REVIEW & COMMENTARY

1ST QUARTER 2003

Market volatility continues to be high but the volumes remain muted. Last year, the U.S. equity market changed by more than 2%, on average, every fifth business day. So far this year, this frequency has not diminished. This indicates that buyers, while quick to move, lack the institutional conviction that will be required to initiate a sustainable turn in the market. While there are many uncertainties facing investors, one thing that remains positive is that there is a significant amount of money on the sidelines waiting to be deployed once confidence returns.

Presently, the world is preoccupied with geo-political unrest. Despite most people's understanding that life must go on, it is evident that businesses and individuals are deferring purchases. Economic output is slowing, and the longer the conflict lasts, the less likely the chance of a resilient turnaround. European economies were weak before the conflict and remain vulnerable as does Japan. Though Canada's economy remains among the strongest in the G7, its relative size provides little leadership in turning the fortunes of other economies around.

If the old market adage that markets climb on a wall of worry holds true, then we should be headed for better times. Certainly, it would appear that the conflict in Iraq will be conclusive though the ongoing costs of administrating the 'new' Iraq may be more costly that many had anticipated. Further, one of the most delicate matters to affect the world's perception of the U.S. will be the actual deposing of Saddam Hussein. First, they must find him then they must deal with his detainment in a manner that would be sensitive to the Arab world where any grievous miscalculation could lead to a significant retaliatory risk.

Historically, wars provide significant economic drag on economies. Resources and attention are directed to the conflict rather than domestic issues. Once the conflict is over the rebuilding process begins. Deferred purchases have been no more evident than in the business sector where CEO's have been quite cautious about making any future financial commitments. In fact, some high profile companies no longer provide any financial projections, instead, leaving it to the financial community to assess future prospects. But given the growing competitive business environment, both domestically and internationally, businesses can rely on cost cutting only so much to improve their competitive position. They must start to spend on productivity and invest for the future.

Once this spending gains momentum, coupled with the stimulative effects of lower oil prices and a rebound in consumer confidence, the economy will recover. Equity markets tend to be better indicators of the future than the past, so the slightest hint of a spending increase should translate into better equity markets.

Bonds have become increasingly popular. While Canada's balance of payments and debt repayments have been positive, the U.S. has been the opposite. U.S. balance of payments has been increasingly negative and deficit estimates are increasing daily. President Bush's stimulative plan, unveiled before the commencement of the conflict with Iraq, will cost several hundred billion dollars. Though deficit spending is best in times of economic weakness, this may allow inflationary pressures to build. In turn, if the economy shows signs of revival, interest rates will start to move up. Thus, while we do consider fixed income a worthwhile investment strategy, we would be cautious to ensure that the average term of fixed income investments is no more than 5 years.

It remains a challenging investment environment but we feel that better times lie ahead, regardless of immediate uncertainty on the horizon.

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