

Asset Allocation	Q 2 2008	Q 3 2008
Can. Equity	15%	15%
Income Trusts	15%	10%
US Equity	20%	20%
Int'l Equity	10%	10%
Fixed Income	40%	45%

CANADIAN EQUITY:

Benchmark: S&P TSX Comp.
C\$ total returns to Sept. 30th,
2008: **-13.3%**

INCOME TRUSTS:

Benchmark: S&P TSX Income
Trust TRI
C\$ total returns to Sept. 30th,
2008: **3.4%**

US EQUITY:

Benchmark: S&P 500
US\$ total returns to June 30th,
2008: **-13.4%**

INTERNATIONAL EQUITY:

Benchmark: EAFE (Net)
US\$ total return to Sept. 30th,
2008: **-24.1%**

FIXED INCOME:

Broad Composite Index
C\$ returns to Sept. 30th, 2008:
1.8%

Uncertainty in June led to indiscriminate panic in September producing the worst US stock market decline since the 1930's and a system-wide financial crisis. The US Federal Reserve and every other major central bank responded by committing massive amounts of funding (+ \$1.5 trillion) to support the global banking system. These events and the steep decline in capital markets is very disconcerting (to say the least), but it is worth keeping in mind the following points:

--- We, and many others, had been expecting a stock market correction since mid-2206: specifically a US-led global recession that would hit Canada hard. Global balanced portfolios (including ours), which by definition, provide a viable long term defense through asset mix, were tilted further away from equities in response to the perceived risk. No one however, anticipated the financial system weakness, market volatility or the depth of this correction resulting in more volatile portfolios today than we would like.

--- At this juncture, investors must not sell. There have been 13 bear market declines since WWII and, in every case, *liquidity eventually overcame fear followed by a permanent up-trend in valuations*. To illustrate: in 1933 the S&P 500 Index rose 44%, in 1934 it fell by 5% but in 1935 it rose again by 41% followed in 1936 by an increase of 28%. According to recent work by Clement Gignac at NBF, the S&P 500 has re-bounded an average of 19% within three months and 30% within 6 months of a trough. Remaining in the market is essential to take advantage of these very unique opportunities.

--- Central banks globally are injecting unheard of amounts of money. On the face of it, this is a disconcerting signal. On the other hand, these infusions of cash will rebuild confidence. These co- efforts need time to take full affect, and in the immediate term investors must also contend with the impact of a global recession on their holdings. Patience will have to be a virtue over the next several quarters.

--- Investors should also resist the temptation to buy too soon and too much, especially of those badly beaten up stocks that were the market leaders in the previous cycle. Unless we are all destined to become day traders, for core conservative portfolios, it is best to focus on long term strategy and results through periodic re-balances.

--- There is *excellent* value in the markets (and our portfolios) today. For example: current cash yields on the best grade corporate investments are historically very high --- +600 basis points above the 10 year US T bond benchmark --- and represent tremendous value. Canadian bank preferred shares are yielding 6.25% as compared to a 3.4% 10 year GOC bond. These spreads will revert back to normal levels producing exceptional capital gains. Pending a reversion to the norm, preferred shares will provide large quarterly cash flows. For the foreseeable future, portfolios must have good yields to perform well.

---While the TSX Composite fell by 18% in Q3 2008, the financial services index actually rose 2.6%. Canadian financials have reasserted their dominant position in the index. Leadership from financials is a necessary pre-condition for economic growth and investor confidence. Financials are another investment opportunity in a balanced portfolio.

--- The US economy and equity market is re-establishing US global leadership. The core US stocks that comprise the Dow Jones Industrial Index have strong balance sheets, focused management and excellent prospects. Industry composition is diverse including healthcare, technology and consumer staples – sectors that are thinner in Canadian or international markets. A global balanced approach effectively captures these opportunities.

--- The decline in the markets creates tax-loss opportunities through well-timed roll-overs to offset future gains.

The bottom line: no pain, no gain. As an investor the next several quarters may well be very painful, however, a diverse portfolio of quality (short term) fixed income and (long term) equity investments will reward the patient investor.