



October 2008

Dear Clients,

I am writing this letter to put into perspective these unprecedented times we are experiencing in our global markets. Historically, stock markets react in anticipation of negative news in what then becomes an advance discount in stock prices.

What have the markets reacted to since the peak of July 2007? Primarily in the U.S; sub-prime mortgage write-downs by financial institutions, a series of interest rate cuts, a decline in real estate prices, an economic stimulus package, collapse and subsequent rescue of Bear Sterns/Fannie Mae/Freddie Mac/AIG, the failure of Lehman Brothers, Bank of America buying Merrill Lynch, and Morgan Stanley/Goldman Sachs applying for bank charter to become banks. On a global scale, the markets digested central banks injecting liquidity into the financial system, European/Asian banks requiring government bailouts, global economic recession, global credit crunch (banks afraid to lend to their customers and each other, LIBOR rate (rate of interest banks lend to one another)and VIX rate (measure of market volatility)hit all-time highs, fear of company failures extending beyond financial institutions, and consumer confidence dropping to it's lowest level in a decade.

Have we seen this before? Maybe not to this extent but I would like you to refer to the attached article titled "the crash of 2002" which was written by CNN/Money on July 19th 2002. As you read the article please reflect on what you felt like during that time and take notice of the same dire/doom/gloom message the media gave us back then as they are giving us today. This article was written 10 months after the 9/11 terrorist attacks, and over two years after the "dot.com" bubble. Do you remember an unprecedented event after 9/11? Wall Street was closed for almost one week. Who would have predicted that the stock markets would have begun to grow by 24% 18 months later? When did we hit our most recent high? July 2007 or 15 months ago.

When people invest, they trigger two emotions; fear and greed. When we see something going up, greed kicks in and we buy. When we markets going down, fear kicks in and we sell. The disciplined investor does the complete opposite. Warren Buffett, ranked by Forbes as the world's richest man and the most successful investor, recently purchased \$5 billion dollars worth of Goldman Sachs (September 23, 2008) and \$3 billion of General Electric (October 1, 2008) with an option to buy an additional \$3 billion over the next 5 years. Warren Buffett made these purchases at a heightened level of pessimism in the markets, and more importantly, when people were running from the markets in fear. Warren Buffett purchased two good quality companies at oversold discount prices. What does that mean to us? Our mutual funds hold cash reserves and I can guarantee you that the money managers are also deploying some of that cash into the markets as we speak to also take advantage of these bargain prices. Even though our funds are not moving, there are movements within. If we hold the course, when this market turns, we will be rewarded immensely. Actually, you can compound your growth by adding additional money into your mutual funds during this time period.

Should we worry? Honestly, I would worry if nothing was being done by our financial institutions, world central banks, and the Governments of the G-7 industrialized nations. The fact of the matter is that we are seeing unprecedented measures being taken to turn this recent downturn around.

What measures are being taken to turn this around?

Primarily in the U.S; For starters we are seeing resilience in some of the publicly traded companies which are helping themselves such as Bank of America buying Merrill Lynch, Wells Fargo and Citibank competing to buy Wachovia Bank in which Wells Fargo prevailed. If these institutions were not solid, would they be able to make these purchases? Probably not. There are now preliminary discussions between GM and Chrysler over a

possible merger. The \$700 billion bailout plan passed by U.S Congress, interest rate cuts and the injection of liquidity in the financial system, the deposit insurance in the U.S increased from \$100K to \$250K including money-market mutual funds. As the credit crunch continues and banks are afraid to lend to their customers and each other, the Federal Reserve is allowing banks to put their deposits into the Federal Reserve in exchange for a rate of return to ensure that their capital is still earning something. The Federal Reserve is also willing to lend to big corporations directly if they are unable to borrow from their respective banks. On a global scale, Central Banks of the world coordinated an interest rate cut of half of one percent along with the injection of liquidity into the financial system to encourage banks to lend. In Canada, CMHC has agreed to buy \$25 billion worth of insured mortgages from the banks to free capital in order to stimulate lending. The bank's prime lending rate has also been reduced by most of the big five banks by half of one percent to stimulate lending as well.

At time of writing, new developments have taken place; the U.S Government will allocate the \$700 billion rescue fund as follows: 1. Purchase troubled mortgage-backed securities 2. Buying mortgages, particularly from regional banks 3. Insuring mortgage-backed securities and mortgages 4. Purchasing equity (mainly preferred shares) in a broad array of financial institutions to help restore depleted capital 5. Help delinquent borrowers stay in their homes. The U.K took majority stakes in Royal Bank of Scotland and HBOS, leaders of the 15 countries using the euro pledged to guarantee new bank debt issuance until the end of 2009 for maturities up to five years, and are seeking permission to shore up banks by buying preferred shares with a commitment to recapitalize any "systemically" critical banks in distress, the Australian Government will guarantee all deposits in the Country's banks and financial institutions for the next three years, and The World Bank agreed to help developing countries to strengthen their economies, bolster their financial systems, maintain growth and protect the poor against the financial turmoil.

This is an election year in both Canada and the U.S. It would be obvious to assume that the elected politicians in their respective countries will continue to work diligently towards restoring our economic and financial markets. From the perspective of the U.S elections, when Republican George H. W. Bush (Sr.) left the White House in 1993, then Democrat Bill Clinton inherited a national deficit, and the tail end of an economic recession. Eight years later, this Democrat grew the economy for 116 consecutive months, created 22.5 million jobs, dropped the unemployment rate to it's lowest level in almost 30 years, and by the fiscal year 2000 the U.S had a surplus of \$237 billion the largest surplus ever. Then came George W. Bush (Jr.) and we all know the story September 11, 2001, War in Iraq, Invasion of Afghanistan, worst financial crisis since the Great Depression. Does the world need a Democrat in the White House to restore order again?

On a final note, I attached an article titled "2003: The year of the stock market rebound" which was written by CBC News on January 2, 2004. This article reflected on the year after the "storm" which is a reminder of how staying invested, holding the course, and keeping emotions at bay eventually reward investors over the long-term.

As always, if you have any question or concerns, please do not hesitate to contact me. If you have any family members, friends, co-workers, or anyone you have spoken to lately that have expressed a concern over the recent global markets, please feel free to give them a copy of this letter if you feel it will offer them some informed insight and perspective.

I wish you continued success,



Leo Belmonte BA, CFP, FMA, FCSI, AMP
Certified Financial Planner