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## How High can the Loonie fly?

Market Commentary September 7, 2007

At about 95 cents USD, we have received a noticeable number of calls, and want to share some insights and hopefully dispel a few myths.

Myth One—That there is forecast ability, i.e. the Canadian dollar. Statistically, for the Loonie or any similar free floating currency, there never has been. The dollar is just as likely to decrease as it is to increase. In retrospect, we connect the dots, but predictability is 50/50. We can hypothesize fundamental scenarios where the Loonie rises for a year or two underpinned by continued 10% China growth and global resource demand, or scenarios going the other way. In decades of experience following the markets and associated research, we are not aware of anyone who continuously has or can predict short-term currency movements.

Myth Two—That currency impacts equity market returns. Scientific studies show that global returns are only impacted by a range of 0–5% over many years. To illustrate the most pertinent case, since the Canadian dollar went to a free float in 1970, the Canadian dollar annualized return was –0.4% against the US dollar.

Myth Three—That now an investor should avoid the USD. USD investments are a bargain compared to 2002, and that is why the largest Canadian pension plans, with hundreds of billions in assets, are pursuing global investments over Canadian ones. Even if one could forecast the peak value and timing of the Loonie, there will be far less investment opportunities left at that time. It is better to invest now than miss a major investment opportunity. When the Loonie inevitably goes into a long-term cyclical decline, there will be a free ride in returns from holding other currencies.

Magnitude—A typical year has the Canadian dollar changing by about 5 cents. Should the resource boom continue as expected for the next several months, then the Loonie can challenge the previous modern peaks of \$1.04 in April 1974 and even \$1.06 August 1957. (It certainly would not reach the \$2.78 all-time high during the American Civil War when the US abandoned the gold standard!)

Wise Capital searches for the best investment ideas across the globe, and geographical diversification is absolutely essential to successful investing. The main investment recommendation: Have some global holdings if you have \$1 million or more.

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