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Time of Crisis – What now?

How this affects you

AND your investments

Looking Back

American Tragedy

After reflecting on the horrific attacks in the United States and the ensuing volatility of the markets, it is important to step back and consider how best to deal with markets in a crisis situation. An examination based on historical fact and sound investment theory would be the best place to start, but only after taking the time to come to grips with any direct personal connections you or your loved ones may have had with this tragedy.

With CNN, CNBC and other such news services available to most North Americans, we all receive more news and business information than is likely good for us. The continuous feed of horrific images, angry terrorists, and dropping stock markets, may overwhelm rational thought, and call into question whether capitalism can survive, and whether a return to "normal" can ever be contemplated. And what to do with our investment accounts, after yet another month of declining values? The answer is to keep a diversified portfolio, and not lose sight of the long-term wealth creating effects of equity ownership.

This will however be very difficult, as most people expect further terrorist attacks of some form or another, and the reality of the possibility of a prolonged conflict sinks in. To quote Michael Lee Chin, CEO of AIC Group of Funds:

"We have no predictive abilities or control over global trends, natural disasters, political upheavals, currency fluctuation and devaluation, social unrest, bad weather or manic-depressive stock markets. We do, however have complete control over our own behaviour"

While the scale of the devastation in New York on September 11th is immensely larger than anything ever experienced, it is not completely unprecedented. Many countries such as England and France, have sustained many years of terrorist attacks and threats, without having their civilizations come apart.

Missing in the exhaustive coverage of the recent tragedies is that terrorist attacks, intended to destroy freedom and capitalism, have also occurred in the United States in the past. On September 16, 1920, anarchists loaded the common mode of transport of the time, a horse drawn wagon, with dynamite and drove it into New York City. The resulting bomb blast killed 30 and injured approximately 250 on Wall Street. Financial firms in the area such as JP Morgan were devastated. At the time, foreign led anarchists were leading a terrorist campaign, against notable Americans such as JD Rockefeller. As this was the first attack of its kind, market reaction, and that of US citizens and the rest of the civilized world was near panic worried that "everything had changed". It is important to note that despite these attempts, JP Morgan, Rockefeller's Oil Empire and capitalism have far outlasted those anarchist movements.

In the chart on the last page, we can see that shortly after a shock, such as war or a terrorist event, the market is unpredictable, but longer-term recoveries are inevitable. Noting past historical crises such as Pearl Harbor and the Gulf War, William Sterling, chief investment advisor at CI Global Advisors, stated that markets usually tumble immediately after a crisis, but are often higher a year later. "Much will depend on whether this turns out to be a one-off episode or whether it is followed by other terrorist

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1 Year Total Return

1	Talvest Global Health Care	24.2%
2	AIC American Focused	21.9%
3	O'Shaughnessy US Value	20.2%
4	Fidelity Small Cap America	20.1%
5	Mac Cundill Value Series A	18.8%
6	Mac Cundill Value Series C	18.4%
7	Dynamic Real Estate Equity	13.0%
8	AGF International Value	12.9%
9	First Trust Pharmaceutical 99	12.9%
10	Trimark Global Balanced	10.8%

3 Year Total Return

1	Talvest Global Health Care	53.0%
2	Talvest China Plus	48.8%
3	Talvest Global Small Cap	30.5%
4	AGF Aggressive Growth	28.3%
5	Elliott & Page US Mid-Cap	26.9%
6	BPI Global Opportunities	24.7%
7	Fidelity Small Cap America	24.6%
8	CI Global Consumer Products	24.1%
9	Altamira Science & Technology	23.9%
10	First Trust Pharmaceutical 98	23.7%

5 Year Total Return

1	BPI Global Opportunities	35.0%
2	Altamira Science & Technology	21.2%
3	Orbit World	20.8%
4	CI Global Financial Serv Sec	20.1%
5	AGF International Value	19.8%
6	Fidelity Small Cap America	19.6%
7	AGF Aggressive Growth	19.0%
8	Janus American Equity	18.3%
9	McLean Budden Amer Eq Growth	18.0%
10	BPI American Equity	16.4%

10 Year Total Return

1	CI Signature Amer Small Cos	17.3%
2	Trimark Fund	16.1%
3	AGF International Value	15.9%
4	TD US Index Fund ($US)	15.7%
5	Altamira Select American	15.5%
6	GBC North American Growth	15.1%
7	Spectrum American Growth	15.1%
8	AIC Value	14.9%
9	McLean Budden Amer Eq Growth	14.8%
10	Trimark Select Growth	14.5%

1 Year Total Return

1	Royal e-Commerce	-74.6%
2	Talvest Global Sci & Tech	-72.9%
3	Altamira e-business	-71.9%
4	CI Global Technology Sector	-71.9%
5	Altamira Science & Technology	-71.9%
6	CI Global Telecom Sector	-71.2%
7	AIM Global Technology	-68.9%
8	Mac Univ Wld Science & Tech	-68.2%
9	AIM Global Telecom Class	-67.2%
10	AIM American Blue Chip Growth	-67.0%

3 Year Total Return

1	AIM American Blue Chip Growth	-13.9%
2	TD Int'l Growth	-7.6%
3	AGF Germany Class	-7.0%
4	AIM European Growth	-6.9%
5	TD European Growth	-6.1%
6	Dynamic Europe	-5.8%
7	AGF Global Total Ret Bond	-4.5%
8	Talvest European	-4.4%
9	Sceptre Global Equity	-4.2%
10	Scotia European Growth	-3.8%

5 Year Total Return

1	Royal Asian Growth	-11.3%
2	HSBC AsiaPacific	-9.8%
3	AGF Asian Growth Class	-9.6%
4	CI Pacific Sector	-7.4%
5	CI Pacific	-6.3%
6	TD Emerging Markets	-4.9%
7	AIM Indo-Pacific	-4.8%
8	AGF Latin America	-4.6%
9	TD Asian Growth	-4.2%
10	CI Latin American	-3.8%

10 Year Total Return

1	Royal Japanese Stock	0.2%
2	AGF Japan Class	1.9%
3	CI Pacific Sector	2.7%
4	CI Short-Term Sector	3.5%
5	CI Pacific	3.5%
6	Royal $US Money Market	4.0%
7	Merrill Lynch US Money Mkt	4.0%
8	AGF US Dollar Money Market	4.2%
9	CI Canadian Sector	4.7%
10	AGF Special US Class	6.1%

COMMENTARY

ScotiaMcLeod would be pleased to provide you with further detailed information on the above mutual funds, however we cannot provide information on the funds marked #. These are historical performance rankings, and are not indicative of future investment performance. When analyzing particular funds, stress longer term performance.

These rankings are not sales advice and ScotiaMcLeod does not recommend simply selling bottom past performance funds and buying top past performance funds. Purchase or redemption fees may be involved. Please call (416) 863-7777 or 1-800-387-9273 for specific recommendations tailored to your individual needs.

Important information about any particular fund is contained in its prospectus. You may obtain a copy of the prospectus by calling (416) 863-7777. You should read the prospectus carefully before investing.

1 Year Total Return

1	Trimark Canadian Resources	24.7%
2	Mac Universal Precious Metals	24.4%
3	Dynamic Precious Metals	24.0%
4	Merrill Lynch Cdn Inc Trust	23.6%
5	Elliott & Page Monthly Hi Inc.	23.2%
6	Talvest Global Health Care RSP	22.8%
7	Trimark Canadian Small Cos.	22.6%
8	AIC RSP American Focused	21.2%
9	Scotia Precious Metals	20.3%
10	GGOF Guardian MonthlyHi Inc Cl	19.6%

3 Year Total Return

1	Dynamic Venture Opportunities	31.4%
2	StrategicNova Cdn Technology	28.2%
3	CI Signature Select Cdn	26.5%
4	CI Signature Cdn Resource	24.7%
5	AIM Canadian First Class	24.4%
6	PH&N Dividend Income	22.5%
7	Beutel Goodman Small Cap	22.3%
8	Trimark Canadian Resources	22.1%
9	Merrill Lynch Cdn Core Value	21.5%
10	Working Opportunity (Balanced)	21.4%

5 Year Total Return

1	PH&N Dividend Income	23.2%
2	Royal Dividend	17.8%
3	AIC Diversified Canada	16.9%
4	Scotia Cdn Dividend	16.7%
5	MAXXUM Dividend.	15.7%
6	TD Dividend Growth.	15.5%
7	Mac Industrial Dividend Grth	15.0%
8	Beutel Goodman Small Cap	14.8%
9	AIC Advantage	14.5%
10	Spectrum Canadian Investment	14.4%

10 Year Total Return

1	AIC Advantage	19.5%
2	PH&N Dividend Income	17.2%
3	Northwest Specialty Equity	16.4%
4	MAXXUM Dividend.	15.5%
5	Dynamic Power Canadian Growth.	15.1%
6	GBC Canadian Growth	14.9%
7	Mawer New Canada	14.0%
8	PH&N Vintage	13.7%
9	Mac Industrial Dividend Grth	13.6%
10	Altamira Equity.	13.0%

1 Year Total Return

1	CI Global Technology RSP	-71.9%
2	Altamira RSP Science & Tech	-71.8%
3	CI Global Telecom RSP	-71.3%
4	AIM RSP Global Technology.	-68.6%
5	Mac Univ RSP World Sci & Tech	-68.4%
6	AIM RSP Global Telecomm.	-67.2%
7	AIM RSP Amer Blue Chip Growth	-66.6%
8	TD Nasdaq RSP Idx.	-65.1%
9	Spectrum RRSP Global Telec.	-64.8%
10	TD Nasdaq RSP Idx Fd E	-64.7%

3 Year Total Return

1	AGF Canadian Aggressive AllCap	-10.4%
2	StrategicNova Cdn High Y Bond	-8.6%
3	Working Ventures Canadian	-8.6%
4	AGF Canadian Small Cap	-6.8%
5	Global Strategy ROTH Eur+ RSP	-6.6%
6	TD EuroGrowth RSP	-5.7%
7	AGF Cdn Opportunities	-5.2%
8	AGF Canadian Aggressive Equity	-4.7%
9	Talvest Global RSP	-3.0%
10	Dynamic Global Bond	-2.7%

5 Year Total Return

1	AGF Precious Metals	-19.8%
2	Scotia Precious Metals	-16.0%
3	Dynamic Precious Metals.	-14.3%
4	Royal Precious Metals	-13.3%
5	TD Precious Metals	-11.2%
6	Altamira Resource	-11.1%
7	CI Signature Explorer	-8.6%
8	AGF Canadian Aggressive AllCap	-8.3%
9	Mac Universal Precious Metals	-8.3%
10	TD AsiaGrowth RSP	-7.9%

10 Year Total Return

1	Working Ventures Canadian	-0.8%
2	Dynamic Precious Metals	3.7%
3	Mac Money Mrkt	3.9%
4	TD US Money Mkt ($US).	4.0%
5	Merrill Lynch Canadian T-Bill.	4.1%
6	Mac Industrial Growth	4.1%
7	AGF Canadian Money Market.	4.2%
8	Fidelity Cdn Money Market	4.3%
9	Ethical Money Market.	4.3%
10	Scotia Money Market	4.4%

NOTES TO THE PERFORMANCE TABLES

-ScotiaMcLeod is unable to provide information on funds marked #
-Figures are average rates of return for the periods ending Aug. 31, 2001
-Source data from Bell Charts, including over 3900 funds
-Funds with total assets under $25 million are not included
-Only “totally public” funds are ranked
-RRSP eligible funds are at least 70% Canadian content and can also be held outside RRSPs
-Performance figures include reinvested dividends and management fees have been subtracted
-Non RRSP eligible funds can be held inside a ScotiaMcLeod RRSP to a maximum of 30% of book value

	DOW Before	Date	After 3 Months		After 1 Year		After 2 Years	
Wall Street hit by terrorist bomb	88.6	16-Sep-20	70.6	-20.3%	71.0	-19.9%	101.0	13.9%
Pearl Harbor	115.9	7-Dec-41	102.1	-11.9%	115.0	-0.8%	133.4	15.1%
Puerto Rican Nationalists shoot 5 congressmen on floor of House	413.7	1-Mar-55	424.9	2.7%	486.7	17.6%	468.9	13.3%
Cuban Missile Crisis	568.6	22-Oct-62	675.5	18.8%	747.2	31.4%	877.0	54.2%
Iraq invades Kuwait	2,899.3	1-Aug-90	2,455.0	-15.3%	3,017.7	4.1%	3,395.4	17.1%
First WTC bombing	3,370.8	26-Feb-93	3,540.2	5.0%	3,838.8	13.9%	4,011.7	19.0%
Oklahoma City bombing	4,207.5	19-Apr-95	4,628.9	10.0%	5,551.7	31.9%	6,703.6	59.3%
Average Change				**-1.6%**		**11.2%**		**27.4%**

Source: Scotia Capital

acts or even a drift towards war if the U.S. decided to attack major terrorist sponsors."

What about the Markets?

As the initial shock begins to subside, you may be wondering about the implication on the financial world and on your investments. Since the U.S. market re-opened, we have seen rapid declines in all the indices, ranging from the TSE which was down 42% from its high, to the tech-heavy NASDAQ which saw a decline of 71% (as of 09/20/01). These declines were not entirely a result of the recent crisis in the U.S. A good portion of the drop occurred with the market correction in anticipation of a recession, and to correct the overvaluation of certain companies. The recent blow was definitely a hit that was unexpected as our analysts were mostly positive about a turn around of the markets being around the corner.

Naturally, the uncertainty is troubling. The good news, if there can be any drawn from this, is that you are being given an opportunity to buy in when the market is low, hopefully at the bottom. Many of you may be doing this through payroll or bank deductions and averaging down your costs. Another good point is that most of us have diversified accounts that are built that way to sustain any major hits, or at least minimize the danger of losses.

Mass euphoria or "irrational exuberance" as Alan Greenspan called it, has now been replaced by mass pessimism. A fascinating chronicle and evaluation of folly, Charles Mackay's *Extraordinary Popular Delusions And The Madness Of Crowds* is as relevant today as it was when it was first published more than 150 years ago. Be it the South Sea Bubble of the eighteenth century, the Dutch tulip markets of the 1600s or internet stock hype. Mass Pessimism, the direct opposite of Mass Euphoria, can also grip a crowd in the face of change and uncertainty.

Eventually rational thought prevails, and capital is deployed in the most effective ways for shareholders to achieve returns.

This is explained by modern economic theory and capitalism, which continuously adjusts and reallocates resources. As per Adam Smith's "invisible hand" which theorizes that when each individual pursues his or her own advantage, he or she is "led by an invisible hand to promote an end which was no part of his intention," thereby doing more for society than he or she had deliberately set out to do. In other words, doing what's best for you is likely best for everyone.

We can all do better than to give up on capitalism and the symbols of international trade and cooperation that the World Trade Centre represented. We owe it to the victims of the air strikes, to rationally evaluate the world with our knowledge of history and human nature, and act accordingly.