Investing in Challenging Markets

Update – Tuesday, September 16, 2008

The pressure on capital markets has recently intensified as the waves from the credit crisis in the U.S. continue to work their way through the financial system both domestically and abroad. We do not believe this is the end of troubles in the U.S. and global financial system. Banks are likely to hoard more cash and further reduce their willingness to lend money to consumers and businesses. This will delay a recovery in the housing market and prolong the downturn in the U.S. economy.

What's happening in the capital markets?

- On September 7, the US Treasury Department announced it had seized control of mortgage finance companies Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae), launching an enormous federal government bailout in a bid to support the U.S. housing market and ward off more global financial market turbulence.

- One week later, a failed last-minute attempt to save Lehman Brothers Holdings resulted in the firm filing for bankruptcy protection while Bank of America said it would buy Merrill Lynch & Co. in an all-share transaction. In addition, AIG Group (AIG) sought a $40 billion bridge loan from the Fed after weekend talks failed to raise capital for the company. These developments are the biggest yet in the now 14-month-old credit crisis stemming from subprime mortgage debt. Meanwhile, the world's major Central Banks announced steps to mitigate market volatility.

- On the heels of yesterday's announcements, the European Central Bank (the ECB) and Bank of England pumped emergency funds into their financial systems, as did the central banks of Switzerland and Australia. While the Bank of Canada joined its fellow central banks in ensuring available liquidity, the panic south of the border is no where near the same extent in Canada.

What should you do now?

Investors should be prepared for continued volatility in financial markets and their portfolios in the months ahead. However, do not panic. Instead, continue to invest often and broadly by dollar-cost averaging into core positions. Remember: we have seen this sort of volatility before – e.g., collapse of Long Term Capital Management in 1998, 9/11, and WorldCom in 2002. **Stick with your long-term plan, and maintain a diversified portfolio that meets your risk tolerance. Patience will be rewarded.**

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