

## The men who stare at goats

### *Markets advance on intimations of growth*

*March 25, 2011* – The stock market is a harsh mistress. One day you’re the hero, and the next you’re the goat. And Canada’s high-tech darling, Research in Motion Ltd., has this week been getting the treatment from the men who stare at goats, after the company delivered weak second-quarter earnings guidance. That didn’t faze the Toronto stock market at all last week, which joined its larger US brethren in maintaining an upward trajectory to finish Friday with an overall weekly advance.

When mentioning goat-staring men, we don’t refer to the 2009 George Clooney flick of the same name. That little satire dealt with a secret military unit that supposedly used soldiers with paranormal abilities to fight the enemy. Nor do we refer to members of Canada’s recently dissolved Parliament.

We refer instead to the myriad CFA designation-holders who toil daily before blinking screens to determine which stock market hero is about to transform into the next stock market goat. Last week they seem to have found one in RIM.

RIM’s battle with competitors Apple Corp. and Google Inc. for market share in the red-hot smartphone and tablet markets seems not to be progressing well. Last year’s launch of its highly-touted Torch smartphone as an iPhone buster didn’t bust Apple’s bastion one bit. Nor did it dent Google’s Android operating system, which has found a home in just about every other big non-Apple smartphone service in the US.

The trouble is that although RIM’s sales climbed 33% over the past year, its smartphone market share has dropped nearly in half, falling to 22% from 40%. And that’s in a smartphone market that’s exploded 50% from a year ago. Not only is RIM not playing catch-up, it’s steadily losing ground. And there’s no joy in the company’s new PlayBook tablet – the putative iPad buster either. Motorola Mobility Holdings Inc.’s Xoom tablet and Samsung Electronics Co.’s Galaxy Tab will also be jostling for a wedge of that increasingly crowded shelf space. Consensus 2012 sales estimates for RIM’s PlayBook were recently put at 2.7 million units. Compare that with the 4.19 million iPads Apple sold in its fiscal 2010 *fourth quarter* alone (ended Sept. 25, 2010), and you’ll get a sense of why goats are the theme of the day here.

RIM’s string of recent misfires doesn’t mean the company is down for the count, by any means. But “goat” status in the marketplace puts it potentially in a vulnerable spot. We

know the market is filled at all times with assorted multi-fanged predators, always stalking, always hungry. And the gastric rumbling lately has been almost deafening. For example, AT&T Inc. recently pounced out of the bushes on rival T-Mobile USA, a takeover deal that would vault it over rivals Verizon Wireless and Sprint Nextel Corp. in terms of number of wireless subscribers. In a marketplace undergoing a consolidation phase, a low enough valuation is likely to attract the interest of larger, hungrier rivals – or other predators – soon enough.

Meanwhile, stock markets around the world continued trending up last week, recovering all the ground lost following the Japanese earthquake and tsunami, the NATO war on Libyan dictator Muammar Gaddafi, spreading civil unrest in the Middle East, and an imminent bailout of Portugal by the eurozone. Indeed, Portuguese bond yields soared to a record high 7.9% as the government collapsed and rating agencies Moody's Investors Service Inc. and Fitch Ratings Ltd. announced various debt downgrades. The stock market scarcely blinked, as London's FTSE 100 Index and Frankfurt's DAX 30 Index both advanced on the week.

A reason for equity ebullience might be found on digging a bit deeper into broader economic trends. Global economic recovery does not appear to have been derailed by either the Japanese disaster or the potential threat to crude oil supply in the Middle East. Growing business investment is a leading indicator of economic growth, and in fact, business confidence has been soaring recently.

Take what's going on in the nuts and bolts of global transportation and shipping. In February, A.P. Moller-Maersk A/S, the world's largest container shipping line, placed an order with Korean shipbuilder Daewoo Shipbuilding & Marine Engineering Co., the world's third-largest ship-builder, for 10 gargantuan container vessels, with an option to buy 20 more, for a total value of US\$5.4 billion. The new container ships, each some 400 meters in length and able to carry 18,000 of those ubiquitous trailer-sized steel container boxes, will be the largest ships afloat. But the order is just a small portion of the 614 container ships on order worldwide in February, with a combined capacity of 3.87 million containers. And remember, those are just new ships – ready to join an immense fleet already toting a lot of stuff back and forth on the world's oceans.

In the same vein, Canada's premier natural gas producer, EnCana Corp., announced that it is acquiring a 30% stake in Kitimat LNG Inc.'s \$2.9 billion expansion of a liquefied natural gas export terminal in Kitimat, BC, about 650 kilometers north of Vancouver, BC. That means even more of those gigantic LNG freighters exporting natural gas to energy-hungry Asian markets.

Back on solid ground, where the rubber hits the road, Goodyear Tire & Rubber Co. said it expects a record operating profit in 2013 as it projects capital investment of US\$1.3 billion in the next two years. That's a strong vote of confidence in the revival of both the American consumer and the automotive sector.

And last week, India's Tata Steel Corp. agreed with Canada's New Millennium Capital Corp. to a US\$4.9 billion deal to finance what is expected to be the largest iron ore mine ever in Canada, located in Labrador. Tata, one of the biggest steelmakers in the world, is forecasting strong demand and rising iron ore prices for years to come as supply remains tight.

These are just the tip of the iceberg for what's going on around the world right now. Call it global stealth growth if you want. And equity markets, quick to sense stealthy anything at all, have been rallying steadily as a result.

Toronto's S&P/TSX Composite Index advanced 1.8% on the week as commodity and resource issues gained ground on expectations of continuing global growth (see above). The Dow Jones Industrial Average surged 3.1% week over week, basically for the same reasons, and the S&P 500 Composite Index gained 2.7%.

Business growth, investment, merger and acquisition are driving markets now. Just ask the men who stare at goats.■

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