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November Review of Global Financial Markets

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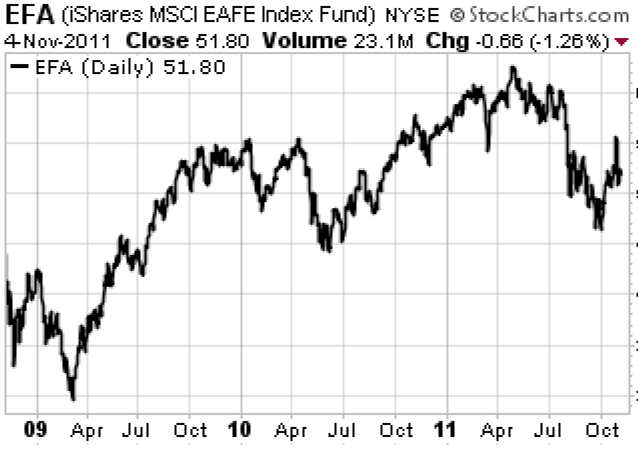
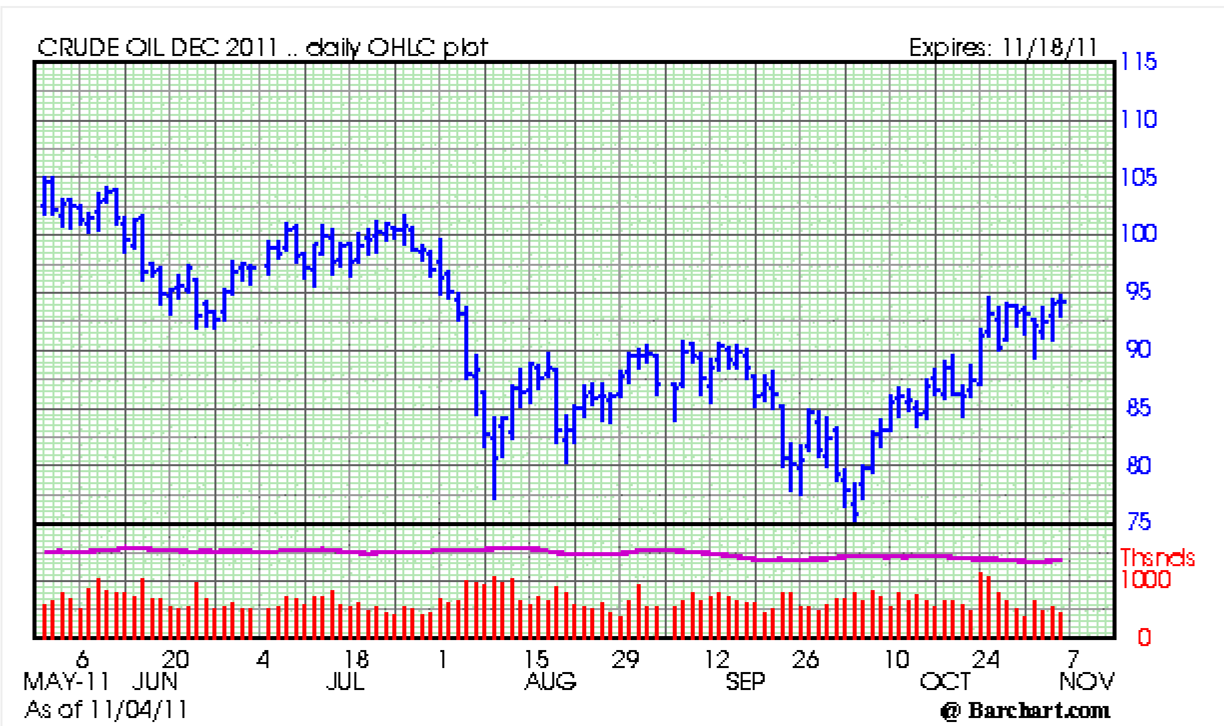
1. S&P 500 Index – The market has rallied since the Oct. 4th intraday low (see chart below). Mark Hubert, founder and editor of the Hubert Financial Digest points out in a *MarketWatch* article on Nov. 4, that it looks and smells like a bear-market rally. Since that low advisers have been falling over themselves in retreating from the bearish camp and are jumping on the bullish bandwagon. The missing ingredient is skepticism, the proverbial "wall of worry". There are certainly many reasons for the market to head south. "Concern about European fiscal and banking issues contribute to strain in global financial markets," Fed chairman Ben Bernanke said last Wednesday in a news conference. Those concerns, he added, were "likely to have adverse effects on confidence and growth." Fed officials are also concerned that investors could rush out of the $2.6 trillion money-market mutual-fund industry creating additional strains for banks, both in Europe and the U.S. If you have not already done so, as we have suggested many times, move your funds out of regular money-market funds into the relative safety of Treasury only money-market funds.

2. Is The Market Overbought or Oversold? As some of you know, this is our favorite chart. We have covered this so many times we'll skip the details and simply note that when the percentage is in the 80s and 90s it is a good idea to be cautious and take a few chips off the table, and when the percentage is in the 10s and 20s it often is a good time to add to your holdings and buy some high quality blue chips. In the October issue we noted that when the percentage is low, the news is terrible, but over the years when we ignored the data we were sorry. So currently we are a little more constructive about the markets, and the fact we are in the seasonally strong part of the year (Nov. to April) and that 2012 is a presidential election year when Washington will pull out all stops to try to get the economy back on track helps.

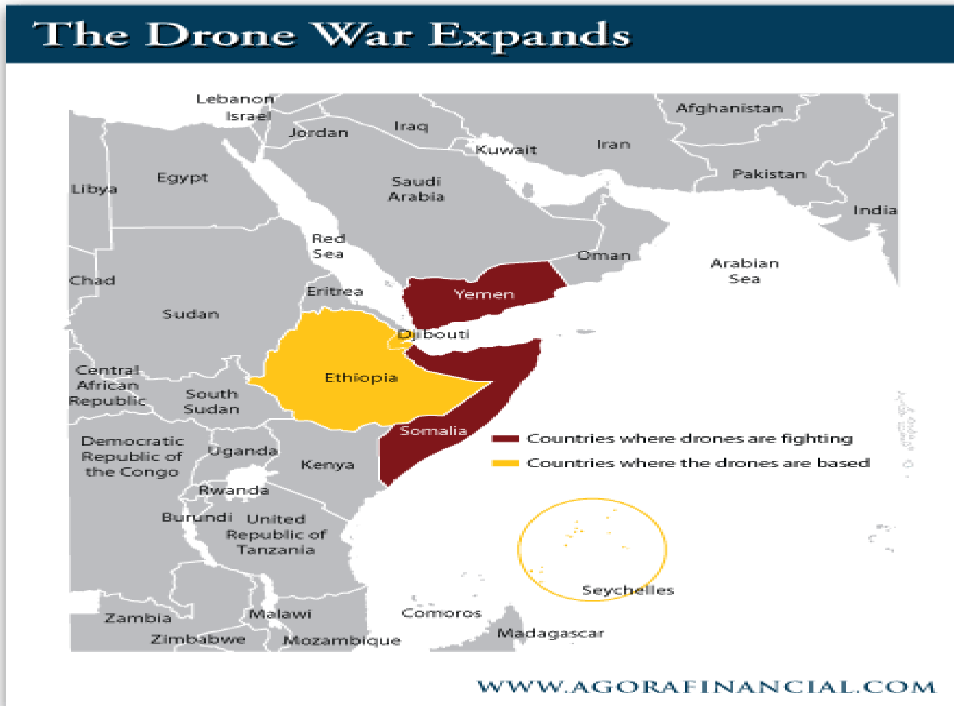
3. Foreign Markets – Foreign markets are following the same pattern. The chart on the left is of the MSCI EAFE index covering developed markets and on the right the MSCI Emerging Markets index. We are also watching closely the Shanghai Composite Index (not shown) which is down 58% from its high, from 6000 to the current reading of 2528. Of course the index could go lower, much lower, but eventually growth will continue and we want to participate in it.



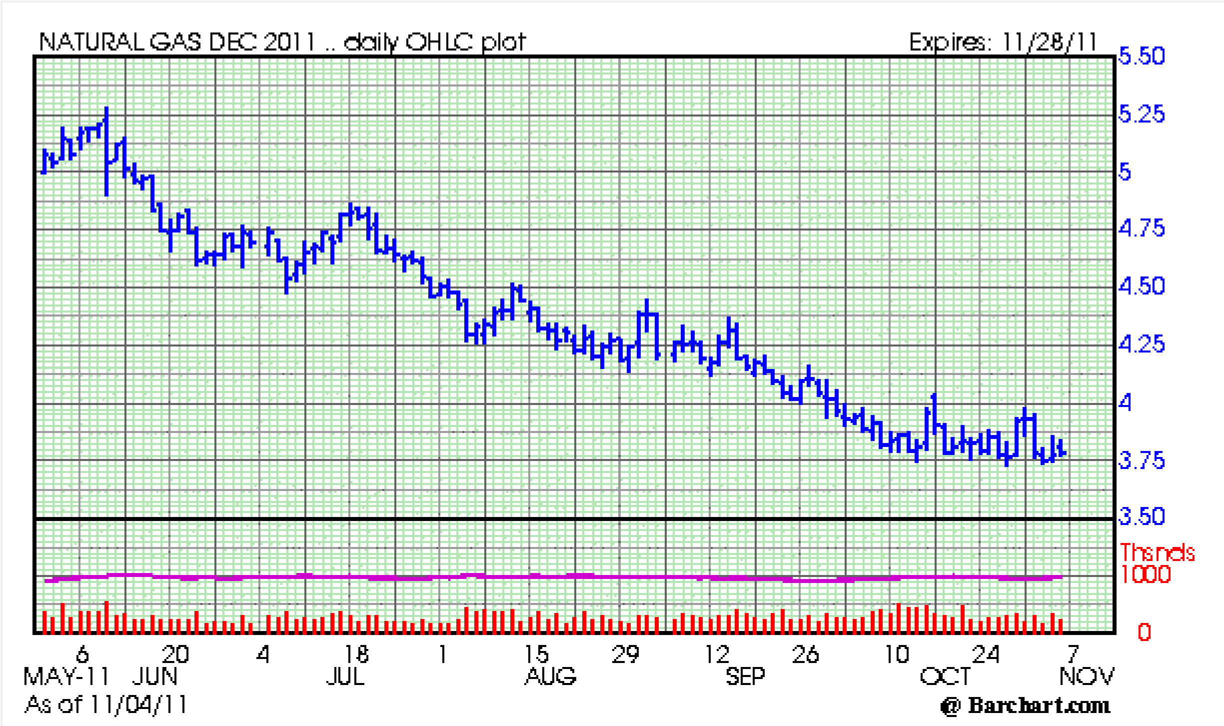
4. Crude Oil – The chart below shows the price of WTI (West Texas Intermediate) because that is what the U.S. media uses. A better indication of demand is the price of European Brent Crude Oil currently $112 or at an $18 premium to WTI. We think the price of oil is going a lot higher. Our favorite major is Royal Dutch Shell (RDS-A) or Exxon Mobil (XOM) for very conservative investors. For investors willing to take on a little more risk we favor Cenovus Energy (CVE), Penn West Exploration (PWE) and Canadian Oil Sands (COSWF). All are Canadian companies and buy out candidates. Chart #8 presents some data on mergers and acquisitions. Another kicker would be the completion of either or both the Northern Gateway pipeline to the West Coast for export to Asia or the Keystone XL pipeline to the refiners on the U.S. Gulf Coast. Both face opposition from environmental groups but they are so important to the U.S. we believe they will be approved. President Obama is now personally reviewing the Keystone XL deal which should prevent further delays from potential Environmental Protection Agency challenge.



5. Middle East Geography – We borrowed this map from an article on drone warfare. When discussing oil it's a good idea to refresh your knowledge of the geography of the Middle East since many of these countries are unstable and armed conflicts or revolutions could break out at any time. Note the two potential choke points. The Bay of Tears (Bab el-Mandab) is the narrow strait between Djibouti and Yemen (narrowest point 18 miles) and the Gulf of Hormuz (narrowest 21 miles) separating Iran and Oman. Sea borne shipments of oil could be stopped overnight by terrorists or states. When investing in oil don't overlook safe places like Canada or the U.S.

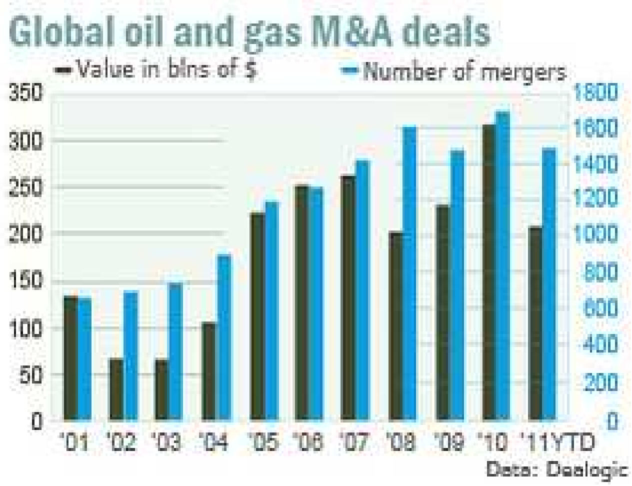


6. <u>Natural Gas</u> – This asset class is obviously out-of-favor, but that is a good time to build positions for substantial profits. The major oil companies agree and Exxon, Conoco, Royal Dutch and others have spent billions on acquiring natural gas assets in the last few years. Our favorite larger independent would be Devon (DVN) in the U.S., while in Canada we like Encana (ECA). A small company with great potential and huge reserves is Peyto Exploration (PEYUF). The successful permitting of the Kitimat facility for liquefied natural gas exports from British Columbia will set a new price level for Alberta gas that's more in line with global prices - - which are much higher than those currently in North America.

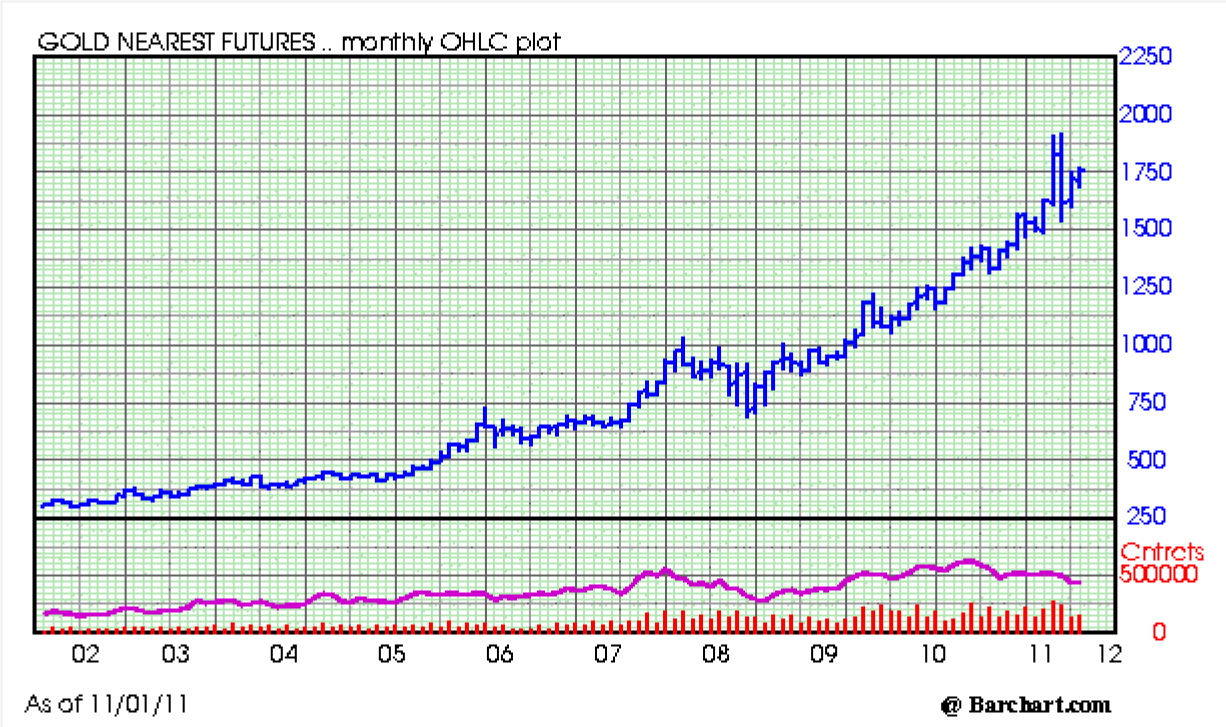


7. Useful Tools for Investing in Energy Stocks – We find the S&P Energy Sector Bullish Percent Index shown in the chart below useful in deciding when to buy or sell energy stocks. It is a simple approach but certainly not foolproof. When the percentages are in the 80s or 90s one might be a little more cautious about buying, while when the percentage gets below 30 one might be a little more aggressive.

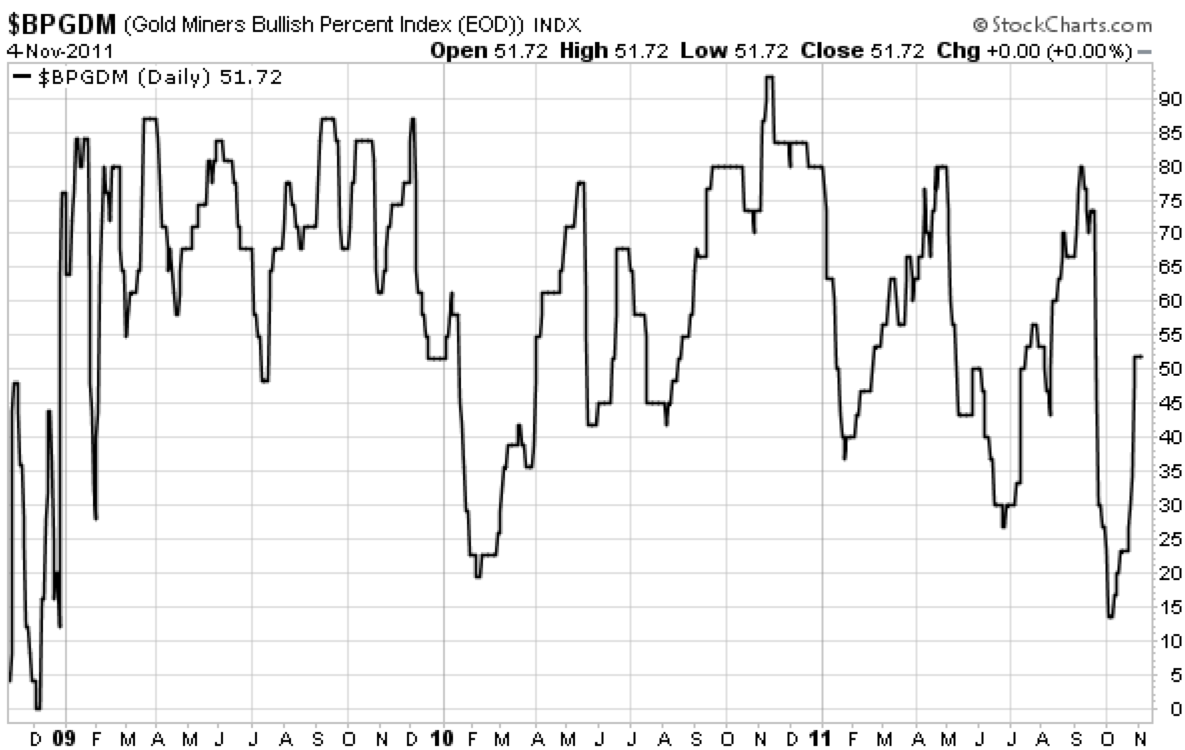
8. Oil & Gas Deals – Note that global oil and gas deals are heating up. As the chart on the right indicates, Asia-Pacific oil and gas companies have accounted for 26% of global M&A so far this year. In other words there are a lot of motivated buyers which is why we like to hold some of these mid-sized Canadian oil & gas companies.



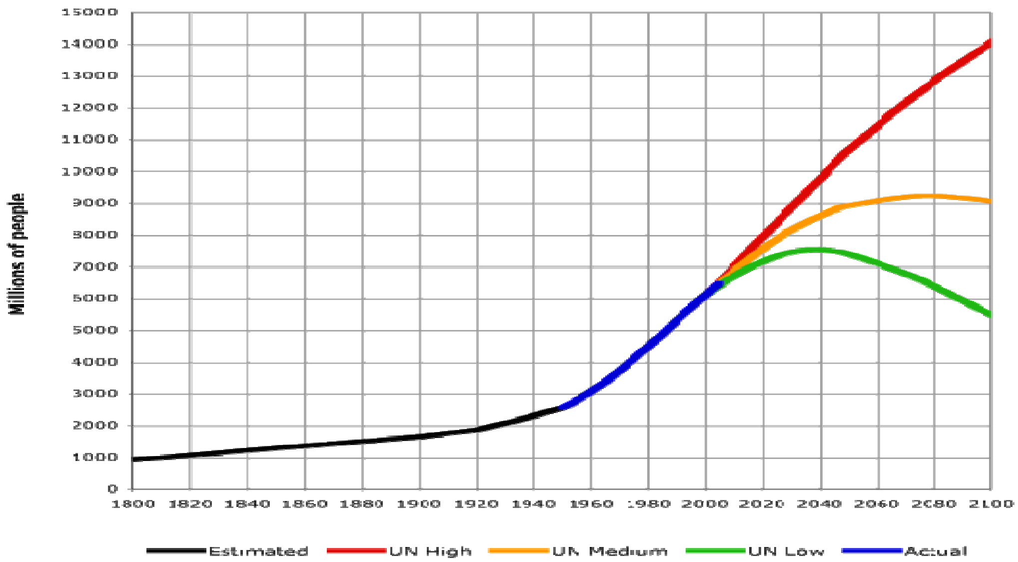
9. Gold Prices – Most institutional and retail investors have missed out on the decade-long gold rally, roughly 16% per year. Gold bugs are now expecting money printing and the resulting inflation to drag these investors into the game and drive the price of gold much higher. They point out that the gold market is miniscule compared to other markets so any increase in demand should have a major impact on prices. We don't know how accurate their forecast will be but are happy to own some gold and gold mining stocks as a store house of value and as insurance against the politicians screwing everything up. In terms of the metal itself many investors buy SPDR Gold Trust (GLD) which invests in physical gold. We prefer the Central Fund of Canada (CEF) because it also holds silver and is a Canadian company and therefore a little more insulated from the folks in Washington who want to confiscate your wealth. Because of this, CEF usually sells at a premium. In terms of mining stocks Market Vectors Gold Mines (GDX) is probably your best bet. Its holdings include well known gold mining stocks like Barrick (ABX), Goldcorp (GG), and Newmont (NEM). Goldcorp itself is a profitable gold mining company but entails more risk then the ETF GDX.



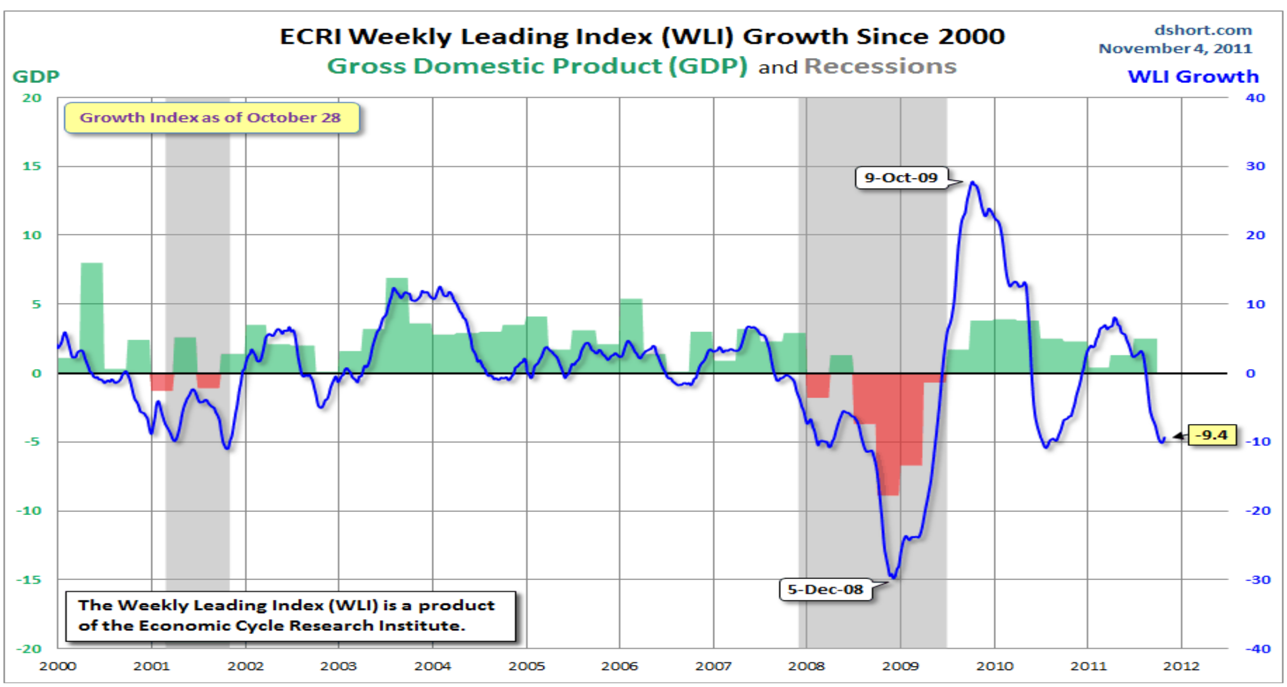
10. <u>Useful Tools for Investing in Gold Stocks</u> – This is a useful tool for investing in gold stocks similar to the approach described briefly in Chart #7.



11. Population and Natural Resources – Last week the world's population reached seven billion according to the UN. This United Nations chart is self-explanatory. The point is that of the seven billion, maybe as many as 60% aspire to the same standards of living as we enjoy in the West, and they are willing to work hard to achieve their goals. All this requires massive quantities of natural resources. This is why we are bullish on natural resources for the longer term.



12. ECRI Weekly Leading Index – The ECRI (Economic Cycle Research Institute) has a respectable record of forecasting recessions. Early last week, they notified clients that the U.S. is indeed tipping into a new recession. And there is nothing policy makers can do to head it off. What is particularly striking about their current recession call is the fervor and certainty of the language in the public release. ECRI has put its credibility on the line. If the U.S. avoids a recession, ECRI's reputation will be permanently damaged.



13. <u>NewArc Investments 30-day Forecast</u> – There are thousands of market forecasts made every day. Most of them are worthless. We show this one because their track record is good and their approach makes sense to us. Google <u>A Dash of Insight</u> to subscribe. It's free.

Indicator	Current	Last Week	Last Month	Interpretation
Economy				
*New Source Pending**				
Risk				
SLFSI	0.905	0.947	1.084	Moderate Risk
Market				
% Positive sectors	82%	71%	18%	Strong
Median Strength	52	46	-51	Strong
% Penalty Box	50%	89%	95%	Uncertain
30-Day Forecast	Bullish	Bullish	Bearish	

Sources: Stlouisfed.org, and NewArc Investments, Inc. ©2011
*Currently looking for a new source

14. <u>Reflections on Kodak</u> – The news on Kodak is not very encouraging for employees, retirees, shareowners, suppliers, communities with Kodak facilities like Rochester, N.Y. and many other stakeholders. With headlines like *"Squeeze Tightens on Kodak"* in the <u>Wall Street Journal</u> *and "Kodak Patent Sale Could Save Photography Company from Bankruptcy"* in the <u>Huffington Post</u>, it is not surprising the stock is hovering just above $1. The company also warned in a cautionary statement filed with the Securities and Exchange Commission early last week that it won't be able to fund its businesses if it can't squeeze more money out of its patent portfolio or raise new funds by selling debt.

As a nostalgic aside, we note that the Chrysler Museum of Art in Norfolk, Va., has an exhibit of reduced-sized Coloramas on display from Oct. 15 to Dec. 31, 2011. All told, 565 of these 18 ft x 60 ft illuminated illustrations adorned Grand Central Terminal in New York City from 1950 to 1990.

The all-time high on EK stock was $94.