

“You can observe a lot just by watching” – Yogi Berra

Asset Allocation	Q 1 2009	Q 2 2009
Can. Equity*	30%	30%
US Equity	25%	25%
Int'l Equity	10%	15%
Fixed Income	35%	30%

*Includes income trusts.

C\$ 1 Year Total Returns to March 31, 2009

TSX Composite: - 32.4%
S&P 500: -24.09%
EAFE (Net): -34.41%
S&P Broad Composite Bond Index: 4.9%

C\$ Year To Date Total Returns to March 31, 2009

TSX Composite: - 2.00%
S&P 500: -8.42%
EAFE (Net): -11.43%
S&P Broad Composite Bond Index: 1.5 %

For the past 6 months, we have watched global capital markets convulse as investor sentiment seesawed between despair and outright panic. Investor psychology worsened as housing markets declined along with stocks. In typical North American style, these hardships were framed in alarming bold faced headlines to be repeated on television *ad nauseam* by equally morose “experts” prompting investors to throw away perfectly good investments in favour of cash or treasury bills yielding less than zero on an after tax real return basis. In fact, according to NBF economic research, the current value of money market investments exceeds the value of equity mutual funds for the first time since 1992, which incidentally coincides with the bottom of the last cycle. Recently, equity markets have roared back to life but for now the rally is being met with considerable skepticism.

Our investment stance remains positive and is predicated on the following observations:

- 1) Major central banks have reduced real interest rates to less than zero and pumped further liquidity into the system through open market operations (buying government bonds). These are powerful monetary policy tools and their effects are already being felt.
- 2) Fiscal policy has been thrown wide open with tens of billions committed in Canada, hundreds of billions committed in Asia and trillions pledged in the US. The sum of these commitments is unfathomable and serves as economic rocket fuel launching the next up cycle.
- 3) Bargains abound in US and Canadian equity markets can be easily captured through the use of broad index tracking instruments.
- 4) Major commodities such as crude oil, copper and gold are currently priced in the cash market below replacement cost. This situation will not last.
- 5) Cash flows from corporate and high yield bonds as well as domestic and international preferred shares are outstanding and serve as a solid building block for all portfolios.
- 6) Capital markets and the global economy will make a “v-shaped” snap back of 30% - 50% from the market bottom just as they have done after every other downturn.

Multiple asset portfolios consisting of fixed income and equities, both foreign and domestic remains the best way to manage ongoing market and company risk and to generate a level of portfolio returns that can meet income and growth objectives.

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