

J.C. HOOD INVESTMENT COUNSEL INC.

Monthly Newsletter – September 2011

Hello Everyone:

Europe's politicians have always been fine curators but feeble economists. Their profligate spending combined with powerful unions demanding short work weeks and long holidays, a public with a grandiose sense of social entitlements and a relentless cobbling together of center/left coalitions demonstrates that the Euro model is unsustainable. The debt chickens have come home to roost! Everyone knew this but did nothing. Of course, it's very difficult for the Eurozone to do anything because unlike the Americans who have but one Treasury Secretary, the Eurozone has seventeen, all of whom must listen to the raucous and often conflicting demands of their constituents. The Germans are weary of bailing out the Greeks who benefited from low rates based upon Germany's credit worthiness. Germany however neglects to mention that the less productive, spendthrift Greeks suppressed the Euro's value resulting in Germany exporting more cars.

There was a fiery exchange between Bank of Canada Governor Mark Carney and JP Morgan chief Jamie Dimon this week over the implementation of Basel III, which is an international agreement requiring banks to retain a larger capital base to prevent a repeat of 2008. Effectively this means constraining the banks from overleveraging their assets/deposits. Dimon claimed this was un-American, that banks needed to use this capital to expand economic growth. Carney's position favoured greater regulatory regimes, but they too can breed their own inherent demons to restrict growth. Scotiabank's Rick Waugh shared these concerns about over-regulation.

Markets. With the Eurozone still discombobulated, the volatility that began in August remains with us though not as severely, one hopes! My sense of what seems to be happening is that the European bankers and governments are trying, like the US, to put together a TARP (troubled asset relief) and that whenever they appear to be making progress, the US market rises. This suggests that with extremely low interest rates and US companies making lots of non-taxable money off shore, that the US markets should rise even if the European markets are not. We will still stay with our strategy and buy about 6% equities if there is another 10% decline in the markets as well as buttressing sectors that have been oversold, e.g. base metals and China.

Housekeeping. As you know we have been dealing with the 'institutional services' section of NBDB (National Bank Direct Brokerage) for 11 years. NBDB services its own discount clients as well as various portfolio managers and institutions like us. NBCN (National Bank Correspondent Network) is a sister company within National bank which deals with all other institutional clients; that is, securities dealers/advisor firms. National has decided that all institutional accounts should be under NBCN. I had three quick questions:

1. Will there be any increased costs? - NO
2. Will it be a pain in the ass requiring 're-papering the account applications'? - NO
3. Will we still be dealing with the same traders that we have developed a strong relationship with? - YES

The only real change will be a change in account numbers and therefore access codes. National Bank will be mailing these to you in October and I will make sure that I am available to make sure that there are no screw ups.

Vancouver. I was in Vancouver last week, both to see some new clients and contacts that I had not yet met and since I happened to be there, to attend the MoneyShow. I'm usually not too interested in this type of venue because although the speakers are often good, some of the exhibitors are just hawking real estate partnerships, trading 'miracles' and junior resource stocks. Fortunately both Claymore and Horizon were at this event. What happened as I entered the exhibition hall was quite unexpected. I discovered that I have quite a following in BC due to BNN. It was both gratifying and fun to have all these people come up to shake hands and say that they enjoyed the fact that I 'spoke my mind'.

If you have any questions, I would be glad to hear from you.

Regards
John