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PRIVATE WEALTH MANAGEMENT GROUP

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January Month-In-Review

WHAT MOVED THE MARKETS

Any hope that the 'Santa Claus Rally' would lead into a 'January effect' fizzled by the second week of the month.

Equity market strength in December quickly lost steam after indices peaked on January 6th. The Dow Jones delivered its worst January return in history. Economic uncertainty weighed on stocks as gloomy headlines highlighted job losses, reduced earnings, and low consumer confidence.

Major indices in Canada and the U.S. retested their support levels on January 20th – even as the Bank of Canada lowered the key lending rate by 50 basis points to a historical low of 1%, and Barack Obama was inaugurated as the 44th President of the United States.

Financials led the slide after investor fears were triggered by news of a possible £28 billion loss at the Royal Bank of Scotland (RBS). The British Government announced that it would increase its stake in the bank to 70%, spawning debates in North America regarding the possible nationalization of U.S. banks. Shares of Bank of America (BAC) and Citigroup (C) plunged to new lows amidst the uncertainty. In Canada, concerns over potential write-downs at the nation's banks led the Canadian Financials lower.

Gold prices advanced as investors sought safety; price per ounce peaked at US$927.85 on January 30th. Canadian gold producers rallied on the strength. Kinross (K) went to the markets to raise capital, announcing a US$360.5 million equity offering.

Number Crunching

Equity Indices	Index Level	Month	YTD*
S&P/TSX Composite Index	8,694.90	-3.3%	-3.3%
Dow Jones Industrial Average	8,000.86	-8.8%	-8.8%
S&P 500 Index	825.88	-8.6%	-8.6%
NASDAQ Composite Index	1,476.42	-6.4%	-6.4%
MSCI World	838.83	-8.8%	-8.8%
MSCI EAFE	1,115.14	-9.9%	-9.9%
MSCI World TR	2,664.85	-8.7%	-8.7%

S&P/TSX Sector Performance	Index Level	Month	YTD*
S&P/TSX Financials	1,054.18	-7.1%	-7.1%
S&P/TSX Energy	2,026.10	-4.2%	-4.2%
S&P/TSX Materials	2,269.50	0.3%	0.3%
S&P/TSX Industrials	844.89	-7.9%	-7.9%
S&P/TSX Consumer Discretionary	747.06	-7.7%	-7.7%
S&P/TSX Telecom Services	698.54	-3.1%	-3.1%
S&P/TSX Information Technology	234.11	29.7%	29.7%
S&P/TSX Consumer Staples	1,434.88	-1.5%	-1.5%
S&P/TSX Utilities	1,478.63	-2.1%	-2.1%
S&P/TSX Healthcare	285.44	13.1%	13.1%

Currencies (in Canadian Dollars)	Exchange	Month	YTD*
US Dollar	1.2296	0.9%	0.9%
Euro	1.5753	-7.5%	-7.5%
British Pound	1.7882	0.4%	0.4%
Japanese Yen (100)	1.3667	1.7%	1.7%

Commodities (US$)	Spot Price	Month	YTD*
Crude Oil (WTI per barrel)	$41.68	-6.5%	-6.5%
Natural Gas (per million btu)	$4.42	-21.4%	-21.4%
Gold (per ounce)	$927.85	5.2%	5.2%
Silver (per ounce)	$12.67	11.2%	11.2%
Copper (per pound)	$1.41	2.5%	2.5%
Nickel (per pound)	$5.06	-4.0%	-4.0%
Aluminum (per pound)	$0.60	-12.7%	-12.7%
Zinc (per pound)	$0.50	-9.2%	-9.2%

**YTD return data is simple price return. All indices are in local currency unless otherwise noted.*

Source: Bloomberg

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Oil producers did not fare as well, as crude prices slipped 6.5% for the month. Continued price weakness contributed to Petro-Canada (PCA) posting a fourth-quarter loss.

Following the January 20th lows, equities staged a moderate comeback. Investors were encouraged as plans for a US$819 billion stimulus package progressed. Obama won House approval for the package on January 28th (without a single Republican vote). Hopes that the U.S. would create a 'bad bank' to buy up toxic assets set the stage for a modest comeback in the financials. In Canada, Prime Minister Harper's government unveiled its own fiscal stimulus package on January 27th for the 2009-2010 Budget. The government proposed stimulus of $33.5 billion over the next two fiscal years. The projected deficit for the 2009-10 fiscal year is $33.7 billion, followed by a 2010-11 deficit of $29.8 billion.

GDP figures released at month-end quantified the slowdown. In Canada, November GDP declined by 0.7%. In the U.S., the 2008 Q4 GDP declined 3.8%; better than expected, but the steepest drop since 1982.

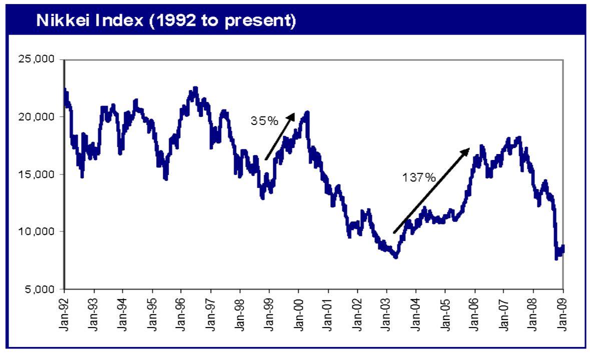


Figure 1
Source: Bloomberg

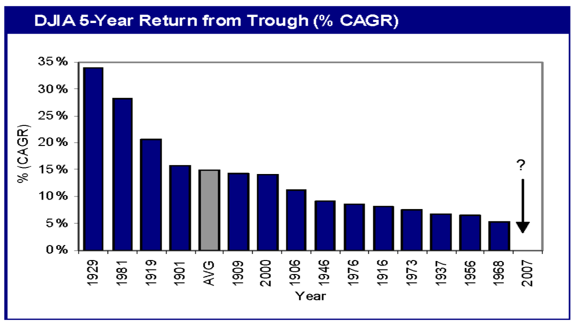


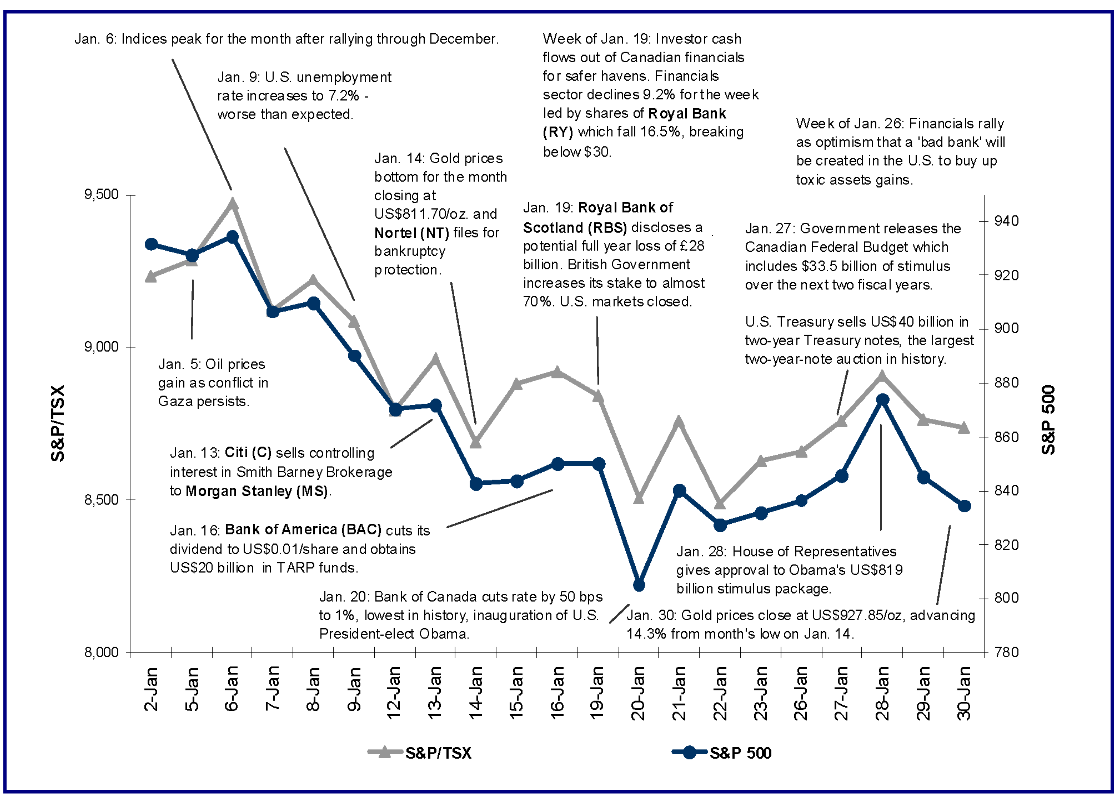
Figure 2
Source: Bloomberg

A CLOSER LOOK – A WELL-POSITIONED PORTFOLIO CAN OUTPERFORM IN A RECESSION

The decline in the equity markets combined with gloomy future outlooks has some eager to deliver last rites to the time-tested buy and hold strategy. Indeed, as markets in Japan have demonstrated, the process of unwinding leverage can be long and painful. As Figure 1 illustrates, investors that bought the Nikkei Index after the bubble burst in the 1990s have seen the value of their investment decline over two decades (not including dividends).

But while buy and hold may be down, only time will tell whether it is out for the count. The price destruction in Canadian and U.S. equities has been severe and has created compelling valuations; at below 15, the S&P 500 real price to normalized earnings valuation is below its historical average. As Figure 2 demonstrates, five years after some of history's most severe bear markets, those who had the patience to hold on to their investments achieved respectable returns.

North American Equity Performance – January 2009



And in the meantime...

One strategy that has outperformed in past recessionary periods is to weight equity holdings to include more defensive names. Defensive companies are those that are established with consistent and predictable earnings. Companies that are able to pay (or grow) dividends often deliver strong performance. This defensive strategy tends to continue to work 6 to 9 months after the leading indicators turn positive.

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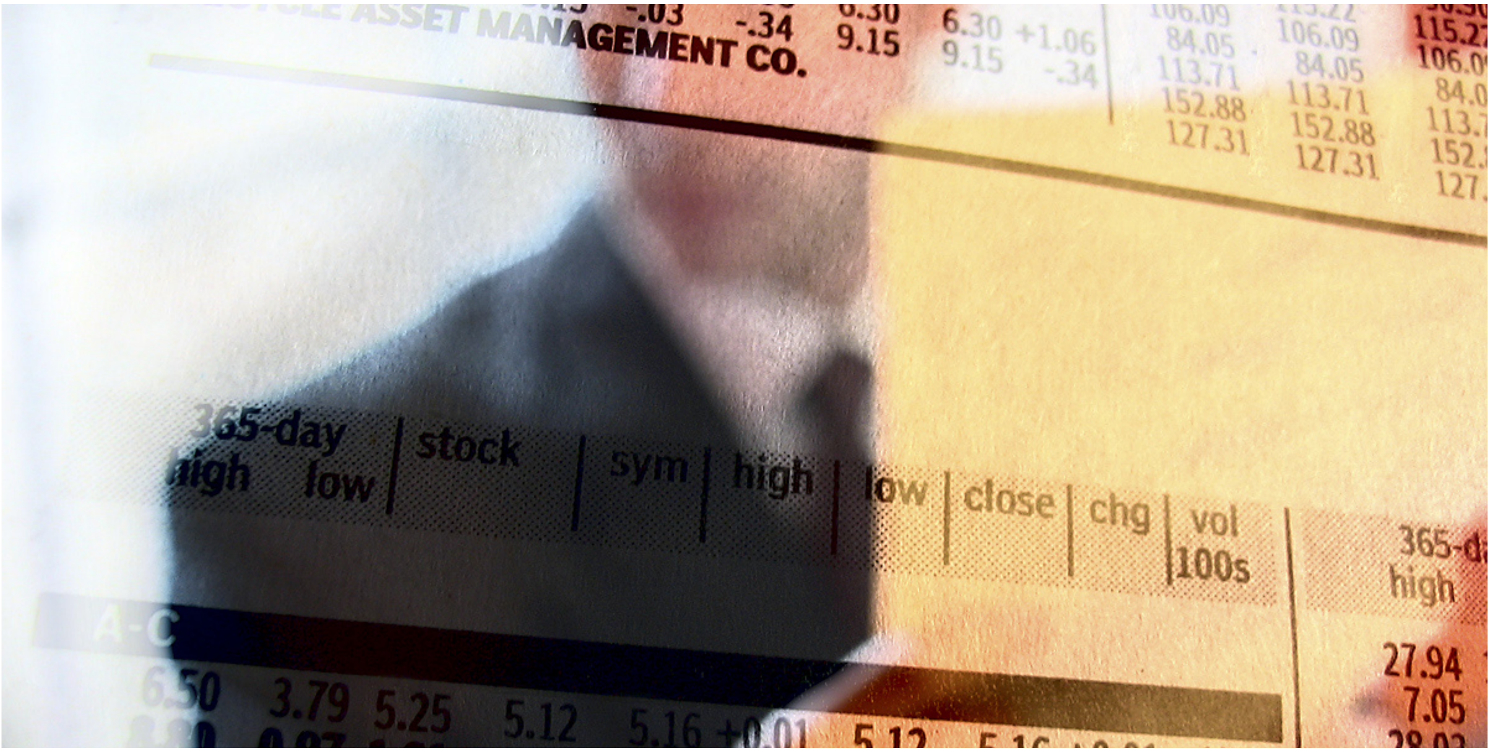
Month-in-Review | *continued from page 2*



KEY TAKEAWAYS:

The month's economic data painted a clear picture of the challenges now facing both industry and consumers. Economic activity has slowed, unemployment is on the rise, and consumer confidence is low.

- GDP in Canada fell sharply in November. It was the steepest drop since the Ontario blackout of August 2003 slowed economic activity. The sizeable decline in GDP is indicative of the Canadian economy faltering badly in the fourth quarter and consistent with the current forecast from RBC Economics of an annualized 2.5% decline.
- U.S. 2008 Q4 GDP figures, while beating expectations, represented the largest quarter over quarter drop since 1982.
- Unemployment rates in Canada (6.6%) and the U.S. (7.2%) are higher than previous months.
- U.S. Consumer Confidence fell to historic lows.

On the bright side, some economic data showed modest improvement; US domestic vehicle sales were up, as were month over month existing home sales. And leading indicators swung to the positive.

For information on issues discussed in this article, please call us at 416-956-8888.