

Investment

Review & Update



Sept 2007

Back to School Blues!!

We have all experienced that feeling on the last night of summer holidays when we face another long dark winter in the classroom. No matter how great the holidays or what promise the new term holds, there is that feeling in the pit of the stomach, and it's called "uncertainty".

Ironically as our kids return to school, and we focus on the new term, the global investment markets are also facing considerable uncertainty. Earlier in the year we talked of global asset inflation that was being fuelled in part by low interest rates and liquidity. Our next article addressed a concern that we could see in the market, US Sub-prime lending. This has proved even worse in outcome than we expected, as there has been a ripple on global credit as investors rethink the risks associated with asset backed commercial paper (ABCP). The result of the credit squeeze is a contraction of liquidity, which may

in turn create the potential for more significant market contraction, and some highly regarded economists are even talking "recession".

In order to avert a global financial crisis that would have far reaching impact, the US Federal Bank and the Central Banks of the major economic players including Canada, have increased the liquidity to the commercial banks, buying time for debt to be restructured and delay defaults. However in Canada alone, the Financial Post reports that there is over \$35B in non-bank ABCP which typically is short term in nature, and the investors holding this paper may be forced to accept large losses. This will have a negative impact on the bond markets and the stock markets as liquidity contracts.

Interestingly, our kids are not the only ones going back to school. Last Friday in Jackson

Hole, Wyoming, some of the world's leading economic minds, past and present major central bank heads and investment leaders joined to discuss the strategies that could be implemented to prevent recession. The tone of the conference was apparently quite pessimistic with a failing grade being assigned by foreign bankers to former Fed Chairman Alan Greenspan for causing the US liquidity problem and real estate bubble by reducing interest rates too quickly following the collapse of the stock markets in 2000. The US economic recovery was fuelled by the consumer who borrowed against their real estate to buy durable goods (houses and cars) as well as consumer goods. But with the credit crunch purchases of durable goods have fallen, housing starts are the lowest in four years, and this week there were unexpected lay-offs and increase in unemployment in the US. Predictably markets have

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given back some of what they made last week.

Today the Bank of Canada maintained its prime lending rate, and warned that Canadian economy will be affected by the US Sub-prime issue. We will be watching with interest the extent of the interest rate change by the US Fed on September 18, as well as weekly employment information in the US and Canada. While there is little to get excited about within the fundamental economic outlook, some of the technical analysis is less gloomy even in the face of the uncertainty, as there are buyers who believe that they are getting value.

So what does this mean for our clients? Currently, most families hold unprecedented levels of cash. We have ascertained that both Dundee Bank and Altamira Bank have eliminated any exposure to ABCP and so there is no risk to these cash positions. October is traditionally the most volatile month of the year (must be Halloween) but November, December, January and February are the stronger performing months. Conservation of your capital is goal number one, and absolute returns are goal number two. We continue to strive to find fund managers who perform well no matter of the cycle of the markets, and to identify sectors or regions which will enable us to build further diversification. Your

advisory team will be monitoring closely the economic news during September and October, and will meet with each client to match the acquisition of new funds to their family risk profile.

If you have any questions please do not hesitate to contact either Victor Whang at 604-331-2524 or Malcolm Ross at 604-331-2521.

Best regards,



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