

Ben's Market Brief – CDN Bear Market AHEAD?

Last week's refusal by OPEC to stop flooding the market with cheap oil has sent crude oil prices tumbling further, well below \$40. This has sent crude prices to their lowest level since the depths of the global recession of 2008-2009.

Simply stated, shares in energy companies have been slaughtered over the past twelve months, along with the prices of other commodities such as Iron Ore.

How far the high and mighty have fallen. The price of Brent crude stood at \$115 in the summer of 2014.

It's not a question of negative demand, (although energy consumption has slowed) but rather a situation of excess oil supplies (Saudis vs Shale + Oil Sands).

Cut supply, either through OPEC or non OPEC cuts, a geo-political event, or increased demand, and prices will start to rebound. In this game of "chicken", the question is, which player will cave-in first?

The CEO's of Exxon and Suncor (the pros) did not ring a bell warning of peak oil prices during the summer of 2014. Likewise, they can't predict with any certainty when the bottom in energy prices will occur.

Today, the amount of absolute negative sentiment regarding energy prices is deafening. The only thing missing for a bottom is a flashy negative story in a major publication such as the Economist, Fortune, or Time Magazine. Title: "Crumbling Oil." Conversely, a significant event such as the ending of the U.S. oil export ban, could prove to be a positive catalyst.

In August, I talked about a "Bear Market or Simple Market Correction?" Well, I have some crow to eat – this past week the TSX was one point away from a 20% bear market

decline. Canadian financial headlines could soon be declaring the arrival of a bear market. By the time you read those headlines – the major damage will have already been inflicted on commodity stocks. Yes, with year-end tax loss selling, Warren Buffet would certainly be adding to his Canadian oil positions!

For the non-savvy technical readers, a bear market is defined as a minimum 20% decline from the previous all-time peak. The TSX peaked in early September 2014 at 15,657. Today, at 12,672, it has fallen 19% from its 2014 peak.

Twenty five years of investing experience has taught us that the sectors/industries that suffer the deepest and most painful cyclical (not secular) declines, are the ones that usually experience the greatest snapback (think U.S. housing stocks after 2009).

That's the simple reason to understanding why, when the commodity rout is finally over, the commodity laden Canadian stock market will experience double digit returns (2016 or 2017).

Forget the idea of \$110 oil. However, \$60-\$70 oil is certainly in the range of possibilities with some help from supply disruptions/removals.

(Note: Examples of “secular/disruptive” declines would include companies/industries such as: Kodak, Blockbuster, Nortel, Newsprint)

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Next purchase date Value Contrarian Fund: December 25, 2015

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Please note: the timing of Ben's market comments will only be sent when something of value should be shared.