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To All Client Emails

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Subject September Month End Wrap Up

Dear Valued Client:

September was an awful month for investors around the world. The failure of the US government to come together to address the fallout from their housing crisis, has sent markets reeling. Despite a few very good days in September, the terrible days have meant negative returns for most equity based investments. As such, we are all poorer today compared with where we were 3 months or 2 years ago. But this volatility is in fact to be expected, and is part of the reason that in the long term, stocks outperform. Our investment philosophy which guides our portfolio recommendations to you remains steadfast:

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WHAT ARE THE PARALLELS?

We are of course always reviewing the news and changes to investment markets. Many of the news headlines can be quite sensational. We are hearing quotes from some sources that this situation is the worst decline seen in decades, perhaps since the great depression. While these times are unnerving, we see stronger parallels to the Accounting scandals of 2002, the Savings & Loan crisis, the 1998 "Asian flu" financial crisis after the collapse of LTCM and of course the Black Monday crash of Oct 1987 and other similar crises of confidence. These magazine covers put it in a little perspective:

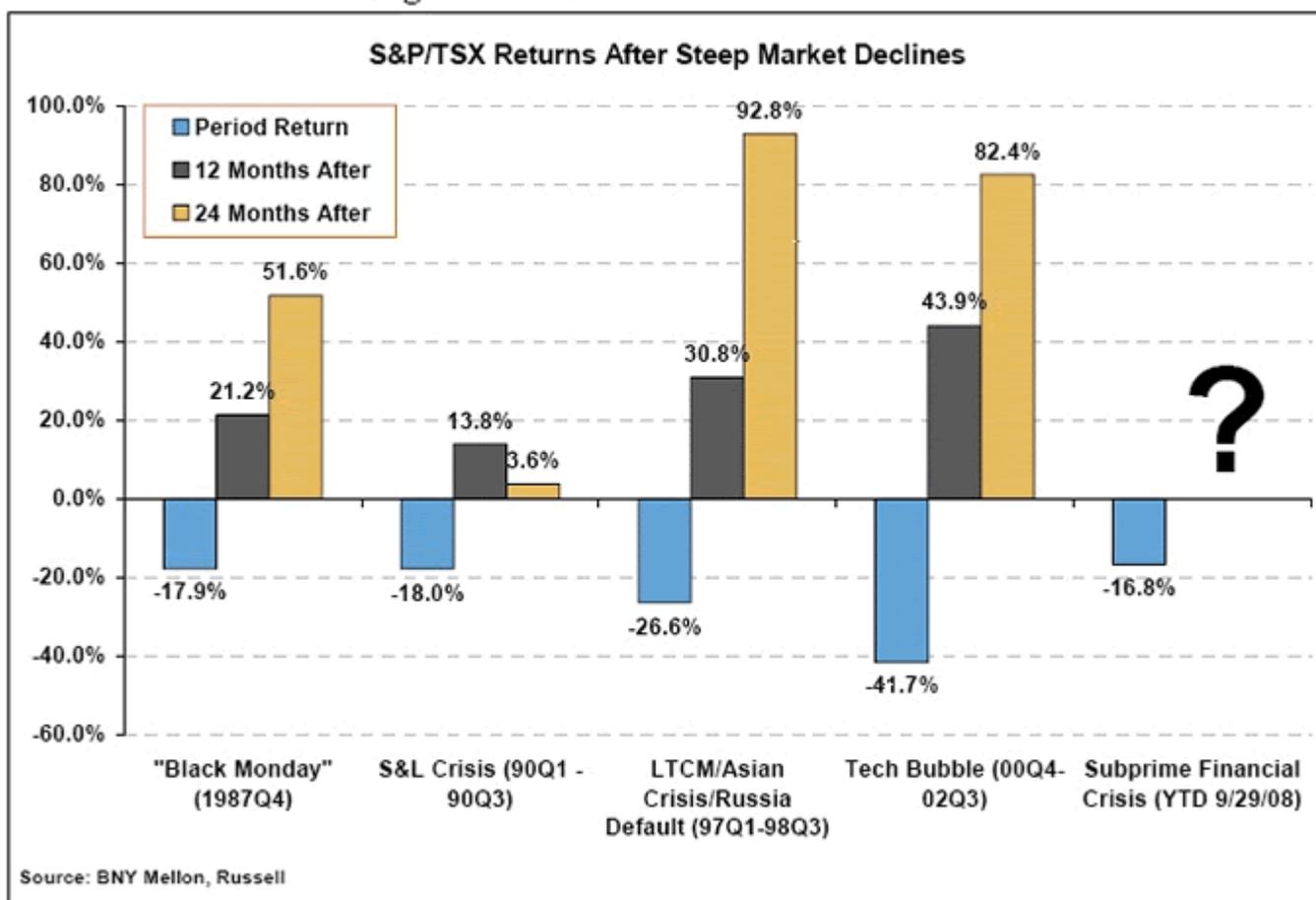
Articles Through History

Time "That Monster Deficit" Mar 5, 1984 Dow: 1165.20	Time "America's Banks Awash in Troubles" Dec 3, 1984 Dow: 1182.42	Time "High Tech Wall Street: Is it Good for America?" Nov 10, 1986 Dow: 1892.29	Time "The Selling of America" Sep 14, 1987 Dow: 2613.00	Time "The Crash" Nov 2, 1987 Dow: 2014.10	Forbes "Picking Up the Pieces: 1929 or 1962?" Nov 16, 1987 Dow: 1949.10
Fortune "How to Prevent a New Depression" Nov 23, 1987 Dow: 1923.10	Time "High Anxiety" Oct 15, 1990 Dow: 2430.20	Time "Can America Still Compete?" Oct 29, 1990 Dow: 5581.00	Time "The Recession: How Bad is it?" Jan 13, 1992 Dow: 3199.46	Time "The Economy: Is There a Light at the End of the Tunnel?" Sep 28, 1992 Dow: 3250.32	BusinessWeek "Economic Anxiety" Mar 11, 1996 Dow: 5581.00

(If you are unable to see this image in your email, it can be found on our website at:  
<http://www.managedmoneyreporter.ca/images/TimeCovers.jpg> .)

Of course, there is no guarantee that there will be a recovery in the immediate future, but there has been every time in the past - even just looking 12 or 24 months later as shown in the chart below. We will suggest that this time, it is just as scary as those past crises, but are not convinced that the end is nigh, despite the number of pundits who are convinced that the spiral of declining prices has just begun.

**Figure 1: Post Crisis Market Returns**



(If you are unable to see this image in your email, it can be found on our website at: <http://www.managedmoneyreporter.ca/images/PostCrisisReturns.gif>.)

**WHAT ARE WE DOING IN OUR OWN ACCOUNTS - WHAT IS WARREN BUFFETT DOING?**

In fact I felt that based on historical valuations, last week's lows presented a buying opportunity - as did Warren Buffett, who has also been buying recently. I added to my equity exposure late last week, not necessarily because I am anywhere near 100% confident that we have "hit bottom", but more that my asset allocation now is (sadly) a bit lower in equity, and thus to rebalance - equities need to be purchased. Many global "sovereign wealth funds" have also been large buyers on these recent declines.

We will admit that things still look scary, but Sir John Templeton said the best time to invest is the point of maximum pessimism. By the time that things look good again, the opportunity has passed.

*"The shortest interval of time measurable by man is between the moment when it's too soon to buy stocks, and the moment when it's too late."*

- John Manley

**APPROACHING RETIREMENT?**

For someone in or approaching their retirement income years, we generally try to ensure that clients have enough in 1-5 year guaranteed investments that they will not need to sell out of equities at low prices. We would be pleased to review your asset allocation and projected income stream to ensure the balance between guaranteed and equity

investments is appropriate.

## COMPARISON WITH SELLING YOUR HOME

Perhaps an analogy would be appropriate. Many observers are now making similar predictions of declines in value for Canadian real estate prices. Does that make you inclined to sell your home NOW before its price may fall, so you can repurchase it again for less 2 years from now? Or are you thinking that any downturn in house prices will turn out to be temporary?

If you need the money in the next few years, we would in fact, recommend selling your house now, just as we would recommend selling your equity investments now if you needed to live on that money in the near term. But for longer term real estate or equity investors, who plan on being long term owners, we recommend staying the course.

*"The only person that gets hurt on the roller coaster ride is the guy who jumps. The people who stay on have some thrilling ups and downs and enjoy a great ride."*

- Jeff Locker

## DOWNSIDE OF GUARANTEED INVESTMENTS

Of course, for some clients, the best solution is a portfolio of entirely guaranteed investments. But even this strategy has risks. If inflation jumps, a guaranteed investment can have its purchasing power eroded as we saw decades ago. Also, it is possible in a low growth environment that interest rates decline so much that there is not enough income from the GICs. This has been the case for Japanese fixed income investors for the last decade.

## MARKET TIMING

Sometimes, clients wonder about pulling out of the markets when they see trouble on the horizon. But the reality is, there isn't really anywhere risk free to go. All the money managers were hit equally and all markets are or will be affected. And moving into short term instruments and cash has its own problems. Inflation and interest rate risk, as discussed above, are especially of concern during economic downturns. When clients do pull out into cash to avoid a predicted weakness of the markets, they are often so spooked by the downturn when it happens that they are unwilling to get back in when they should - when it looks the worst! Not for the faint of heart.

So even correctly predicting the collapse of the US system is no guarantee of great returns. The one single manager who might be right in the long run is difficult to predict, and that's why we spend a great deal of time researching managers and investing with the best them, building a diversified portfolio, and then monitoring those managers for you.

## WHAT THIS MEANS FOR YOU

With all this, September's statements will likely show the largest declines in equity and fund market values in recent memory. We are very unhappy about this, but we are determined to keep you informed and help you stay invested. We will continue to communicate regularly as the situation develops.

For most clients, our recommendation will be to keep the asset allocation and strategy we have developed over the years with you. Of course, if you have questions, or would like to talk or meet with us, please call or email. My associates Allan, Andrew and I and the rest of the team are here to help.

Regards,

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Thank you for letting us help with your investments.