REVIEW & COMMENTARY
2ND QUARTER 2009

WHERE TO NOW?

It is without a doubt, trying times. The second quarter has had an historic rebound in prices with the SP/TSX and SP500 both gaining mid to high teen returns. Financial and Energy shares lead the way, reinforcing our 2008 year end projections. Thus, investors who maintained their courage and long term investment perspective have been rewarded or at least, relieved, to know that the ebbs and flows of the market remain in force. While the economy will continue to struggle, we believe the worst is behind us. Financial markets are in repair, credit markets are improving, commodity prices rising and the consumers' savings rate improving, all suggesting that the economy is, and will continue, to gain some traction.

These positives are being reflected in the stock markets around the globe, particularly North America. It is hard not to imagine that there has to be some pause in the stock markets ascent. Quarterly returns like the one we have just experienced need time to consolidate. But it is important that while time favours those with patience, financial history provides many examples of dire times returning to more profitable ones and those who have the ability to stay the course, will do well. Niall Ferguson, in his recent book *The Ascent of Money*, referred to a recent study that showed that since 1870, there were at least 148 crises in which a country experienced a cumulative decline in GDP of at least 10% and 87 crises where consumption fell a comparable amount. Several things of importance can be derived from this study. One, the self corrective process in capital markets continues regardless of how sophisticated our markets become. Two, markets, with time, heal and move forward. Three, those who lose sight of the long term benefits of a sound and long term investment perspective will forgo substantial wealth creation.

Some have compared the recent situation to Japan in the 1990`s which due to a muted initial monetary reaction to the financial crisis was mired in years of a recession. Only after an admittance that the situation required significantly more serious intervention did they build the necessary platform to recover. Others look to 1929 in the US where it wasn't until 1932, and a total decline over 85% in stock prices did the economy and market finally bottom. Comparatively, times are significantly different here as well- the present reaction in terms of monetary policy and liquidity are opposite of what happened initially in 1929. The US currency is not based on the gold standard, the world has become ``flat `` and other growing economies like China and India will provide a significant economic pull to increase world wide demand.

…/2

So how do we proceed? Cash and fixed income investments while guaranteeing safety will not provide any long term after tax return. Economies will recover so how best to wait out the process- employ the investment philosophy we have lived by for decades. Forged by similar circumstances in the early 1930's by Simeon Stodgell, his philosophy has always been to invest primarily in dividend paying stocks that have a proven long term track record. While it will not avoid every financial pot hole, it has and will serve investors very well. If you examine the long term returns of equities over the past 80 years they have outgained all other investments by a significant amount and a significant contributant to the total return of any index has been the dividend. Ibbotson Associates suggest that from 1925 to 2005 large cap stocks have multiplied a one dollar investment 2,658 times- well in excess of treasury bills (18 times) and corporate bonds (100 times). Now particularly, many of the more senior companies listed in Canada pay very attractive returns relative to fixed income alternatives. Admittedly, they may be volatile but things can change rapidly and if you have a financial cushion such as dividends, you can withstand the volatility and be well positioned when the present market concerns abate.

It is hard to know where we are now compared to any of these 148 events, however, we believe that the North American economy will gradually improve. Of course there are always caveats but if the US government continues on the existing path of monetary ease, there are no significant geo-policitical shocks to the financial system and China and other emerging countries continue to expand, North America economies will follow suit. While this may have been more difficult to believe four months ago, it has proven true for centuries and will again.

Stodgell Investment Management Ltd.