Dan Hulak's

RandomComments...

Views and opinions
for the clients and friends of

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During this period of extreme volatility and financial "craziness" I thought I would offer some of my thoughts. The following is a random, non-cohesive jumble of facts, thoughts, opinions, and interesting tidbits. You've been forewarned...

October 1st, 2008

NUMBER CRUNCHING

As of Sept. 29/08

	Equity Indices	Index Level	Change	Change (%)	QTD (%)	1 Month (%)	YTD	2007	2006	2005
CANADA	S&P/TSX Composite Index	11,285.07	-840.93	-6.9%	-18.1%	-18.1%	-18.4%	7.2%	14.5%	21.9%
	S&P/TSX Composite Index TR	28,533.73	-2125.49	-6.9%	-17.9%	-17.9%	-16.8%	9.8%	17.3%	24.1%
	S&P/TSX Equity Index	11,522.79	-869.85	-7.0%	-17.9%	-17.9%	-19.6%	10.2%	20.2%	24.2%
	S&P/TSX Capped Income Trust Index	133.05	-9.56	-6.7%	-19.1%	-19.1%	-7.7%	6.6%	-2.9%	29.8%
USA	Dow Jones Industrial Average	10,365.45	-777.68	-7.0%	-10.2%	-10.2%	-21.9%	8.9%	19.0%	1.7%
	S&P 500 Index	1,106.39	-106.62	-8.8%	-13.8%	-13.8%	-24.7%	5.5%	15.8%	4.9%
	NASDAQ Composite Index	1,983.73	-199.61	-9.1%	-16.2%	-16.2%	-25.2%	9.8%	9.5%	1.4%
World	MSCI World	1,163.53	-86.84	-6.9%	-13.5%	-13.5%	-26.8%	9.7%	20.7%	4.0%
EUR, Asia, Far East	MSCI EAFE	1,588.97	-83.52	-5.0%	-12.7%	-12.7%	-29.5%	11.8%	27.0%	7.2%
EUR	Dow Jones Euro Stoxx 50	2,576.48	-12.24	-0.5%	-11.6%	-11.6%	-30.1%	-4.5%	14.3%	2.0%
UK	FTSE 100	4,813.83	-4.94	-0.1%	-14.6%	-14.6%	-25.4%	7.8%	14.8%	1.3%
France	CAC 40 Index	3,944.68	-8.80	-0.2%	-12.0%	-12.0%	-29.7%	4.2%	20.9%	4.3%
Germany	DAX Index	5,741.59	-65.49	-1.1%	-10.6%	-10.6%	-28.8%	22.3%	22.0%	7.4%
Japan	Nikkei 225	11,259.86	-483.75	-4.1%	-13.9%	-13.9%	-26.4%	-10.2%	7.9%	22.2%
World	MSCI World TR	3,667.06	-273.53	-6.9%	-13.3%	-13.3%	-25.06%	-	27.1%	17.1%
China	Shanghai Stock Exchange Composite	2,293.78	-3.72	-0.2%	-4.3%	-4.3%	-56.41%	97.9%	136.1%	-5.6%

Things are ugly in global stock markets right now. There is no doubt about that! The above chart shows the year-to-date returns of stock market indices of major economies around the world. You'll note that there has NOT been *anywhere* to run and hide - the MSCI World Index is down about 27%!!

So what do we do? Is this the end of the world as we know it? Over the past number of months I've heard people say "*but this time is different*" more than I care to count. Is this time really different?

Nick Murray (one of my idols) has been quoted saying "A bear market is a period of time during which people who think *this time is different* sell their common stocks - at prices which will never be seen again - to people who know that this time is **never** different."

Here is some interesting information for you…

- We are now firmly into our thirteenth bear market in the Unites States since WWII. 13 bear markets in 63 years seems to imply that they occur on average approximately every 5 years…at that rate you'll see about 8 of them in an average 40 year working career!

- It is absolutely impossible to time the markets. It is absolutely impossible to time *bear* markets. If anyone tells you that they can time the markets - they are lying. Period.

- Since we don't know when the beginnings and endings of bear markets will be, and they'll likely occur every 5 years or so, we have to accept them - and more importantly, we must have the financial discipline to stay invested through them.

- The average peak to trough decline during these aforementioned bear markets is just under 30%. This time around we've seen a peak to trough decline in the S&P 500 from Oct.17th, 2007 to Sept. 29th, 2008 of 29.2%.

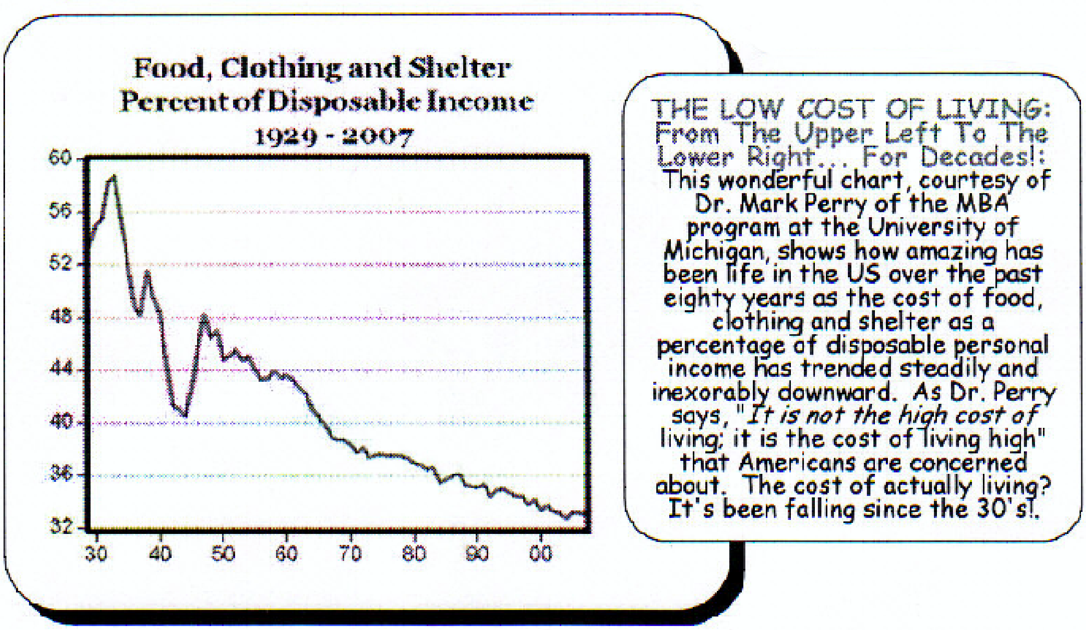
- Can markets go lower yet? Sure they can. Will they? I don't know! But I do know that the markets around the world have already corrected sharply, and for all intents and purposes stock markets are very cheap right now. In fact, ex-Canada, all major stock markets are trading at or *below* the bottom end of their fair-value bands. Valuations are as cheap now as they were at the bottom of the market in 2002. Just to get back to the **midpoint** of their fair value bands markets would need to rally by about 30%! Historically, when the S&P 500 is below the midpoint of its fair value (let alone the bottom band where it is today) and inflation is contained to 4.2% or less (which it currently is) returns 12 months out are positive eighty-five percent of the time with an average return of 16.3%! Furthermore, I have no idea when the market will bottom in this bear market (or if it already has), **but historically the average return from the bottom of a bear market 2 years out has been 39.6%!!** (Data sourced from RBC Asset Management Oct.1, 2008).

- Bear markets have *always* been a temporary interruption of a long-term uptrend. On May 29th, 1946 the S&P 500 hit a peak. The next morning began the onset of the first of the thirteen bear markets I've referred to. Guess what level the market `peaked out' at that evening…***19.3***! That's not a misprint - the market peaked out at ***19.3*** before the onset of that first bear market. Just a few days ago, on Sept.29th/08 the S&P 500 `crashed' to a level of 1,106. So from the peak of the first bear market to today (I'm guessing perhaps somewhere near the trough of the thirteenth bear market) the market has risen in value by nearly 60 times in roughly as many years (and I'm ignoring the compounding effects of dividends which would make it even greater)!!! *The advance is permanent, declines are temporary.*

- The investment world is the only industry on the planet that I can think of where clients are more than comfortable buying things when `times are good' and prices are high…but when markets start to correct and good quality companies are `ON SALE' people shy away (and even make the emotional error of *selling* at distressed prices). If I told you to only shop for clothing or new vehicles or any other retail goods when they were full price, and I told you to shy away when they were on sale, you'd probably think I was crazy! So why should investing be any different? Especially when you factor in that investment assets have gone up in value by nearly 60 times since WWII??!! Tell me how many Louis Vuitton bags or plasma T.V's have done that?

- Remember that this is a `financial crisis' but this is not yet an `economic crisis'. Very low interest rates coupled with greed led to absurd lending policies which fuelled an unsustainable housing bubble. Wall Street saw an opportunity to increase profits and many firms drastically overleveraged in their greedy pursuits. In essence, we saw a dot.com of bricks and mortar. We are now seeing a massive deleveraging and even some complete failures of those financial companies whose risk management systems and internal controls were virtually non-existent through the `good times'. These failures are healthy (and in fact necessary) for the cleansing process to flush out the weak and to allow us to move on.

- Have a look at the following chart:



- The non-housing economy in the US is 95% of the total economy - and currently GDP is still positive! The sun has, thus far, still been rising in the mornings. Life isn't all that bad and consumers are still spending. Costco shares are up 5% in the past year*, McDonald's shares are up 17% in the past year*, and Wal-Mart shares are up 37% in the past year*! At this point, we are not yet seeing an `economic crisis'. A complete seize-up of credit markets could lead to an outright `economic crisis', but the economy knows this - that's why the Senate, the Secretary Treasurer, the current President, and both of the possible `next Presidents' are pushing to pass the Troubled Asset Relief Program (TARP). The situation is not being ignored - it's being dealt with. **I do however, concede the fact that the global outlook has changed quite dramatically since spring, and I do believe that we may be headed for a global recession.** The credit crisis has dragged on for far too long to avoid recession completely, unemployment is now up, oil prices are high, and the media has scared consumers into tucking money under their mattress instead of spending it, but even though the data shows us that we're not in a recession yet, the stock markets have already priced it in!
(*Approximate one year return Sept. 28th, 2007 - Sept. 30th, 2008)

- Another concern that I've been hearing a lot about lately is "With all this government spending and the looming bail-out, this is the largest budget deficit in the US since the great depression - how are they going to sustain such a massive deficit?" On the surface this is a very valid concern, but if we dig deeper we see that even if the bail-out package passes and the *entire $700 billion dollars is completely lost* (which I highly doubt because the government is buying assets at very low prices that have value - they could in fact very likely make money off of this investment) the total debt-to-GDP ratio will approach somewhere in the neighbourhood of 10%. That's very high, true, but it would currently be only third highest in the G7 (behind Italy and Japan) and nowhere near the 30% debt-to-GDP ratio we saw during the great depression. Remember that `The Next Great Depression' makes better headlines and sells more newspapers than `Yet Another Perfectly Normal Bear Market'. The media and the `talking heads' feed off of the public's fear and I would suggest that if this `noise' bothers you…**shut it off!**" You have two choices:

1) You can check your investment balances frequently throughout the day, watch the business news on television, and read the newspapers that tell you "the sky is falling" - then you can worry about every little move in the markets…

OR

2) You can make sure that you've covered off my 5 elements of wealth management (see below), trust that capitalism will prevail yet again, and focus your energy on family, friends, and enjoying life!!

Either way you'll be in the exact same place 1, 2, 5, 10, and 20 years from now!!

So what can and should we do in a time like this?

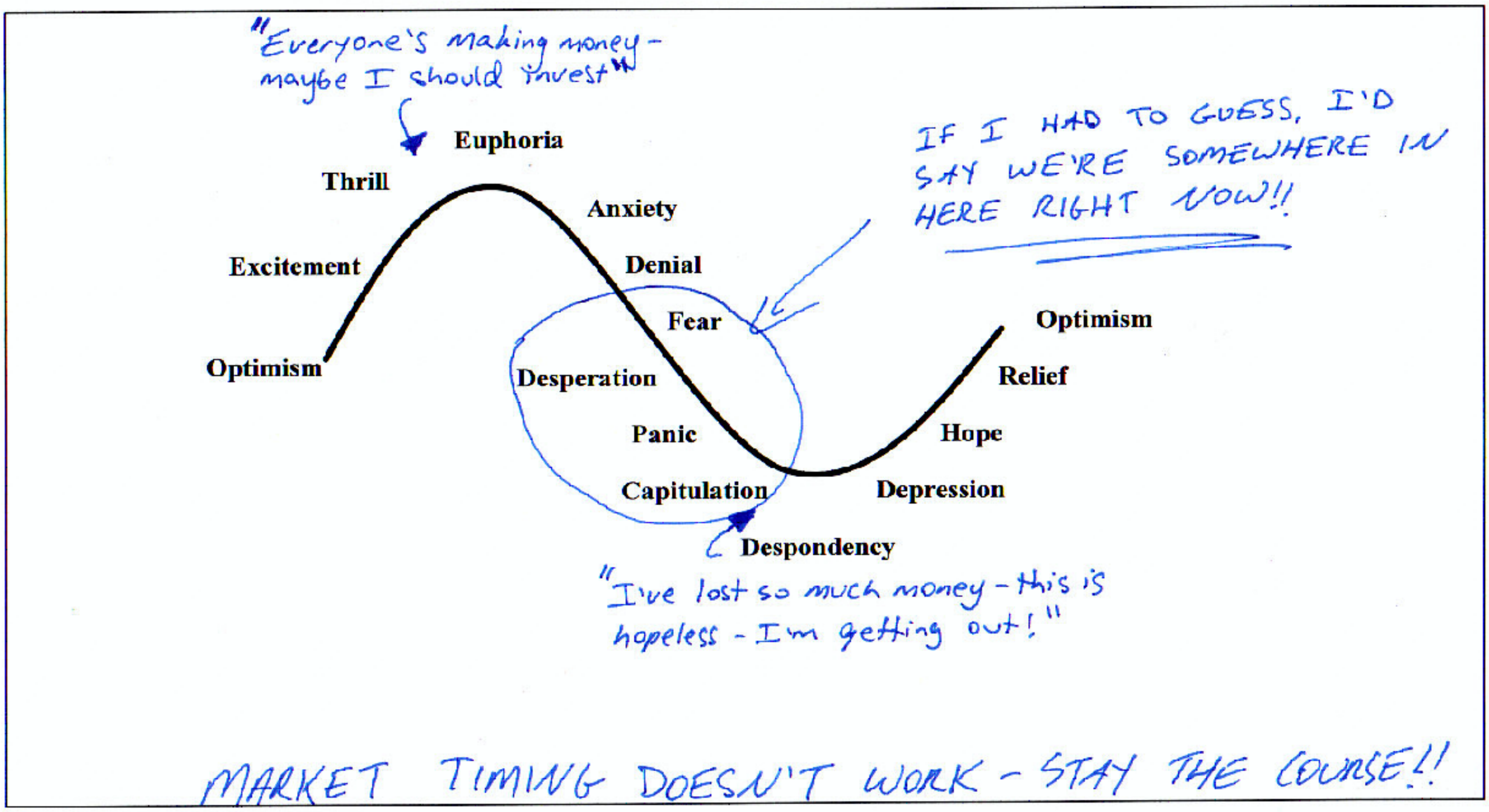
Make sure that you've reviewed my ***"5 Elements Of Wealth Management":***

1) Select An Asset Allocation That Makes You Most Comfortable
- I have clients that absolutely can not handle any volatility that is inherent in stock market investing. They literally lose sleep at night if their portfolio moves up or down by even 1%. These client's have 100% of their portfolios invested in GICs, fixed income and cash. They understand that returns will likely be moderate, but they'll be consistent, and they do not have to worry about the day-to-day volatility of stock markets. I fully support and encourage this investment strategy ***for these types of clients***.
- On the opposite end of the spectrum I have clients who understand many of the points I've made above and share my belief that stock markets do go up over time. They realize that if you strip out taxes and inflation from GIC rates, you're probably treading water at best (or even losing purchasing power over time). They realize that they require growth, protection of purchasing power, and most importantly, they don't worry about the day-to-day volatility - they're fine with sometimes 5% or even 7% *daily* swings in the value of their portfolio in exchange for the probability of greater long-term returns. (And history has proven that these types of investors are handsomely rewarded over time).
- The majority of my clients fit somewhere in-between these two extremes (50/50, 60/40, 70/30, etc). It's not my job to tell you where you should be, it's my job to help **you decide** what point along that continuum makes you the *most comfortable* with respect to your investment portfolio, then recommend top-quality securities that fit your profile.
- Bear markets are a great opportunity to review your current asset allocation to decide if it's still appropriate for you. If you'd like to make adjustments, make sure you're doing it for the right reasons - a permanent shift in asset allocation because your personal circumstances have changed is a very valid reason…a temporary shift in asset allocation because of emotion or because you're trying to time the market is NOT a valid reason.

2) Stick to Quality
- "When the wind blows even the turkeys fly" - but it's times like these that remind us that throughout all the ups and downs of the market the best strategy is the simplest one…stick with large-cap, defensive, top-quality names with strong balance sheets. These types of companies can weather periods of market turmoil and usually come out the other end better positioned to capitalize during the inevitable recovery that follows.

3) Stick to a disciplined investment process
- Separating emotion from logical portfolio theory is the most difficult part of investing. We must remind ourselves that no one is right all of the time, but you can be right more than you're wrong if you use a time-tested, disciplined, investment process. And you must do this not just when markets are strong, but also when it's emotionally difficult to do it (aka during bear markets)! This provides you with the greatest chance of long-term success, and therefore the greatest chance of long-term positive performance. Please have a look at the following chart - it's one of the simplest, yet most useful and important charts in the investment world…

Market Emotions Chart



4) Be Properly Diversified

- But not over-diversified. There is a difference between having dozens of different mutual funds with thousands of underlying individual positions, and having a properly diversified portfolio focused on industry-leading companies within a number of different sectors. The former is NOT proper diversification, the latter IS.

5) Concentrate On Your Financial Goals

- Remember that your personal goals and your comfort with volatility should dictate the composition of your portfolio - what the markets are doing should, for all intensive purposes, be irrelevant. If your personal goals on June 18th/08 (when the TSX hit an all-time high of 15,073) were the same as they are today, then your portfolio discipline shouldn't have changed either! I do, however, encourage you to take this opportunity to review your financial picture. RBC Dominion Securities offers the best wealth management resources in the country and I would be very happy to help you in areas such as Business Succession Planning, Will & Estate Consulting, Insurance Solutions, and Comprehensive Financial Planning.

- With most of you, we've covered off the above "5 Elements of Wealth Management". For those that haven't, or for those whose personal circumstances have changed, please give me a call.

- Most of you are already following top-quality, professionally managed investment disciplines such as our **Parameters Programs, Focus Lists, or Focus Funds**. These disciplines have been holding up *extremely* well throughout these choppy markets. Our top-ranked team of Economists, Investment Strategists, and Research Analysts are constantly working to position these portfolios to meet current market conditions head-on and to capitalize on opportunities going forward. **If you're not yet following any of these disciplines please give me a call.**

I've also included a two page Market Comment that our Portfolio Advisory Group put out on September 18, 2008. Many of you who are on my morning market commentaries email distribution list have already seen this. For those that haven't, it's an interesting piece. And for those that would like to be added to the morning comments list, please let me know

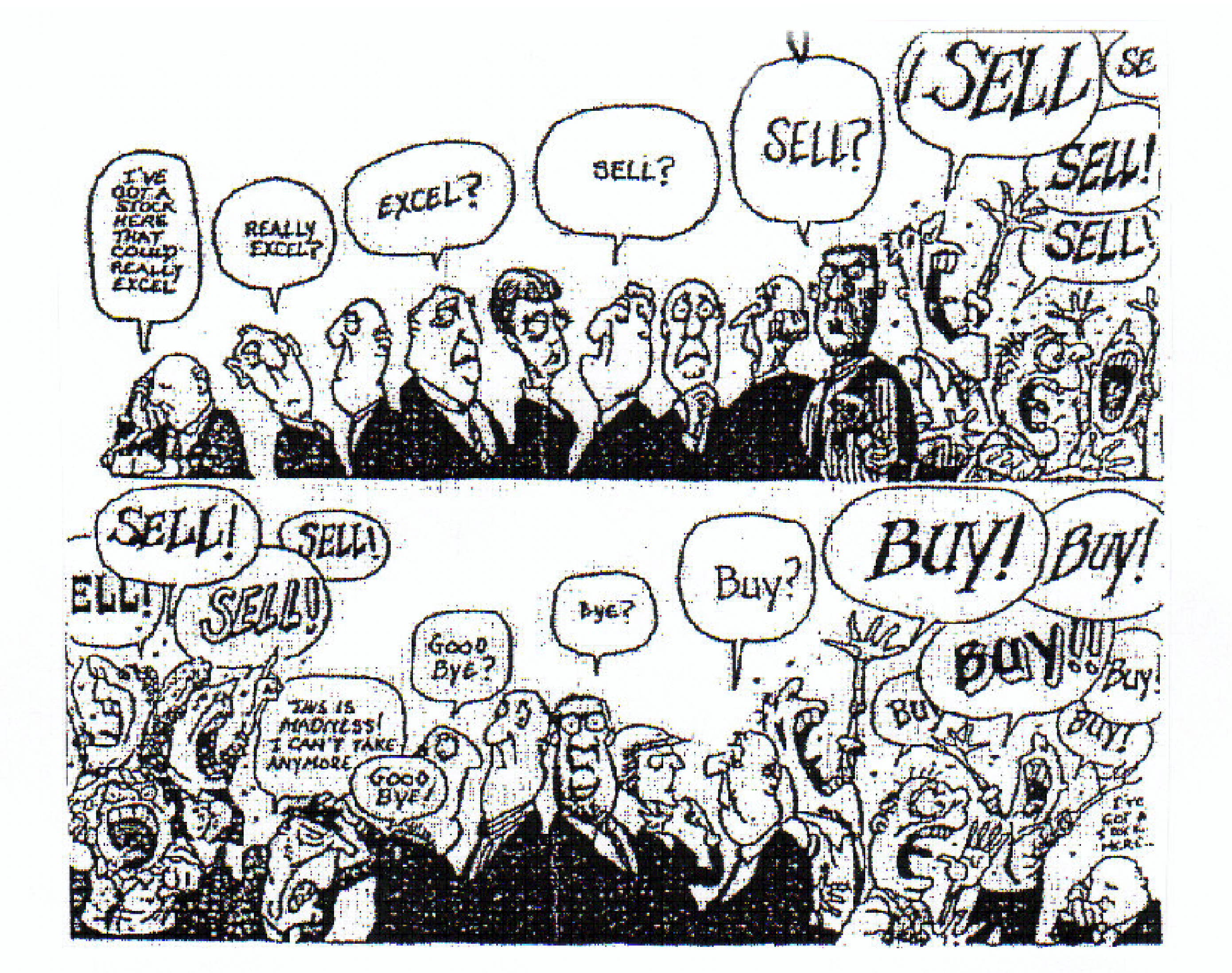
Backed by the resources of Canada's leading full-service investment dealer, RBC Dominion Securities, my goal is to make sure that you are completely comfortable with your investment portfolio and your overall financial picture. If you have any questions or concerns, or if there is anything I can do for you please don't hesitate to be in touch.

Sincerely,

Dan Hulak

Finally, a little bit of humour to leave you with:

➢ Fundamentals have been thrown out the window recently…



➢ Rob Suski of the C95 radio morning show here in Saskatoon said "I've lost 12% of my retirement portfolio this month - so I've decided that, to be fair, I'll just work 12% less hard next month!!"