

REVIEW & COMMENTARY 2ND QUARTER 2008

Bell-weather

Certainly the most topical story in the past quarter, days before quarter end, the Supreme Court of Canada unanimously overturned a Quebec Court of Appeals decision against the 52 billion dollar takeover of BCE. Probably the most controversial corporate drama in Canadian history remains surrounded with uncertainty but at least at the time of the writing, all parties are touting a conclusion to the deal according to the original terms. Relief is a relatively accurate word to describe the decision since it does reinforce that the basic rules of Canadian financial engagement remain in tact. If the decision had gone the other way, we fear that the financial landscape in Canada would have been adversely affected significantly.

Capital markets continue to remain volatile. While we believe that the credit issues that started last fall continue to improve, many of the US financial institutions remain under significant pressures to shore up their balance sheets. Further write-downs translate into earning losses and force many of these US institutions to recapitalization through some combination of equity injections, dividend reductions and asset sales. This downward pressure on valuations and stock price affect the prices of our Canadian counterparts though we do not anticipate Canadian banks will have to follow what has occurred in the US. Thus, we do see value in the sector, however, downward pressure may continue. If we are right about the security of the dividends of the Canadian institutions, they are providing very attractive long term yields.

Oil prices are another key factor in the health of markets and the world economy. While useless to debate whether present oil prices are a function of supply and demand or because of 'speculators', present prices pose a significant threat to the world economy. Higher prices will increase this risk and it doesn't appear that 'demand destruction', a complicated way of saying we are all going to use less oil, may be enough to change crude's direction. A new reality is upon us and will become an increasingly strategic issue for all industrialize economies.

With all these clouds on the horizon, it is important to remember several important financial tenets; all which we try to adhere. One, diversify. Two, keep fixed income maturities below average. Three, invest for the long term (minimum five years). Four, invest in companies that should be dominant enough to weather any financial storm. Five, its always darkest before the dawn.