

UNDERSTANDING THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE  
**THAT WAS THE WEEK THAT WAS**



Monday, February 20th

Front Page Headline, Wall Street Journal – “Europe Reaches a Greek Agreement. Euro zone finance ministers arrive at a long awaited accord to secure a new 130 billion euro (\$171.9 billion U.S.) bailout and debt restructuring agreement for Greece, after

MONDAY, FEBRUARY 20TH

President’s Day Holiday in the U.S. / Family Day in Ontario

negotiating into the early hours of Tuesday morning to settle the final details. The meeting, which lasted nearly 13 hours, resulted in a plan that would reduce Greece’s debt to just over 120% of gross domestic product (GDP) by 2020 and have private sector creditors agree to a write down (‘haircut’) of 53.5% on their bond holdings. Greece would also benefit from an arrangement whereby, the European Central bank (ECB) would distribute profits on its estimated 45 billion to 50 billion euro bond portfolio it purchased in the secondary market in 2010-11 to euro zone governments, which would agree to use them to support Greece. Meanwhile, in a confidential report, the International Monetary Fund (IMF) suggested that the Greek program would



The IMF’s Christine Lagarde talks with Greek Prime Minister Lucas Papademos in Brussels. Source: Agence France-Press

remain vulnerable. The problem: the Greek economy must become more competitive via across-the-board wage cuts, allowing the country to export its way back to economic health. However, such an export boom dream could take years to materialize.”

- Front Page Headline, New York Times – “Jefferson County, Alabama Grapples with the Realities of Bankruptcy. One county jail in Birmingham is so crowded that some inmates sleep on the floor, while the other county jail, a few miles down the road, sits empty. There is no money for the second one anymore. The county roads in the area need paving and the tax collector needs help. There is no money for them either. There is no money for a lot of things; not since Jefferson County, population 658,000, declared bankruptcy last fall. There is no money for holiday D.U.I. checkpoints, litter patrols or overtime pay at the courthouse. None for crews to pull weeds, or clean up road kill. This is life today in Jefferson County, Bankrupt, U.S.A. For all the talk in Washington about taxes and deficits, here is a place where government finances and government itself, have simply broken down. The county, which includes the City of Birmingham, is drowning under \$4 billion (U.S.) in debt, the legacy of a big sewer project and corrupt financial dealings that sent 17 people to prison.

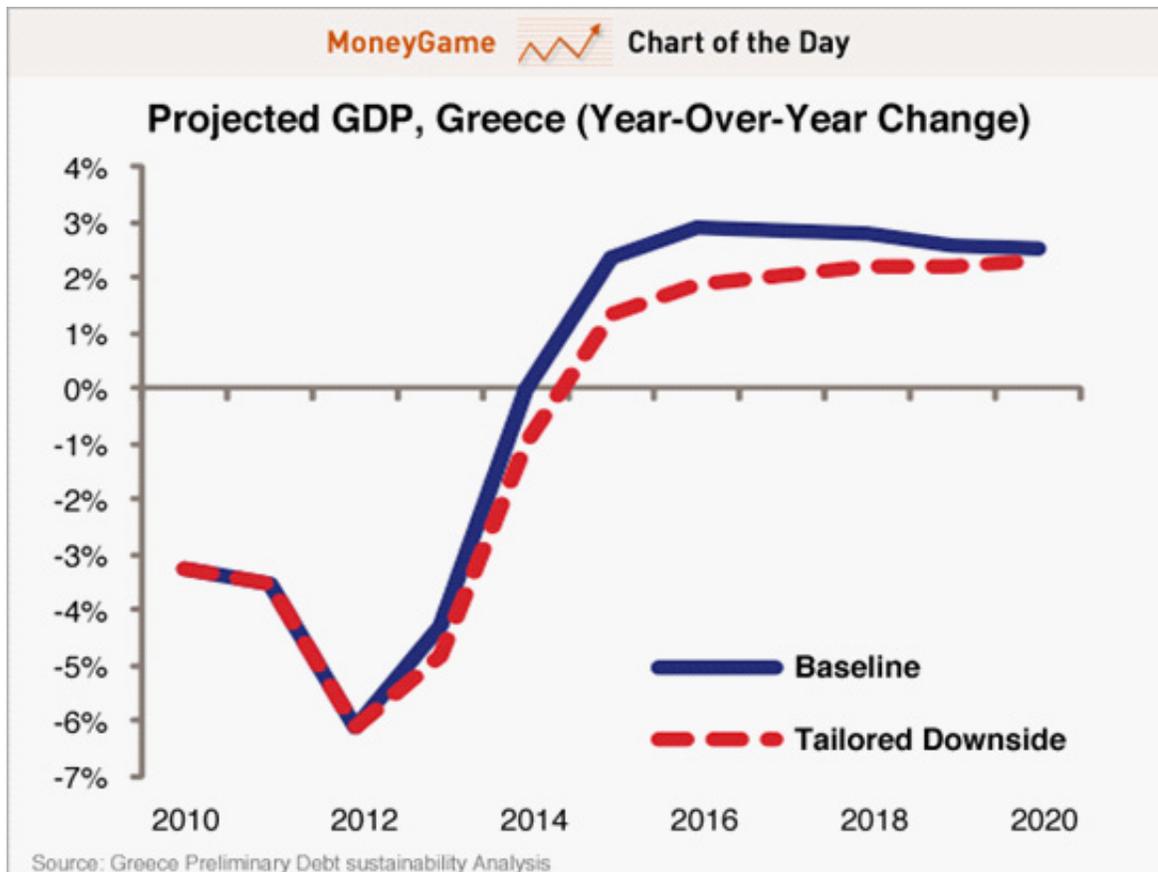
Municipal officials have only begun to grapple with the implications of life under Chapter 9 of the federal bankruptcy code, a municipal form of debt adjustment, rather than reorganization or

liquidation. Until now, the most famous example was Orange County, California, which filed for Chapter 9 in 1994, after risky investments went horribly wrong. Many local governments are struggling to pay their bills these days, but hardly any have filed for bankruptcy. Notable exceptions include Harrisburg, Pennsylvania; Vallejo, California and Central Falls, Rhode Island. "This is really a journey without a road map," commented John Young, the civil engineer who was appointed by an Alabama court to determine how to fix Jefferson County's sewer system. Today, he is that project's official receiver in name only, because a federal bankruptcy court has suspended his powers, ruling that the federal bankruptcy law trumps state laws which protect bondholders. Ordinary citizens can't do much at this point. Jefferson County has even canceled municipal elections scheduled for this August. It seems that there's no money for voting booths either."

In contrast, according to the Business Insider, the fifteen most affluent counties in America – fourteen of which are located within the original 13 colonies – have a citizenry whose median annual income ranges from \$87,000 (U.S.) to \$119,000 (U.S.).

- Front Page Headline, Financial Times – "Greece Races to Meet Bailout Demands. Greece will have just nine days to comply with an host of unpopular austerity measures in order to receive 130 billion euros of bailout monies and avoid a disorderly default in mid-March, that could force the country out of the euro and ignite turmoil across the euro zone. The latest demands include dozens of 'prior actions' which Greece must deliver as a condition of the bailout: from sacking underperforming tax collectors to passing legislation to liberalize the country's closed professions; tightening rules against bribery and readying at least two large state-controlled companies for sale by June. Greece's Finance Minister Evangelos Venizelos declared: 'A nightmare (economic) scenario has been avoided. This was a significant development that affords our country a new opportunity and we must make the most of this opportunity. We must put behind us this sense of misery and despair and build a new national social contract.'"

TUESDAY, FEBRUARY 21ST



- Front Page Headline, Globe and Mail – “GM Still Facing Huge Pension Shortfall. General Motors of Canada Ltd. still faces a massive shortfall in its unionized pension plan despite a \$3.2 billion (CAD) contribution taxpayers made to the fund when the auto maker’s parent company went into bankruptcy protection in 2009. The shortfall stood at \$2.2 billion (CAD) as of September 1, 2010 which is a vast improvement on the \$5.1 billion deficiency in the plan before the special payment was made. However, it is still a significant amount for a plan that covers more than 30,000 retirees.”
- Statistics Canada reports the nation’s retail sales declined by 0.2% in December, citing lower automobile sales. In a note to clients, TD Bank analyst Leslie Preston commented: “We expect consumers to rein in spending in 2012 and we now see this trend was already under way as 2011 came to a close. The unemployment rate has been edging up and wage gains have not been keeping pace with inflation, setting the stage for spending growth to slow this year.”

#### WEDNESDAY, FEBRUARY 22ND

- The National Association of Realtors reports U.S. sales of existing homes rose by 4.3% in January to a seasonally adjusted annual pace of 4.57 million, citing lower prices, continuing low mortgage rates and unusually warm weather
- The U.S. Bureau of Labor Statistics (BLS) reports the number of people working in residential remodeling projects rose by 5.8% in December to about 250,700 on a year-over-year basis, the highest level since December 2006
- Front Page Headline, New York Times – “Obama Unveils Proposal to Cut Corporate Tax Rate. U.S. President Obama asks Congress to revise the corporate tax code by eliminating dozens of tax loopholes and tax subsidies and reduce the top corporate tax rate from 35% to 28%; while giving preferences to manufacturers, effectively setting their maximum tax rate at 25%. The President would also establish a minimum tax on multinational corporations’ foreign earnings – a feature that Republicans immediately denounced.”
- Front Page Headline, National Post – “Scams Keep Canada’s Securities Regulators Busy. In its annual enforcement report, the Canadian Securities Administrators (CSA) – the umbrella group for Canada’s 13 provincial and territorial regulators – conclude these Ponzi schemes often involve a breach of trust, accounting for over 53% of the 124 enforcement actions that regulators concluded last year. In 2010, illegal distribution cases

comprised 66% of the total concluded enforcement actions and in 2009 they accounted for 48% of 141 concluded cases. The CSA noted that victims of illegal distribution schemes, which promise fantastic rates of return to lure investors into investments that do not comply with securities laws, rarely recover their money.

In an interview, Tom Atkinson, Director of Enforcement at the Ontario Securities Commission (OSC), commented: ‘You don’t really suspect someone’s going to take advantage of you in those types of cases; it could be a member of your church or even a family member. These people are cruel, and I’m telling you we’re going to vigorously chase and prosecute them; and if we catch them, they are going to jail. I’ve been really pleased in our progress in terms of incarcerating people in 2011. I think that our highest sentence was 30 days in 2010, however in 2011, we’ve put people in jail cumulatively, for almost 15 years.’ Of 24 cases which were concluded in court proceedings in 2010 – as opposed to resolution by a tribunal decision or settlement – eight individuals were sentenced to jail terms, all from Ontario. However, criminal prosecutions which regulators hope will act as a deterrent for the low level operators involved in illegal distribution cases, are less effective in instances of illegal insider trading. Bill Rice, Chairman of both the CSA and the Alberta Securities Commission (ASC) stated: ‘I’d like to see criminal prosecutors and the police undertake more prosecutions of securities related offences, which would relieve the pressure on the securities regulators to pursue such cases in the courts.’

#### THURSDAY, FEBRUARY 23RD

- The Labor Department reports U.S. initial claims for state unemployment benefits were unchanged at a seasonally adjusted 351,000 in the week ended February 18th. while continuing claims declined by 52,000 to a seasonally adjusted 3.392 million in the week ended February 11th. The number of people who have exhausted their traditional benefits, but are now receiving emergency or extended benefits under federal programs declined by 68,966 to 3.41 million in the week ended February 4th.
- Front Page Headline, Bloomberg News – “USPS Plans 27,000 Job Cuts Amid Plant Closures. While predicting an annual loss of \$18.2 billion (U.S.) by 2015, Postmaster General Patrick Donahoe announces the U.S. Postal Service plans to close about 50% of its 457 mail-processing plants by February 2013. As a result and through attrition, the USPS will cut about 27,000 jobs, saving the USPS about \$2.5 billion (U.S.) a year.”

## *ILLEGAL DISTRIBUTIONS KEEP REGULATORS BUSY*

### CONCLUDED CASES BY CATEGORY\*

	2009	2010	2011
Illegal distributions	68	115	66
Misconduct by registrants	29	21	21
Illegal insider trading	16	13	11
Disclosure violations	14	11	10
Market manipulation	3	4	3
Other cases	11	10	13
<b>TOTAL</b>	<b>141</b>	<b>174</b>	<b>124</b>

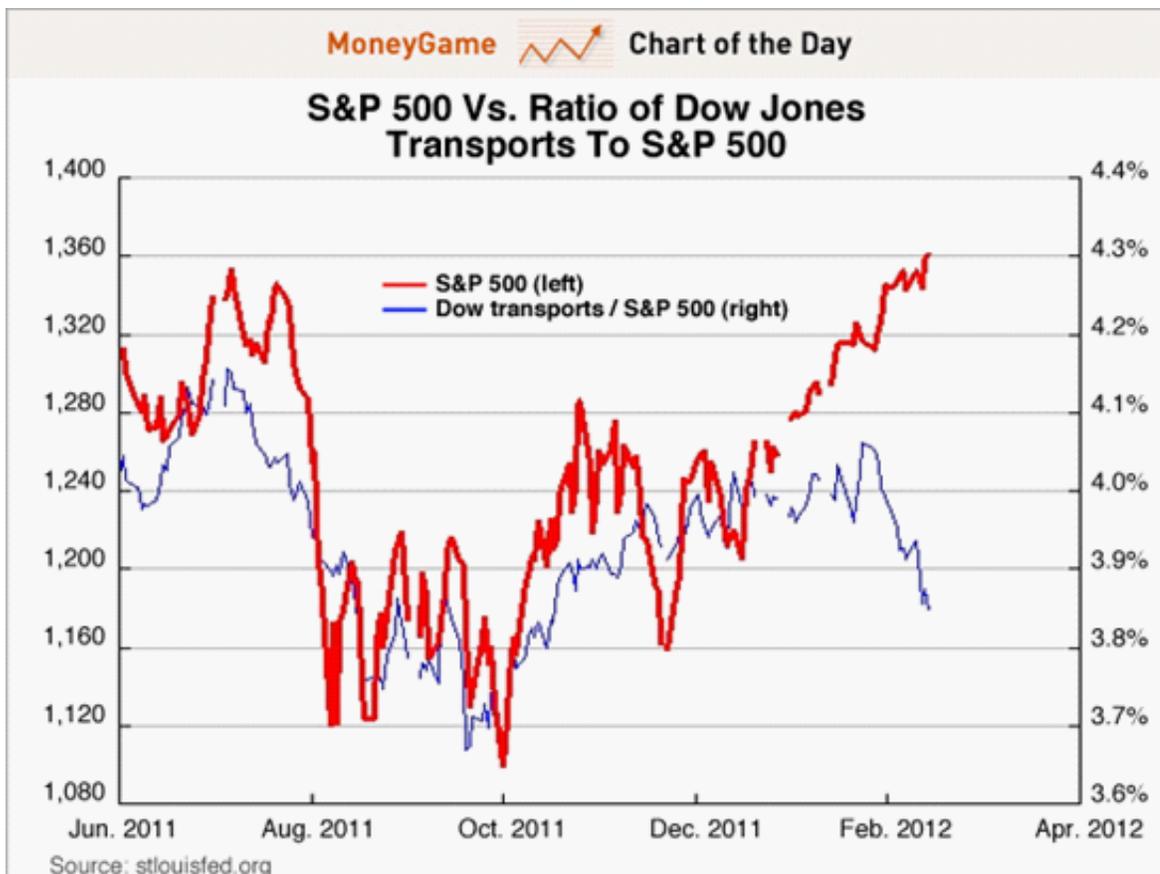
\* Reciprocal orders and interim cease trade orders have not been counted in this table

### FINES AND ADMINISTRATIVE PENALTIES

	2009	2010	2011
Illegal distributions	\$30,833,925	\$53,592,614	\$40,928,558
Misconduct by registrants	\$106,186,510*	\$4,971,418	\$4,971,418
Illegal insider trading	\$1,769,744	\$1,835,974	\$1,958,000
Disclosure violations	\$14,454,329	\$3,148,500	\$3,076,288
Market manipulation	\$3,000	\$56,000	\$1,900,000
Other cases	\$425,500	\$222,500	\$1,928,500
<b>TOTAL</b>	<b>\$153,673,008</b>	<b>\$63,827,006</b>	<b>\$52,151,546</b>

\* Five respondents agreed to pay \$104,425,000 in administrative penalties as part of settlement agreements in 2009 related to asset-backed commercial paper (ABCP)

- Front Page Headline, Bloomberg News – “European Banks Take Write Downs After Greek Bailout Agreement. Included in their 4th. quarter results, the Royal Bank of Scotland – Britain’s biggest government-owned lender posts a sovereign debt impairment of 1.1 billion pounds (\$1.7 billion U.S.); Commerzbank – Germany’s second largest lender – books a 700 million euro (\$1.1 billion U.S.) write down; and Credit Agricole – France’s third largest bank – records a 220 million euro (\$350 million U.S.) impairment on Greek debt. Lutz Roehmeyer, a portfolio manager at Landesbank Berlin Investment commented: ‘Earnings were hit by Greek (debt) write downs, but at least (hopefully) the worst is now behind us. By aggressively writing down their (Greek bond) holdings, banks want to show that they can cope even if Greece defaults down the road.’”
- The Munich-based Ifo Institute reports its German business climate index – based upon a survey of 7,000 executives – rose to a reading of 109.6 in February from a level of 108.3 in January, the fourth consecutive monthly gain and the highest reading since July
- Front Page Headline, New York Times – “Proctor and Gamble Reorganization Includes 5,700 Job Layoffs. Proctor and Gamble CEO Robert McDonald announces plans to eliminate 5,700 company jobs over the next 18 months, as part of a \$10 billion (U.S.) cost-cutting initiative. The job cuts amount to about 10% of the company’s non-manufacturing work force.”
- Front Page Headline, Financial Times – “Pension Gap Spells Trouble for U.S. Muni Bonds. In recent months, America’s mighty Securities and Exchange Commission (SEC) has been making U.S. local government officials nervous. In 2010, New Jersey settled civil fraud charges brought by the SEC for allegedly misleading bondholders about the funding of its pension plan. Since then, the SEC has been scouring other issuers in America’s \$3 trillion (U.S.) municipal bond market. Inasmuch as (government) fiscal pressures are increasing across America ... the level of pension underfunding is (also) rising. Notably, there is a profound aversion in the public sector to applying anything like mark-to-market principles to pension portfolios.”



FRIDAY, FEBRUARY 24TH

- The Commerce Department reports U.S. new home sales declined by 0.9% in January to a seasonally adjusted annual pace of 321,000 from an upwardly revised 324,000 in December. Separately, the Thomson Reuters /University of Michigan final consumer sentiment index rose to a reading of 75.3 for February from a prior level of 75 in January.
- Front Page Headline, Globe and Mail – “BMO Capital Markets Cuts 60 Jobs. A Bank of Montreal spokesman confirms there will be layoffs in the slow areas across the business, which employs about 2,300 people in total. The BMO issued the following statement: ‘We continue to build our North American platform with a unified approach to client coverage while ensuring staffing levels are commensurate with the capital markets environment. The (staff) reductions are part of our focus on productivity and we would expect to continue to be hiring over the course of the year as we grow our businesses.’”
- Front Page Headline, Business Insider – “Baltimore Concludes Some Neighbourhoods Are Just Not Worth Saving. The highest estimates suggest there are 46,800 vacant houses and lots in Baltimore, Md. (the new Detroit) – 16% of the city’s residences. Many homes were owned by people who just walked away, leaving the city to clean up the mess and eventually seize them in (property) tax foreclosures.”



Abandoned homes in Baltimore, Maryland.

Source: Business Insider

- Front Page Headline, Financial Times – “Stockton, Ca. May Cease Servicing Debts. Municipal documents disclose that Stockton – a northern California city of 292,000 people just east of San Francisco – will decide next week whether to commence mediation with its creditors. A state law passed last year requires troubled city councils to attempt to resolve their financial problems through this type of process, before being permitted to file for Chapter 9, the section of the bankruptcy code applicable to cities. Reacting to the proposed City Council resolution to suspend interest payments affecting \$341 million (U.S.) of outstanding debt, Moody’s Investors Service downgraded Stockton’s credit rating by three levels – from Baa1 to Ba2, or two levels below investment grade – citing the city’s rating remains under review pending the city council’s decision. While noting the city’s intent to restate last year’s audited financial statements, Moody’s cited: ‘The proposed (bond interest) suspension and entry into a mediation process demonstrates significantly a reduced willingness, if not ability, to make full and timely debt service payments.’”
- Front Page Headline, The Slog – “Fitch Ratings Poised to Downgrade Greece to ‘C’. According to the Associated Press, but unconfirmed by Fitch, the ratings agency will downgrade Greece’s sovereign debt credit rating to ‘C’ from ‘CCC’ on March 10th. – the date the current Greek bond exchange will be completed

- Front Page Headline, Financial Times – “Price of Crude Oil Surges after Iranian Uranium Warning. In its most recent quarterly report concerning Iran’s nuclear activities, the International Atomic Energy Agency (IAEA) reveals details regarding the state

– citing a ‘restricted default’ judgment. A Moody’s spokesperson commented: ‘Greece is currently rated ‘Ca’ with a developing outlook. Moody’s is assessing the credit implications of the Greek bailout and will (issue a sovereign rating) comment in due course.’”

CLOSING LEVELS FOR FRIDAY, FEBRUARY 24TH.		WEEKLY CHANGE
Dow Jones Industrial Average	12,982.95	+ 33.08 points
Spot Gold Bullion (April)	\$1,776.40 (U.S.)	+ \$50.50 per oz.
S&P / TSX Composite	12,725.77	+ 267.47 points
10-Year U.S. Treasury Yield	1.98%	– 2 basis points
Canadian Dollar	100.03 cents (U.S.)	– 0.40 cent
U.S. Dollar Index Future (Spot Price)	78.414 cents	– 0.978 cent
WTI Crude Oil (April)	\$109.77 (U.S.)	+ \$6.17 per barrel

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“Those who cannot remember the past are condemned to repeat it.” Santayana