The QAM update that highlights recent developments that we think either affect the markets or are important to understanding them.

Quote of the month:
"This time is different" – *Too many people too many times*

Economic Outlook

As we write this, Statistics Canada has just announced that Canada's jobless rate hit its lowest level in nearly two years last month. The unemployment rate fell to 7.6 per cent in November – the lowest level since January 2009 – from 7.9 per cent a month earlier.

A set of improving data from the US, Europe and Emerging Asia (especially China) has raised hopes that global growth is accelerating again after a temporary slowdown over the summer.

Positive developments include:
- Pick-up in GDP growth in the third quarter of 2010 in the US and Japan. Growth remained strong in the UK and Germany
- The recovery in China's two manufacturing Purchasing Managers Indices has been particularly impressive
- Strong hints that the European Central Bank is going to step up to the plate and aggressively support the bond markets of Portugal and Spain
- November US retail same-store sales rose by 6 percent over last year, with 76 percent of retailers beating Wall Street forecasts

On the other hand there is a long list of things to worry about (from Gluskin + Sheff's David Rosenberg):
- China is overheating and more policy tightening will likely be needed.
- The European debt crisis
- Renewed housing deflation in the United States
- Increasing Canadian household leverage
- The dramatic retrenchment at the state/local government sector south of the border and the negative feedback effects on domestic demand
- Currency wars
- Military skirmishes. The two Koreas as an example but the situation will also test China-U.S. foreign relations as Beijing tells America to butt out

Regardless of the positive and negative news being reported, the number on most people's minds is US unemployment, which is currently sitting at 10%. Technically the number is 9.8% but people tend to get attracted to big, threatening, frightening round numbers. Lots and lots of families are seeing their standard of living seriously affected. Social problems arise and many will never recover either financially or psychologically. However, we shouldn't forget that 90% of the people that actually want to work are essentially working and producing goods and services that markets want or need to consume. We expect that they are producing these goods and services diligently and with an extra dose of ingenuity as they see that their level of comfort or position is being threatened. All the while they are doing so in the context of one of the most market-oriented, progressive, open and forward-looking societies that human history has ever seen.

Credit Markets

The theme now is higher yields. Currently US ten year government bonds are yielding over 3%, continuing the trend of rising yields over the past month. Rates increased along the entire yield curve for both the US and Canada in November.

We expect this to continue, and have taken a defensive position in our Fixed-Income portfolios.

Equity markets

	YTD	3-years	5-years	10-years
S&P/TSX Index	12.9%	1.2%	6.5%	6.3%
S&P 500 Index	7.8%	-5.1%	1.0%	0.8%
S&P 500 Value Index	6.3%	-8.3%	-0.6%	1.4%

as of November 30, 2010

Equity markets are approaching the end of the year in positive territory. The S&P/TSX Index, heavily weighted in materials, benefited from what Prem Watsa (Fairfax Financial's CEO) is calling a "commodity bubble brewing". If his view is correct and commodities lose steam the index may face a correction.

As is shown in the table above, the S&P 500 Value Index has been lagging the general S&P 500 both year to date and in particular since the crisis of 2008. Interestingly enough the Value Index outperformed the General Index for longer terms (10 years in the table). It is our view that the momentum driven markets of the post-crisis are ignoring fundamentals. We think that once the dust settles, value-oriented strategies will outperform.

Value investing in a disciplined and process oriented framework has proven to be the best approach to investing and has delievered superior results over the long term.

In General

Mr. Robert Farrell was Merrill Lynch's chief market strategist from 1967 to 1992. He developed a list of ten market rules that we should remember.

One of them (rule number 6) is: **Fear and greed are stronger than long-term resolve**.
We are human beings dealing with rational and irrational markets; to believe that "fear" and "greed" can ever be lost is naive for they are the most fundamental of human traits.

The other day we came across a different but analogous version of this rule, suggesting that fear and greed have been replaced by fear and fear. Fear of losing and fear of not winning as much as our popular friend who talks openly of how much he is winning (but never mentioning his losses).