Market*Watch*

TD Mutual Funds

November 2008

Market Update

All signs seem to suggest the world's largest economy is headed for a recession or may already be in one. The resilient U.S. consumer is retrenching and spending less, the U.S housing market continues to weaken, U.S. unemployment is rising, U.S. credit markets remain tight, U.S. corporate profits are falling and the list of negative news goes on.

Although this is probably not a popular view, investors should not fear a U.S. recession, rather they should cheer it. First, the excesses that caused this downturn are being corrected quickly as the world continues to deleverage. Cheap money allowed the U.S. consumer to use their home as ATMs causing a boom during which we saw a period of over consumption. Now, U.S. home equity withdrawals have turned into net investments, which means U.S. consumers are putting more money into their homes than taking out. The negative impact from this shift has been big as U.S. consumers are spending less, which is not good for an economy that depends on consumption. However, once this correction is over, the U.S. homeowner will likely be healthier as their debt service ratios are expected to be sharply lower.

Second, U.S. corporate credit metrics generally remain healthy, although they are expected to deteriorate. But that's not unusual given that we are likely late in this current business cycle. Corporate bankruptcies may rise, but businesses with strong balance sheets and the ability to access capital are likely to take market share as weaker competitors fall or get absorbed.

Unfortunately, the National Bureau of Economic Research (NBER) has not officially called a U.S. recession. If we were to use history as a guide, then yes, it is unfortunate that the NBER has not declared a recession. Since World War II, there have been 10 U.S. recessions and interestingly, it's often just as good to invest at the ***start of a recession*** as you can see from the information in the table below. The average 1-year return after the ***start*** of a recession is 8.2%, the average annualized 3-year return is 14.2% and the average annualized 5-year return is 11.4%.

S&P 500 Index (US$) Returns

Recession Start Dates	1 Yr	3 Yrs	5 Yrs
Nov-48	17.2%	26.1%	18.7%
Jul-53	31.9%	30.5%	19.3%
Aug-57	9.9%	9.6%	8.1%
Apr-60	24.2%	13.0%	13.9%
Dec-69	4.0%	11.7%	0.0%
Nov-73	-23.8%	8.4%	4.3%
Jan-80	19.3%	15.2%	15.1%
Jul-81	-13.0%	14.2%	18.0%
Jul-90	12.8%	12.8%	12.9%
Mar-01	0.2%	0.1%	4.0%
Average	**8.2%**	**14.2%**	**11.4%**

Source: NBER, Ibbotson EnCorr

While the data continues to support investors who stay invested or even better, continue to invest, the temptation to sell and move into guaranteed investments is undoubtedly high. But consider this. If you had a portfolio worth $10,000 on June 18, 2008 in the S&P/TSX Composite Index, your portfolio is worth $5,632.91 today. According to Canoe Money, GIC rates range from approximately 3% to 5%. Based on these rates of return, it would take you between 11.8 to 19.4 years before you made your money back. The average return of the S&P/TSX Composite Index from January 1970 to October 2008 was approximately 9%, which means it would only take 6.7 years assuming you didn't invest a nickel more.

Initial Portfolio Value As At June 18, 2008	$10,000.00
Portfolio Value As At November 19, 2008	$5,632.91

Rate	Years to Recover^
3.00%	19.4
3.50%	16.7
4.00%	14.6
4.50%	13.0
5.00%	11.8
5.50%	10.7
6.00%	9.9
6.50%	9.1
7.00%	8.5
7.50%	7.9
8.00%	7.5
8.50%	7.0
9.00%	6.7
9.50%	6.3
10.00%	6.0

^ Assumes annual compounding
Source: Bloomberg

For more information, talk to your financial advisor today.

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