

Intelligence Security Diary

Editors: George Holdron, David Rubin
Editorial Board: Howard Coombs, Richard Gimblett,
Alan Pickering

Special Report July 17, 2009

Page

Economic Intelligence

2

In the recent survey our readership indicated they would like to see more intelligence on economic warfare and the capital markets, which are its battleground. This Special Report on the United States economy provides an assessment as to whether it may be turning the corner to the upside.

One of the Editors of the *Intelligence Security Diary* is an investment manager and he has been fully invested since the week ending March 6, 2009. He is 100% invested in stocks, heavily weighted in the Canadian Chartered Banks.

Over the past twelve months his rate of return has been slightly positive at about +5% whereas the Toronto Stock Exchange Index is still down -29% at the close of business on July 10, 2009.

Book – New Release

7

In the Footsteps of First Canadian Army: Northwest Europe 1942-1945

Professional Services

St. John Ambulance

8

Independent Investment & Insurance Group

9

General R.J. Hillier Joins Gowlings

10

Current and past copies of the *Diary* are available at <http://www.gowlings.com/resources/isd2.asp>.

EDITORIAL BOARD

George Holdron, B. Com, M.B.A., a former officer in the Canadian Intelligence Corps (C Int C) now known as the Intelligence Branch of the Canadian Forces, was involved in strategic intelligence and subsequently pursued a career in investment management for over forty years. He is founder of the *Intelligence Security Diary* and his extensive experience in the financial services industry has allowed him to develop innovative insights in the domain of 'open-source' intelligence. His research interests are in the field of strategy and economic intelligence and he is a Fellow of the Institute Chartered Secretaries & Administrators (U.K.)

David Rubin, KStJ, QC, BA, LL.B. also a former C Int C officer, is a business lawyer and a partner of Gowling Lafleur Henderson LLP, a Canadian law firm with offices across Canada and in London and Moscow. He is Chair of the *Intelligence Security Diary* and Honorary Lieutenant-Colonel of 2 Intelligence Company (CF Intelligence Branch), Toronto. He was the Publication Chair of *Scarlet to Green – A History of Intelligence in the Canadian Army*, past Chair St. John Ambulance, Toronto, and served as Honorary Aide-de-Camp to several Ontario Lieutenant-Governors.

Howard Coombs, BA (Hon), BEd, Master Military Art & Science (Theatre Operations) is a graduate of the United States Army Command and General Staff College and the United States Army School of Advanced Military Studies. He is a research associate of the Canadian Forces Leadership Institute, a Teaching Fellow at Queen's University, a Colonel, formerly Commanding Officer of the Princess of Wales' Own Regiment, Kingston, and now the Director Joint Command and Staff Programme (Distributed Learning) at the Canadian Forces College, Toronto. He advises on the 'Contemporary Warfare' section of the *Intelligence Security Diary*.

Major General Alan Pickering, CMM, CD (Ret'd), served in the Canadian Forces in a variety of operational and command positions. He holds a BSc (Mechanical Engineering) degree from the Royal Military College and Queen's University. He is a graduate of the Royal Canadian Air Force Staff College and the United States Navy War College. His last posting was Chief Intelligence & Security – Department National Defence. He served for eleven years as Director General Information Technology Security at the Communications Security Establishment following retirement from the military in 1985.

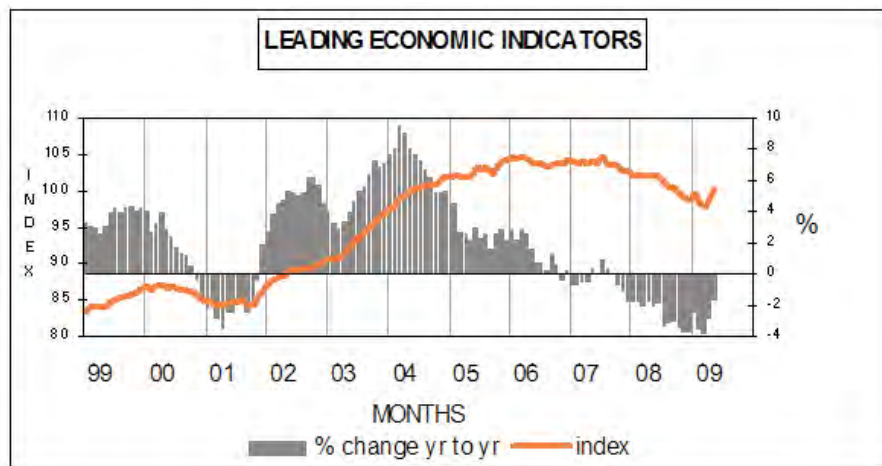
Richard Gimblett, CD, PhD, served in the Canadian Navy for twenty-seven years, in ships of various classes including as Combat Officer, HMCS Protecteur, during the 1991 Persian Gulf War. His last appointment was to the Directorate of Maritime Strategy, from which he retired in 2001 in the rank of Lieutenant Commander. He currently serves in a civilian capacity as Command Historian of the Canadian Navy, President of the Canadian Nautical Research Society, and an Adjunct Professor of History at Queen's University, Kingston, Ontario.

MACRO ECONOMICS 101 – THE SPOOKS' CHARTBOOK

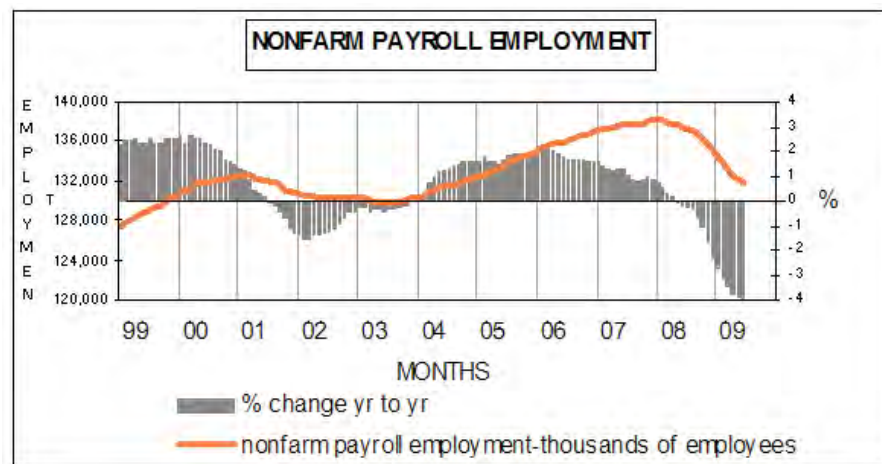
The *Intelligence Security Diary* turned bearish on the stock market in the May 2007 issue – and issued two subsequent editions confirming this view. In March 2009 we used the very last chart in this series to suggest the stock market was about to rally sharply. The recent survey indicated our readership wanted more economic and capital markets' commentary – hence the inclusion of the *Spooks' Chartbook*. The United States economy may be turning and the stock market should lead it in recovery.

General Economy

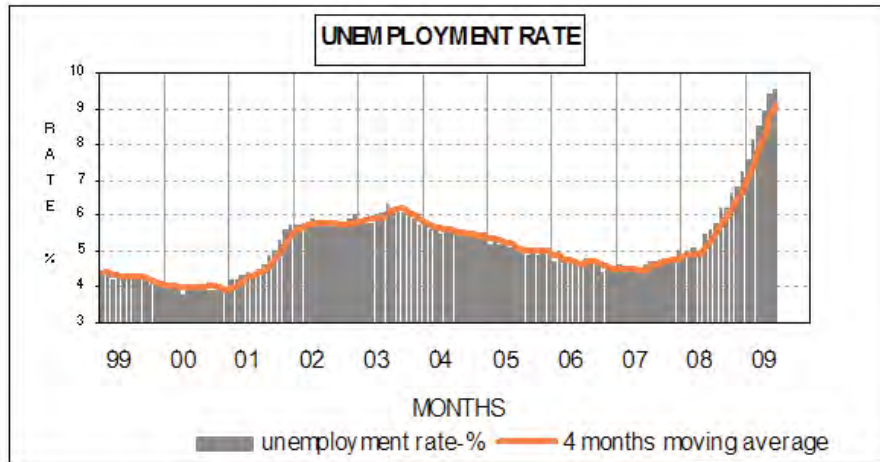
The **Leading Economic Indicators** time series has turned upwards. If you compare the recent several months' configuration to the 2001-2003 recession, the path of 'least resistance' appears upwards. Upward movement in this indicator usually precedes a stock market rally by approximately 3 to 6 months.



Nonfarm Payroll is a number that Wall Street watches very closely. It is generally viewed as a coincident indicator and will turn upwards with the economy when the reversal takes place. Any dramatically reduced negative number or movement into positive territory will move the stock market higher.

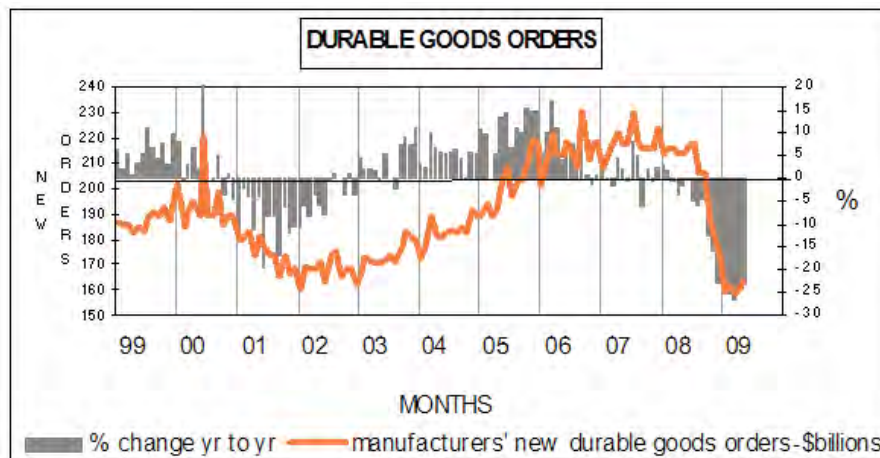
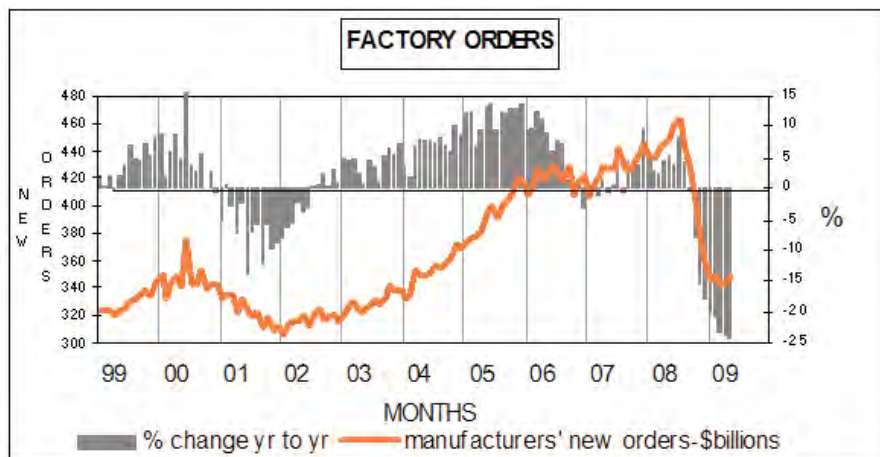


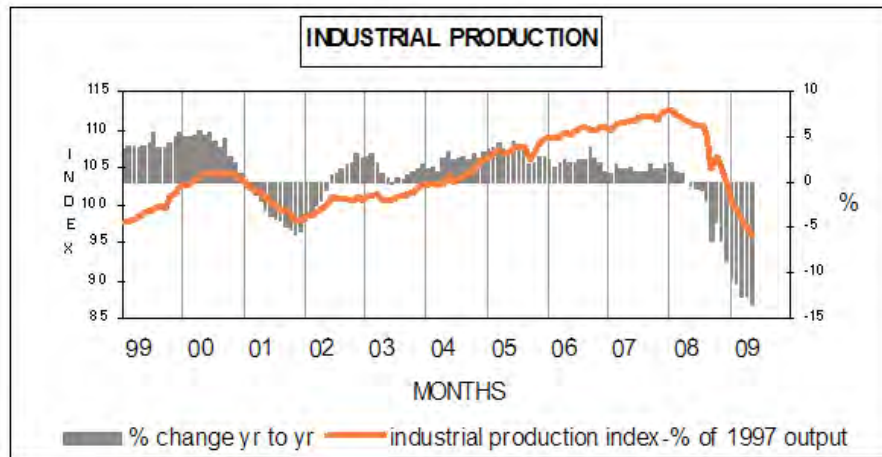
The **Unemployment Rate** is essentially a lagging indicator and will turn after the economy has bottomed.



Industrial Sector

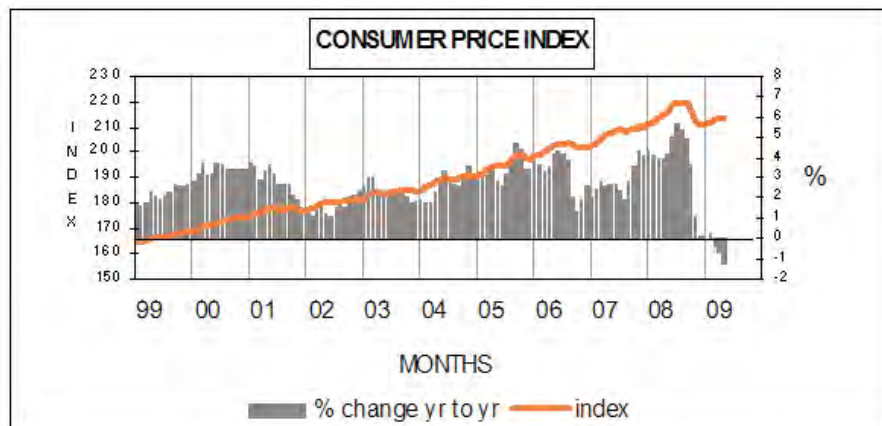
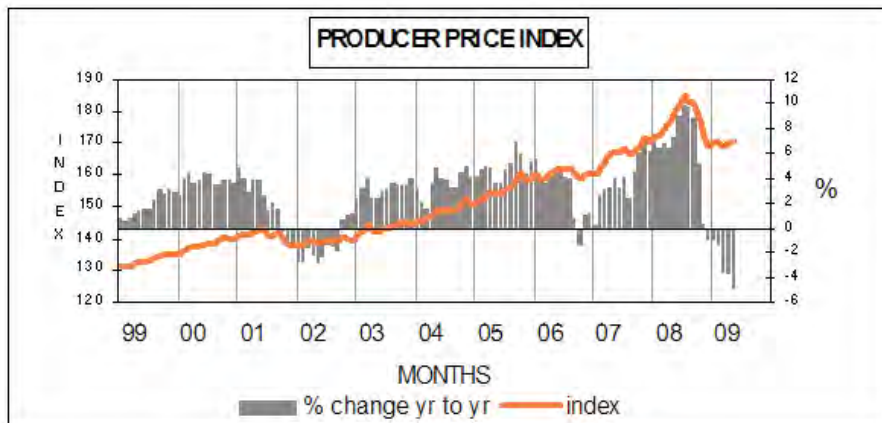
The following three charts portray conditions in the industrial sector of the economy. The **Durable Goods** time series has moved upwards and the other two indicators are close to turning. If all turn in unison over the next few months the general economy may not be too far behind.





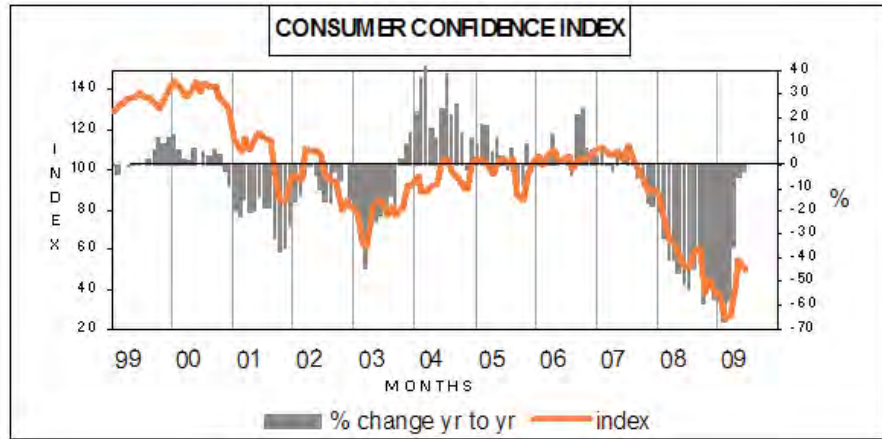
Inflation

Producer and Consumer Price indices indicate that there is no significant inflationary pressures in the economy at the moment. Inflation worries will become valid only once the United States Treasury Bond yield curve moves significantly higher (bond market declines in price). The Obama administration has adequate time to recalibrate money supply to facilitate a non-inflationary exit from the current 'stimulus environment'.



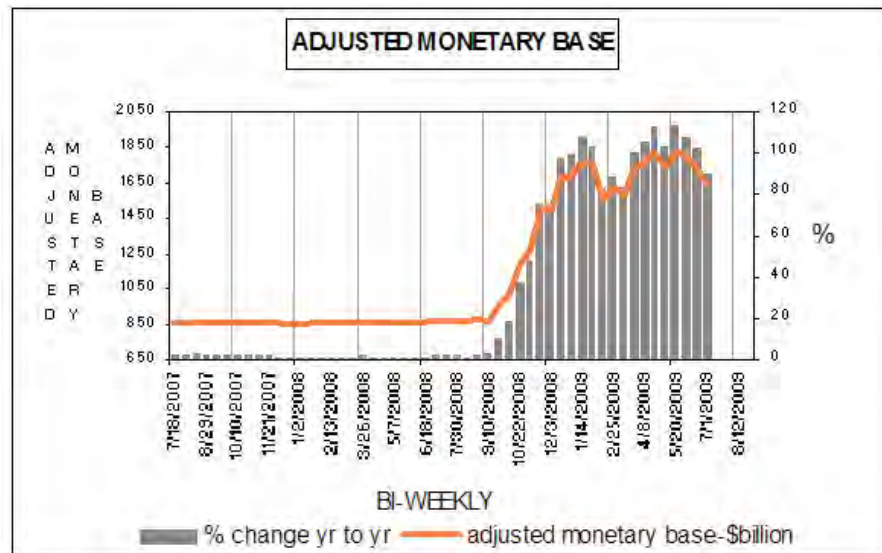
Consumer Confidence

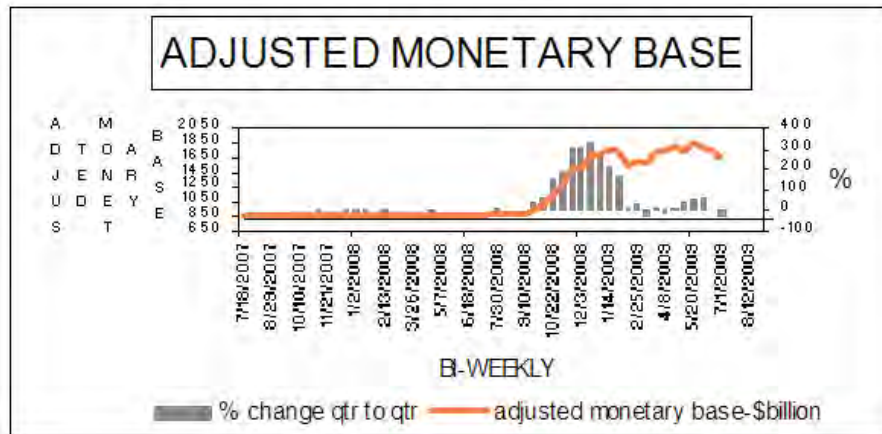
The interpretation of the **Consumer Confidence** Index is straight-forward. It has turned upwards very nicely.



Banking System

The Administration moved dramatically late last year to intercede and protect the United States banking system. The action was successful and the following charts indicate that the massive injection of reserves into the system is coming to an end.





Economic data current to July 7, 2009

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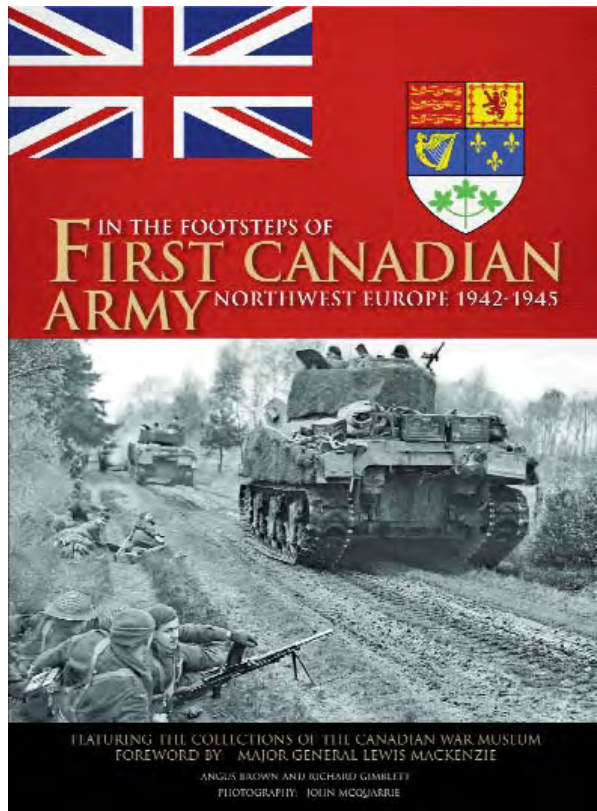
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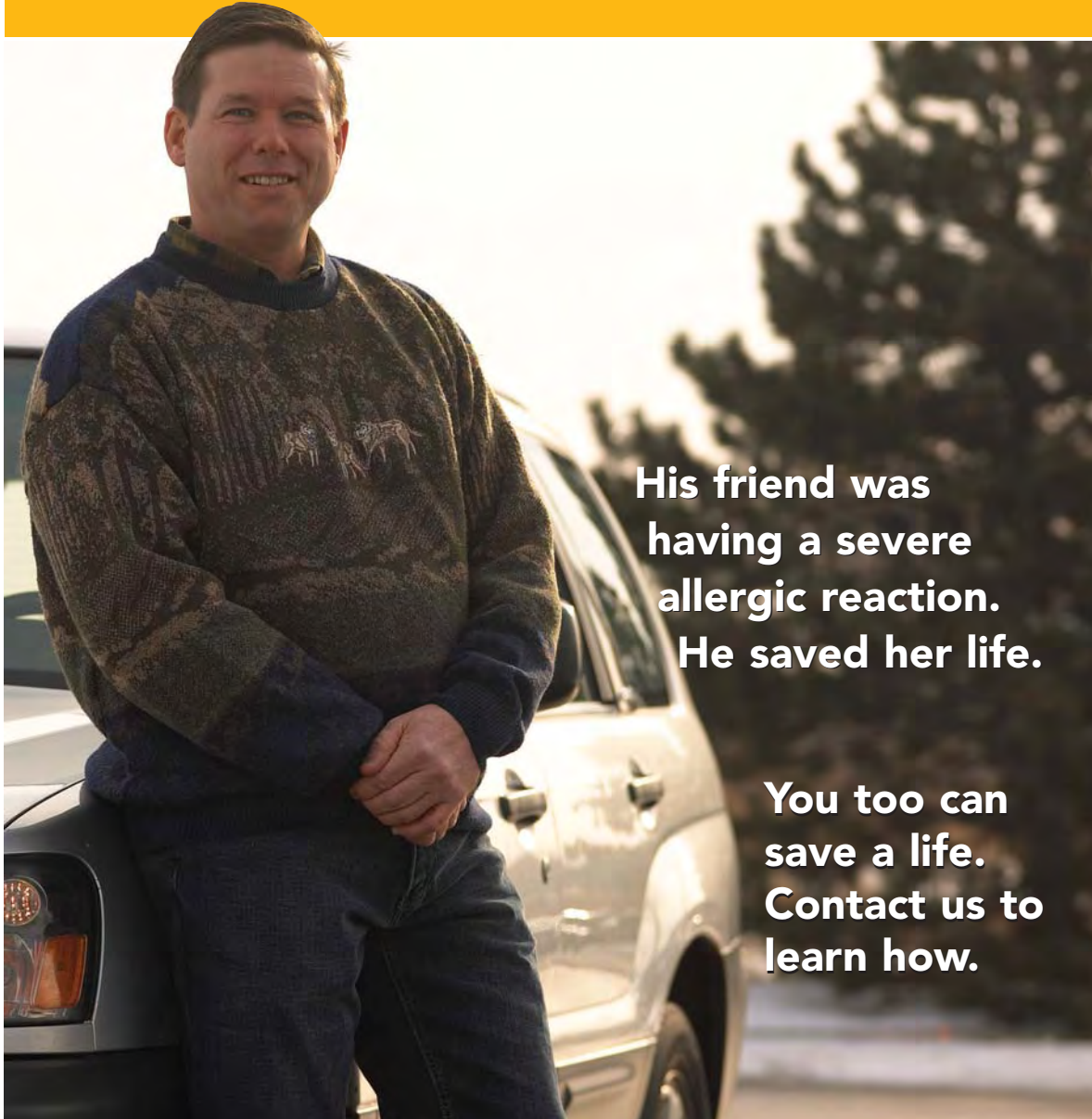
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Cecil Leonard, BA, CFP

Cecil Leonard has been in the financial services industry since 1974. He has served in management capacity with major Canadian insurance companies. Cecil created Independent Investment & Insurance Group in 1989 with the goal of providing financial services to clients in the Montreal-Ottawa-Toronto regions. His Certified Financial Planner designation (CFP) was attained in 2000. Cecil Leonard is the senior officer of Independent Investment & Insurance Group.

George Holdron, B.Comm, MBA, FCIS

George Holdron holds a Bachelor of Commerce degree from Sir George Williams University and an MBA from Queen's University. He is a Fellow of the Institute of Chartered Secretaries & Administrators (UK). He has been involved in personal and institutional investment management for over 40 years. George Holdron advises Independent Investment & Insurance Group on investment strategy.

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General R. J. Hillier Joins Gowlings

Scott Jolliffe, (right) Chair and CEO of Gowing Lafleur Henderson LLP, is honoured to welcome General R. J. Hillier as Strategic Advisor to the Firm.

Having recently stepped down from the post of Chief of the Defence Staff, General Hillier is recognized as a champion of Canada's armed forces, and the country's most outspoken military leader in a generation. His tenure as our highest-ranking soldier is characterized by a dramatic rise in global recognition of the crucial role played by Canada's military.

General Hillier's strategic insight and unsurpassed ability to motivate teams will be valuable assets to the Firm and its clients in maximizing business opportunities.



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