J.C. HOOD INVESTMENT COUNSEL INC.

Monthly Newsletter – August 2011

Hello Everyone:

Because of market volatility over the past two days, I have written the Newsletter a little earlier than usual to describe our response. I have not changed our core positions in the XIU , XSP or ZQQ because I believe that, so far, they have been oversold, largely by institutions but also due to panic selling and computerized trading platforms. Despite the precipitous decline Thursday, the US unemployment numbers were better than the markets had feared, but still indicative of a slowing economy. The Dow closed up 60 yesterday. Nonetheless, after markets closed on Friday, rating service, S&P, downgraded US debt to AA from AAA. Fitch and Moody's retained their AAA rating on the US. While this might already be priced into the market, there could be further volatility this week.

US unemployment numbers however are only a partially relevant. Prior to globalization, these statistics were more important as a barometer of profitability for US companies and markets. In recent years however, despite the US economy, US companies are enjoying record margins and profits from overseas business. Due to volatility however, share valuations are lower, creating buying opportunities for investors.

Canadian markets are still lower, down about 210 yesterday, largely because of the drubbing that commodities have taken but also because there is a bank phobia across global markets and CDN bank share prices have not been spared. As everyone knows however, CDN banks are among the world's strongest and as for oil, it's down to $87/bbl and unless there is a fully developed recession, I don't expect it to fall much lower, although in the short term it certainly could.

We have made some changes however, to enhance cash positions. About 2/3 of our accounts held XIN, the EAFI (Europe, Australia, Asia, Far East) and we have sold about half our holdings. This ETF is about 22% Japan, 20%UK and about 9% each of GER., SW and FR with less than 1% PIG. With possible defaults in IT and SP, I decided to err on the side of caution. I have also sold positions in XID (India) and a couple of other non-revenue producing or underperforming ETFs.

For some of our newly transferred accounts, I have been buying XIU, XSP and ZQQ. We can appreciate that it is psychologically difficult to accept the mantra to 'buy low and sell high' when there is the very legitimate concern that markets may fall further but trying to somehow pick the bottom is a little like trying to catch a falling knife! So long as we are buying quality assets that are well diversified at a lower price, we should do well over the long term. Through rebalancing, if markets drop 10% we will look at buying a further 6% in equities.

I should mention that I looked at buying PUT options yesterday morning as a partial hedge or possibly an inverse ETF. In other words, I have been moving cautiously and deliberately to protect your accounts. As we did three years ago, our best defense is our conservative asset allocation and rebalancing. We will of course keep you informed if market conditions and our strategy changes.

If you have any questions, I would be glad to hear from you.

Regards

John