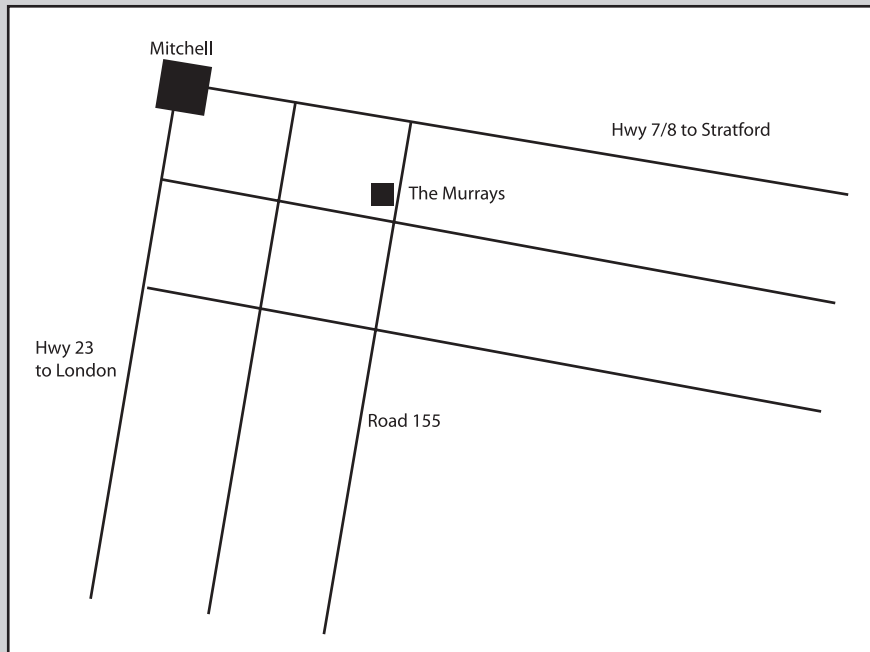




# Shed Concert on July 4, 2009

Once again we will be entertaining in the hay shelter on the farm of David and Annamarie Murray at 3844 Fullarton Road 155. See map for directions or give me a shout at 271-4611 or 1-800-265-4596. You'll hear music performed by Cow and Sow (David Murray and myself); other guest will be performing as well!

You are welcome to arrive any time after 7:00 p.m. for some time to tour the garden and the concert will begin at 8:00 p.m. Please bring: lawn chairs, sweet or savoury finger foods to share at intermission and your own drinks. We will have coffee, pop and miscellaneous beverages on hand. Hope to see you there!



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