Creative Global Investments

Morning Market Commentary

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Objectivity

Integrity

Creativity

Technical Market Observations & Babbage

- **The weakest 3-week period of the year for North American equity markets is from September 16th to October 9th. The S&P 500 has dropped an average of 2.5% during this period. The TSE Composite Index has dropped an average of 4.0% per period.** The weakness is related to negative guidance (earnings confession season) and analyst estimate reductions/downgrades during this period prior to release of third quarter results.

2012 so far:

- **Q3 consensus earnings for DJIA companies is for a 1.6% decline yoy**
- **Q3 consensus earnings for S&P 500 companies is for a 2.2% decline yoy (including a huge 20.2% gain by Apple)**
- **Q3 consensus earnings for TSX 60 companies is for a 7.8% decline yoy**
- **Companies have been lowering their guidance third quarter guidance. Since release of second quarter results, 88 S&P 500 companies have lowered guidance and only 22 have raised guidance**
- Stock price responses to lower guidance reports released this week have been strong (look for charts further down in our report for FedEx, Norfolk Southern, Bed Bath & Beyond)
- **Major equity indices and sectors are showing technical signs of rolling over from overbought levels. Momentum indicators such as RSI have fallen below the 70% level. Today Stochastics have fallen below the 80% level for the TSX Composite Index.**
- TSX 60 companies expected to report the weakest third quarter earnings on a year over year basis are companies in the energy and Mines & Metals sectors. Companies expected to report the strongest fourth quarter results are the financial services companies.
- **Weakness will provide a buying opportunity. Watch for stocks to move higher following release of dreadful third quarter results. Earnings prospects improve in the fourth quarter**
- **Also, North American equity markets have a history of moving higher just prior to a Presidential election and continuing at least until early January.**

Global Macro Events

EURO Economy

It appears increasingly probable that the permanent euro bailout fund, the European Stability Mechanism (ESM), will be able to start its work in just a few weeks time. Last week, Germany's Federal Constitutional Court gave its green light for the ratification of the ESM Treaty, but it attached some conditions.

European Union ambassadors of the 17 euro-zone member states plan to sign a so-called "interpretive declaration" in Brussels next Wednesday agreed to last week by the currency union's finance ministers.

The declaration is to clarify that the upper ceiling for a nation's liability established in the treaty can only be exceeded with the permission of that country's parliament. The declaration will also strengthen the rights of parliaments in obtaining information from ESM.

With the declaration, Euro-zone states plan to address the central conditions set by the German high court on Sept. 12 to allow Germany to ratify the treaty. The court rejected injunctions against ratification of the ESM treaty, but they nevertheless demanded clarification on two points:

- **Without the authorization of Germany's federal parliament, the Bundestag, the country's cap for liability cannot exceed €190 billion ($246 billion), even if there are other possible interpretations of the ESM Treaty's language.**

- **Assurances must also be given that professional secrecy requirements of ESM board members and employees will not interfere with German parliaments right to information.**

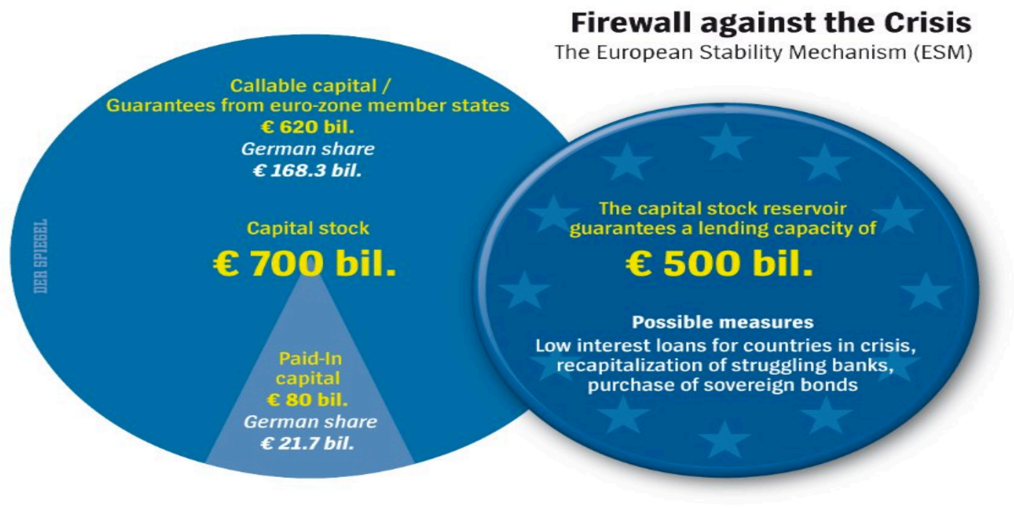
Both of these points have now been addressed in the declaration that has been negotiated.

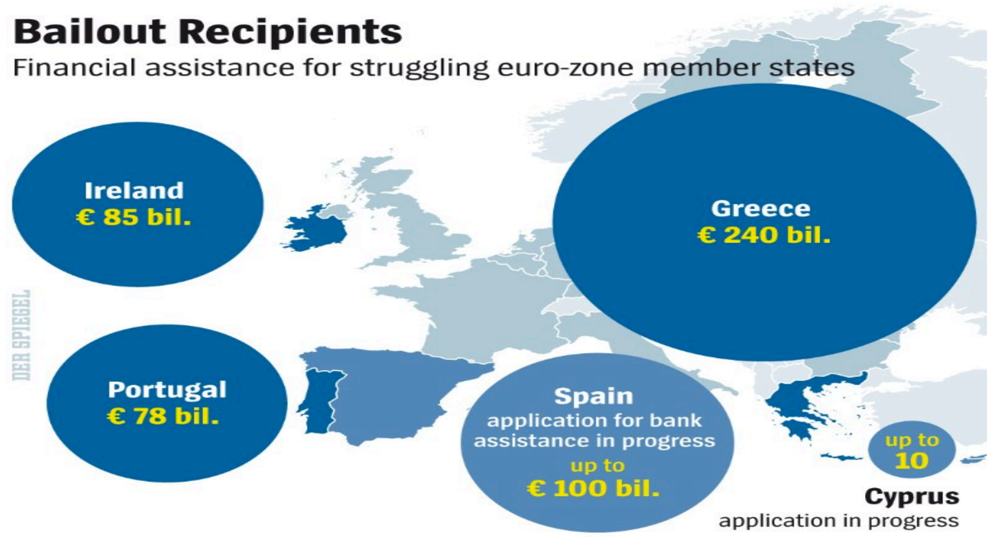
"No provision of the Treaty may be interpreted as leading to payment obligations higher than the portion of the authorized capital stock corresponding to each ESM Member," it states. At least not "without prior agreement of each Member's representative and due regard to national procedures." In the case of Germany, this means that the upper ceiling of €190 billion cannot be exceeded without prior permission from parliament.

The declaration also speaks to the second concern identified by the German high court. Professional secrecy requirements in the ESM treaty shall not "prevent providing comprehensive information to the national parliaments, as foreseen by national regulation," it says.

Berlin government sources revealed that the language of the declaration has already been largely agreed to by ESM member states. But it still needs to be agreed to by national governments before it is officially signed next week. In Germany, this approval is expected to be provided during a meeting of Chancellor Angela Merkel's cabinet next Wednesday, just prior to the official signing in Brussels. A diplomat in Brussels added, however, that last-minute changes to the language could not be ruled out.

Under the preliminary plans, the ESM is expected to go into operation on October 8, with a lending capacity for crisis-plagued euro-zone countries of up to €500 billion ($647 billion). It will ultimately replace the current temporary bailout program, the European Financial Stability Facility.


Firewall against the Crisis
The European Stability Mechanism (ESM)
Callable capital / Guarantees from euro-zone member states
€ 620 bil.
German share
€ 168.3 bil.
Capital stock
€ 700 bil.
Paid-In capital
€ 80 bil.
German share
€ 21.7 bil.
DER SPIEGEL
The capital stock reservoir guarantees a lending capacity of
€ 500 bil.
Possible measures
Low interest loans for countries in crisis, recapitalization of struggling banks, purchase of sovereign bonds


Bailout Recipients
Financial assistance for struggling euro-zone member states
Ireland
€ 85 bil.
Greece
€ 240 bil.
Portugal
€ 78 bil.
Spain
application for bank assistance in progress
up to
€ 100 bil.
up to
10
Cyprus
application in progress
DER SPIEGEL

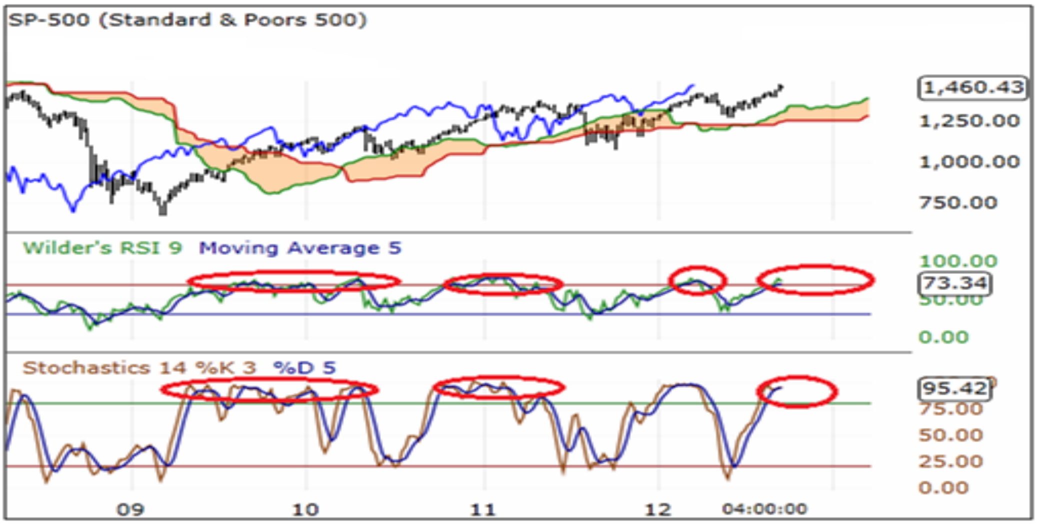
US Weekly Chart & Commentary

This weekly look at the S&P500 shows a topping pattern.

For the S&P we see 1360 as the first warning level; then 1250.

This weekly look at the S&P500 shows a topping pattern. It may take from several weeks to several months for this to play out (Previous periods in red circles).

Indices are expected to move higher into the fall but begin to struggle deeper into the fall as the divergences appearing now grow.



Share price responses to negative guidance have been significant recently.

European Market News & Commentary

European stock markets moved higher on Friday, with gains inspired by a report in the Financial Times that European Union authorities are working with Spain on a new rescue plan. The Stoxx Europe 600 index XX: SXXP +0.52% rose 0.5% to 275.95, led by banks and oil stocks. The German DAX 30 index DX: DAX +0.31% rose 0.4% to 7,416.71. Shares of Adidas AG DE: ADS -1.94% fell over 2% after the sportswear maker reported results. The French CAC 40 index FR: PX1 +0.60% rose 0.7% to 3,532.55 and the FTSE 100 index UK: UKX +0.47% rose 0.5% to 5,882.70.

The Markit Flash Eurozone Purchasing Managers' (PMI) Composite Output Index fell to 45.9 in September, the lowest for 39 months, from 46.3 in August. The results indicated the Eurozone was heading back into recession. The services PMI activity index fell from 47.2 to 46, but the manufacturing PMI output index rose to 45.5 from 44.4 in August. The Eurozone downturn gathered further momentum in September, suggesting that the region suffered the worst quarter for three years. The flash PMI is consistent with GDP contracting by 0.6% in the third quarter and sending the region back into a technical recession.

European car sales dropped 8.5 percent in August, the steepest decline since February, the Brussels-based ACEA industry association said on Sept. 18. The group forecasts that European deliveries will hit a 17-year low in 2012. German car registrations fell 4.7 percent in August, pushing the eight- month sales figure to a 0.6 percent decline.

Daimler, Porsche, Bayerische Motoren Werke AG (BMW) and Volkswagen AG (VOW)'s Audi brand have so far proved resilient to the plunge in sales that has plagued Fiat SpA (F), PSA Peugeot Citroen and Renault SA. (RNO)

The German automakers have been sustained by a robust domestic market and booming exports to China and the US The German market is now also showing signs of weakening.

However, if this downturn lasts much longer, premium manufacturers might not be immune from pricing pressures. The pricing environment in Europe is the biggest problem, with incentives spreading from Italy, Spain and France to Germany.

Global Fixed Income Markets

EURO Bonds

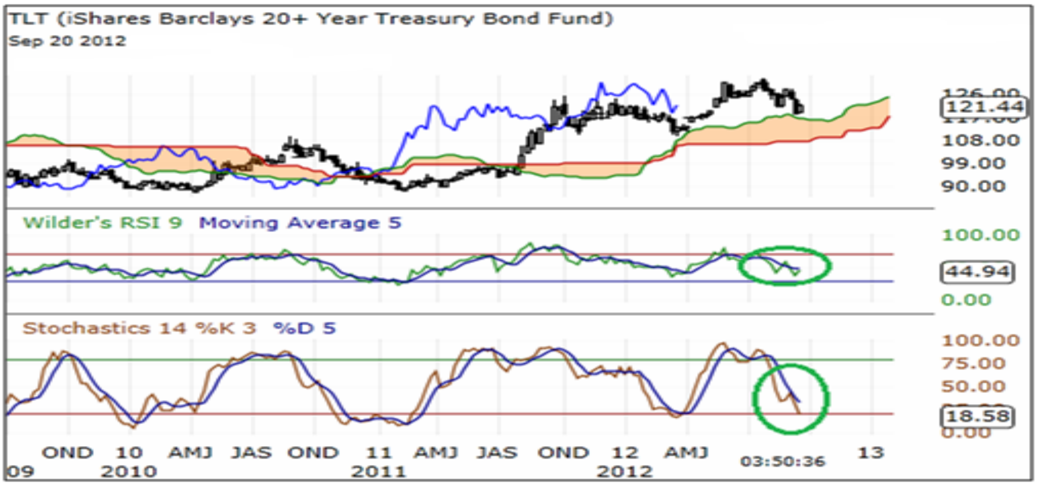
German 10-year bunds fell, paring their biggest weekly advance in almost a month, after a report said the euro-region's policy makers will unveil a financial bailout program for Spain as early as next week.

Italian 10-year securities were set for a third weekly advance as a senior government official said the nation won't request external aid unless increased borrowing costs restrict its access to bond markets. Spanish Economy Minister Luis de Guindos is in talks with European Commission authorities to facilitate a new rescue program that will be presented on Sept. 27, citing unidentified officials involved in the discussions.

US Bonds

This chart of the 20+ Year US long bond ETF shows that both the RSI and stochastics are working towards a bottom. Based on current indicators and time and price this will develop over the next two months.

At present we are advising investors to increase holdings of the 20-Year over this period should the 10-year US TSY hold at or under 2.00%. Over the last year the upper boundary of the cloud has been reliable support.



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