There has been no significant change to our outlook since last month, although conditions in global economies and financial markets have deteriorated further. Rates of change that appeared to be peaking, in many cases have confirmed downward momentum, though not yet negative. All will be forgiven if we can get more growth in the economy and employment. There are no such signs as yet, and the downside issues are global. A partial list of these issues to consider include: Canada's GDP was negative 0.4% in the second quarter; Australia lost 9,700 jobs in August; U.S. payrolls had zero growth in August; Japan's industrial production was negative 1.7% in July.

What does the Fed have left to stimulate the economy? The consensus suggests the Fed will begin an "operation twist" by selling short maturities and buying longer dated issues in the hope that would push down long rates and entice more capital investment by corporate America. The effect, we believe, will not be that meaningful on the economy. With the start of the NFL season, a U.S. money manager likened it to desperately trying a gadget play on 3rd and 23 after 2 plays that didn't work (QE1 and QE2).

Traditional fiscal policies (as opposed to monetary) would seem the best answer to stimulating these moribund economies. Unfortunately despite the need for effective strategies, policymakers are at loggerheads as to the appropriate measures to be taken. Democrats argue with Republicans – Congress with the President – Congress with the Fed – strong European nations with the weak – China with the U.S., etc. etc. We need more effective and coordinated policies, and we need them now. Hopefully the Congressional "Super-committee" will provide some such policies for both the long and short term, and be a successful example of what can be accomplished by working together.

Two more sobering points to consider in this turbulent world. We learned in Economics 101 that borrowing short term to fund long term liabilities is the way to financial ruin. Currently 70% of U.S. debt matures in less than 5 years. Greek 2 year paper yields over 50%; the market obviously fears default.

Amidst all this gloom and doom it is important to continually probe for the positives. It has always paid to take the contrarian position at the right point in time. We have passed the beginning of this downturn and must look for its end. As ever, markets are a discounting mechanism and traditionally reverse course about 6 months before the economy. We aren't there yet, but are looking for signs. In the meantime, caution remains the watchword.