

Investment

Review & Update



August 2007

Market Watch

On Thursday, August 16th, 2007 the TSX opened almost 100points below the overnight close and shed a further 450 points before rallying in afternoon trading to close 200points lower than the day before. Volatility is caused by uncertainty fueled by speculation and short term traders taking bets on or against trends. Friday's markets opened higher on the Bernake "Put" (which is the Market slang for Fed Rate reduction) followed by a sell off before lunch and a soft rally stabilizing in the afternoon worth a 200points again over Thursday's close. The uncertainty comes from the global credit concerns stemming from US Sub-prime meltdown, and concerns over the real quality of debt and derivatives and hedge funds. The contraction of liquidity has an immediate impact on finance available for corporate business growth and people have rushed to cash with the US\$ being the prime beneficiary, and ironically gold taking a 5.6% hit on Thursday.

There appears to be no safe port in this storm. In a financial crisis, as this must be characterized, financial institutions, usually the bedrock of safety, have taken a large hit. Energy is down; small cap stocks

on the TSX Venture Exchange have taken a hit. In short, all equity portfolios have all lost ground.

Friday, August 17th, 2007 the US Central Bank took a surprised action by cutting the US discount rate by 0.50%. While we believe this is a positive sign of central bank's determination to stand behind to provide support to the liquidity crisis, uncertainty remains as to the real damage caused by poor lending policy of some financial institutions. At this juncture, we believe that while the panic selling cycle may be over for the short run, the financial de-leveraging is on still going. As the crisis continues to unfold, we will continue to monitor the market volatility and act to inform accordingly.

It is also in times like this that the attention is shifted from speculation to risk management as never before. Risk management has always been the first and foremost tenet of our philosophy. In terms of risk management, we develop with our clients their strategic asset allocation (income/growth mix) that is most appropriate to their risk profile. In the event of a correction within a long term healthy market such as recent

time, we may recommend to add to cash, money markets and fixed income positions by trimming equity (growth) holdings where appropriate to further reduce risk. Our investment experience has shown that while hindsight may be perfect, perfect foresight does not exist. Therefore it is not prudent to withdraw fully from the equity markets as you then miss opportunity when the recovery starts, which could happen just as surprisingly fast as the start of a correction. For clients with longer term time horizons and appropriate risk tolerance this contraction will present an opportunity to acquire good value when the trend turns again. In the meantime, we will monitor the markets and your portfolios in order to protect value. If you have any questions or concern regarding your personal portfolio, please call Malcolm Ross or Victor Whang.

Best regards,



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