

Investment

Review & Update



MAR 2008

Bubble, Bubble, Toil and Trouble!

Politics and economics, are they simply hocus pocus? As we watch the magic cauldron being stirred, we can hear the incantations from politicians and central bankers alike hoping to cast a spell on the people to have them believe they have the magic potion, the elixir to their woes.

Here we are in March; John McCain is the "Comeback King" and Republican Nominee in waiting, Barack Obama and Hillary Clinton slugging it out for every delegate in the Democratic Party. What has been a contrast between the Obama Movement, and the Clinton Old School may play for great theatre as they push towards the Democratic Convention. However, anyone watching the most recent primaries will note the resurgence of protectionist rhetoric as the impact of a declining economy is being felt on main street as well as Wall Street. Only 7 months after he told the Senate Finance Committee that the "sub-prime mortgage problem was contained" Fed Chairman Ben Benanke is trying to assure markets that this is a cyclical

recession and the current stimulus will have the economy stabilized and turned around in the latter part of this year. Excuse our skepticism as the economic and investment gurus we follow describe the current sub-prime fallout as a "contagion" and just this week, again we have seen major insurers in the US, such as AIG, announce huge write-downs as they come to terms with the lack of liquidity for their "asset-backed commercial paper" [ABCP].

Gold appears poised to push through a psychological resistance level of \$1,000 an ounce, from which some pundits predict a \$1,500 is not out of the question. Power black-outs in South Africa have impacted both Gold and Platinum production and this will be a mid to long term problem making supply more uncertain and creating demand pressure. Oil prices are rising, and continued geopolitical uncertainty in the Middle East, Venezuela and Nigeria do not help. As the US interest rates drop, so follows the US dollar relative to a basket of global currencies, and it is now at an all time low when

measured against that currency basket.

Recently, we saw the new Bank of Canada Chairman reduce the prime lending rate by 50 basis points, which caused the markets to rise. But what motivated the action is the result showing a contraction of the Canadian Economy in December 2007. So where does this put us as Canadian investors? Firstly, what are generally considered the safe haven "widow and orphan blue chip" financial institution stocks contain the greatest uncertainty. Gold and Energy sectors will likely strengthen, and demand from Asia for resources and commodities will likely remain strong. Emerging Markets in the so called BRICK block (Brazil, Russia, India, China, Korea) may show greater growth prospects in the short term. Bonds will likely attract some more attention as gold does not earn interest, and as inflation starts to rear its head as it surely must, real return bonds will again be in favour.

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What is evident is that we are not out of the woods yet! While our year-to-date analysis shows we are beating most of the balanced funds and wrap programs we also understand that "clients cannot eat relative returns if the portfolio return is negative!" As we watch the

cauldron being stirred, no magic potions are appearing to pour out.

In this climate we remain focused on managing downside risk and will make recommendations on a client by client basis as we meet with you over the next quarter. In the interim

if you have any concerns please contact us.

Best regards,



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