

Mutual Success

Your Fund of Information



May 2009

Spem Success Alit!

The Latin buffs will translate this as “Hope nourishes Success” and it is the family motto for the Ross Clan. It should not be confused with “Hope springs eternal!” which is another family saying that my father would use when others and I failed in attempts that were clearly ill considered. The reason for their inclusion in this newsletter is that we have been working hard as your advisors to determine the best strategies going forward. Our goal is Mutual Success.

Those of you following the financial media will have heard the term “green shoots” as economists and pundits look for any signs of hope for a sustainable recovery in the economy. Any positive element has been termed a “green shoot” and there are many that have claimed that the markets will be the leading indicator of recovery, and that the rise from the 12 year lows in March are the first signs of a Bull snorting ready to run the markets up. Investors are buying in hope upon rumour, and then selling on the reality of the news. The TSX as of May 08, 2009 was up 15.16% year-to-date and up 34.4% since the low on March 10, 2009. By the close on May 13, the year-to-date increase was almost halved at 8.03% and was only 23.21% up from the low. 2009 has therefore been a real roller-coaster ride, and the volatility is not

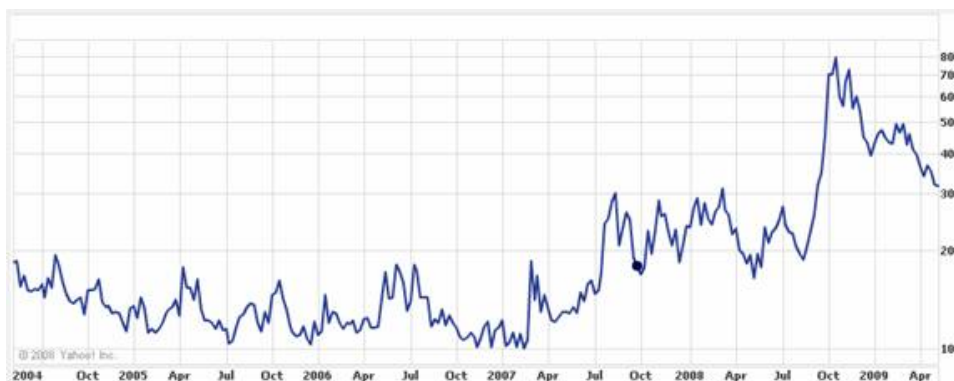


Figure 1. Source: Yahoo Inc - VIX Index September 2004 to May 13, 2009

expected to change much as fundamental economic information such as unemployment statistics and retail sales indicate that the US consumer has fully deployed the fiscal stimulus of the Bush plan and now it is time to start saving. One of the indicators we are tracking is the Chicago Board of Trade Volatility Index (VIX). From the 5 Year VIX chart above (Figure 1) you can see that before the Sub-prime issues and Bear Sterns in July of 2007 the average band for the VIX was between 10 and 20. After July, it floated generally between 20 and 30 and between October 2008 and March 2009 it has floated between 80 and 40, and floating between 40 and 30 since then. Note that these values are still well in excess of the normal volatility

in the markets, and so not withstanding the temptation to rush in, this “green shoot” may yet get eaten by the Bear!

Most economists recognize that the 2008 global financial crisis was caused by many of the same factors that helped start the 1929 Crash and the turbulent years that followed. Let us look at how the markets behaved back then (See Figure 2).

In the four consecutive most volatile years of stock market history, we may observe that there were eight large declines of over 30% from high to low, and eight large rallies. Those who held their shares throughout the period would have suffered an 85% loss peak to

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Figure 2. Source: Dow Jones Industrial Index September 1929 to August 1932

trough and over 70% to July 1933. In fact, using a buy-and-hold strategy during this period would have required the investor to hold their assets until 1952 to get back to their original investment value.

While it is unlikely that we will repeat this dark era because of the strong and sustained government interventions, we should not dismiss the reality that the rise between November of 1929 and May of 1930 not unlike our current rise was based upon the hope that the worst was over. We may also look at the impact on the TSX Index when the Tech Bubble burst.

(CRB Index) and the Baltic Dry Index which point to the Chinese demand for more commodities and global shipping (Figure 4). Inventory levels have been increasing in China and so there is some question as to whether these gains will be sustained in the near term. If they are sustained, Canada should be an early winner in both economic outlook and the strengthening of the currency.

As per our last update, we see the signs that may be poised for some consolidation. Since I started on this newsletter earlier in the week, volatility is still ever present and we are confounded when the market disregards



Figure 3. Source: Google Charts S&P TSX Composite Index December 17, 1999 to May 13, 2009

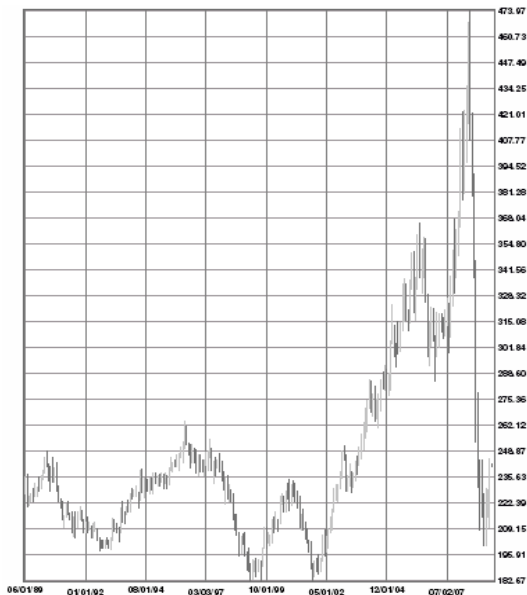


Figure 4. Source: Reuters CRB Index Jan 1999 to Present

We can see from Figure 3 that between September 2000 and September 2002, there were three rallies one of which yielded over 20% before giving it all back. A quick glance at the S&P 500 Chart from 1960 to the Present (see Figure 5) shows that Bubbles or Boom periods generally have a two to three year contraction which would indicate that if history is a guide we may still have a little while before a bottom.

unemployment news and starts up. We believe that the medium term outlook for fixed income should be relatively stable and that it would be prudent to move a major portion into a solid diversified fixed income strategy. A small exposure into the markets through high-yield bonds and or dividend bearing equities will help compensate the patience.

Now for the Hope!

We have diligently been working over the last few months to find ways we can improve our process and services to our clients. We have heard the frustrations with the multiplicity of statements, the complexity of tracking trade transactions and reconciling the DSC Rebates, and the extra work that this creates for us also. We have therefore made a strategic decision to transition from a DSC based model to

As we monitor the progress of the markets and the "Green Shoots", we see the VIX tending towards a range in which we might be interested in starting to take more risk, and we see positive movement in the Commodity Resource Basket

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a Fee Based Model. There are a number of advantages for the clients which include but are not limited to, a competitive fee structure with sliding scales which will save all our clients money in the long term, also a series of core portfolios (17 in all) to provide simplicity in administration and in managing risk. We will also have the opportunity to generate family statements linking, open, registered, pension, corporate and trust accounts with an enhanced and effective statement. We are excited about how these elements tie together and will be calling each client to complete a review and discuss our strategy and its implications for your wealth planning. Needless to say, we are looking forward to a busy summer and the opportunity to start implementing a truly elegant and effective solution.

In the interim if you have any questions please do not hesitate call us.

Best Regards,



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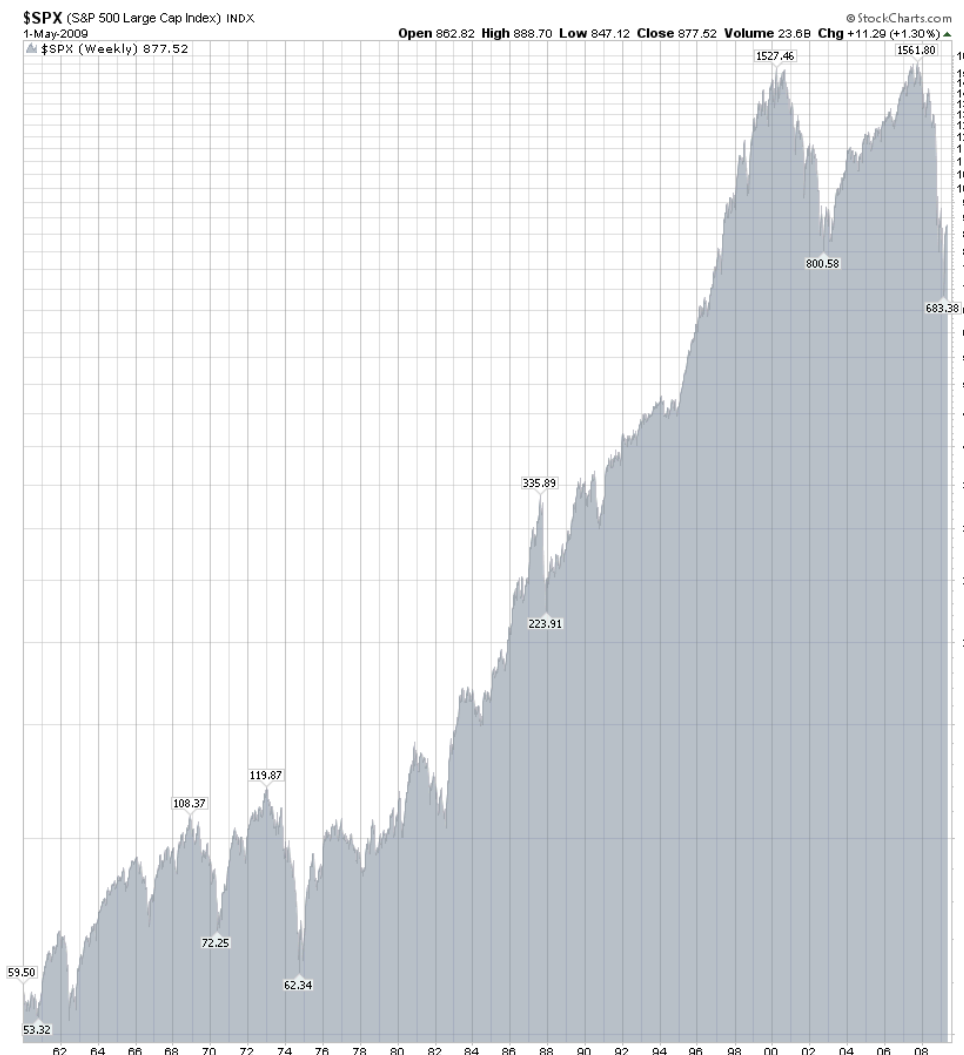


Figure 5. Source: Stockcharts.com S&P 500 1960 to Present.

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