Wise Capital Management Inc.

Discretionary managers providing excess returns

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4Q Newsletter

We are writing this Wednesday, November 26, 2008. The last 3 weeks have been exceptionally challenging to the investment industry. We have added Tom to be the main administrator of Wise Capital Management. This leaves Chavdar to concentrate solely on investments

Market activity is slowing with the onset of the holiday season. In November, the market is down, though less than October, particularly in the Global equity portfolio.
While bad news gets media attention, there have been a number of positive developments. We will discuss the major ones and then give you recommendations.

1) Oil price and cheap gasoline:
The price of oil is important to the Canadian stock market. The current price is sufficient for the industry, including some oil sands projects to make a good profit. Natural gas, of which we have significant investment exposure, has only fallen 12% from a year ago and is still very profitable. Cheap gas at the pumps has been better than a tax cut, putting $1500 or more into an average family pocket.

2) Other Commodities
China is pumping their already 8% growing economy back to 9%. This increases demand for copper, zinc and nickel prices, which we see rebounding from their lows. To preserve high profitability, companies cut production when commodity prices declined.

3) Valuation
Stocks are cheap by any valuation measure. The US market for example fell to 60% of GDP (measure of the total economy), which is well below the 80-year average of 79%. Stocks are currently yielding 3.5-3.9% on average, higher than bonds. Our holdings remain profitable with return on equity of 13% in Canada and double-digit for the global portfolio.

4) Ownership
Most equities are owned by pension funds. These are sticky sellers with long-term policies that force them to rebalance to stocks over several months, as their bond holdings are too big. Pension funds have also become disappointed with hedge funds and their returns; they need the higher returns of equities to fund future pension obligations.
In addition, corporate insiders are in a buying frenzy to buy back their company shares for personal accounts.

5) Equity markets are leading indicators
Equity markets will have moved significantly higher before we read that the recession is over in the paper. *The market is normally 6 months ahead of real activity pickup, which indicates anytime from now until spring 2009.* Helping to set the table for big advances, the trends in volatility and risk have been reduced, and interest rates have been lowered. $1 trillion USD in CDs was netted out.

Here is a case to show the market anticipating better times. In the midst of the Battle of Britain in 1940, with the UK being bombed, their market rose.

Figure 4.1 U.K. Financial Times, 30 Industrials: 1930–1945
Data Source: Financial Times; Global Financial Data, Inc.

6) No Protracted Japanese-style Debt Deflation
In the 1980s, Japanese companies were five times more leveraged than their U.S. counterparts, and the overvaluation in Japanese real estate was legendary. At the market's peak in 1991, all the land in Japan, a country the size of California, was worth almost four times the value of all property in the United States at the time. ("Seeking Alpha" Nov 24. 2008).

<u>Recommendations:</u> Diversified allocations to both global and Canadian equities, each of which has different drivers on the upswing. If you absolutely need invested funds over the next 2-3 years, take bits out on the upswing. Remembers returns going forward over this recoup period are close to being tax free if they are left in.