



Synergy Mutual Funds

A Morning Message From Our Portfolio Management Team

(Toronto...September 12, 2001) Yesterday's tragic events reverberated around the globe as people watched stunned as unmentionable acts of terror were perpetrated in America. Some of our own employees were in New York at the time and were astonished to be so near to such a catastrophe.

Synergy Portfolio Manager Peter Hodson sent us a note early yesterday evening from New York to let us know that he and other Synergy staff in New York yesterday were safe. His anecdotal comments regarding the overall feeling in New York were chilling but he also reminded us that calmer heads will prevail, "... from a market point of view, keep in mind that while there likely will be panic selling when markets re-open, life will go on, and 'panic' reactions are always wrong. Fear will rule the investment world for a while, but like in November 1963, October 1987, January 1991 and other 'panic' times too numerous to mention, normal life will return. Be proactive, not reactive."

Our portfolio management team talked yesterday to try to provide a framework for market activity we may expect today:

1. We expect equity markets may fall rapidly as they price in the new risk premium attributed to recent terrorist events. We expect any market response to be too rapid to be 'tradeable'. Yesterday, we saw the European markets falling rapidly and then this morning, show positive signs of stabilizing.
2. It would be only natural for consumer confidence to be hurt in the short run which likely increases the risk of further economic weakness. However, the Fed has stated it is 'open for business'. We expect further injections of liquidity to result in lower short- and long-term interest rates. Increased infrastructure spend will likely be a stimulating factor for the economy, therefore, it is possible that long-term economic growth prospects will not be severely impaired.

While things look bleak today, one can look back as recently as 1998 when the Asian crisis, Russian debt default and the demise of the Long Term Capital hedge fund were quickly handled with a strong response from world central banks.

- continued -



Synergy Mutual Funds

- The general market expectation is for oil and gold to respond positively in the short term. Unlike the 1990 Kuwait invasion, we do not believe at this time, there will be the same sense that world oil supply will be threatened. Also, any economic weakness will reduce the demand for oil. We are not convinced that an oil stock rally is sustainable, especially since oil prices are already relatively high. In the short term, gold prices could lift due to increases in uncertainty, US dollar weakness and increased liquidity.
- We looked at the 1990 Kuwait invasion as a possible guide to short-term market movements during this crisis. In the table below, we have provided US stockmarket performance data from key times during that invasion. It is worth noting, that although the S&P 500 Index quickly fell almost 13% following the Kuwait attack, the Index also rebounded quickly and was actually 5% higher than the pre-invasion level six months later. Furthermore, prior to the Kuwait invasion the S&P 500 had rallied over 10% in the prior 12 months, which is in stark contrast to the 28% decline of the S&P 500 since August of last year.

Chronology of S&P 500 Performance During 1990 Kuwait Invasion

Pre-Kuwait Invasion

13 months from June 30/89 to August 2/90

Market Rallies 10.5%

Immediate Response from Kuwait Invasion

3 weeks from August 2/90 invasion to August 22/90 interim low

Market Declines -12.6%

Short-Term Response from Kuwait Invasion

2 months from August 2/90 invasion to October 11/90 market bottom

Total Market Decline -15.9%

Post Kuwait Invasion

6 months from August 2/90 invasion to February 11/91

Market Rallies 4.9%

4 months from October 11/90 market bottom to February 11/91

Market Rallies 24.7%

Pre World Trade Center Attack

12.5 months from August 31/00 to September 10/01

Market Declines -28.0%

- This is a difficult situation and no one can accurately predict the fallout from this crisis. However, if calmer heads can prevail and people can return to a sense of normalcy reasonably quickly, the terrorist acts will not have a lasting economic impact. This crisis will pass and the world will be poised for continued prosperity. Selling into the current panic may not prove to be a good strategy in this case.

- end -