

November 1, 2001

I have enclosed statements for your accounts that reflect prices as of October 31<sup>st</sup>. While we do not normally provide statements for October (typically we send quarterly statements) these are not normal times.

Markets have staged a most encouraging recovery since the lows of September. The U.S. market was closed following the attack of 9/11. When it reopened the week of September 17<sup>th</sup>, it experienced one of the sharpest declines in history, as did most of the world's markets. After a week of selling, partly panic-related and partly margin-call-related, the market has followed with a strong recovery from its low of September 21<sup>st</sup>. Since your statements of September 30<sup>th</sup> do not reflect that recovery, I have provided an October 31<sup>st</sup> statement. Should markets continue with this level of volatility and uncertainty we will continue to provide frequent statements.

First, the grim statistics. Since its peak value of March 2000, the NASDAQ index has declined from 5132 to a value of 1746 as I write this following the close of November 1<sup>st</sup>. The S&P500, representing the broader U.S. market, has declined from its peak by 29% as of today. The TSE300, representing Canada, has declined by 39% from its peak value of 11423 in September 2000 as I write. It has been the worst year for the market averages most of us have lived through.

On the bright side, it was worse a month ago, which is to say we have been through a pretty good month. Market recoveries from the lows of September 21<sup>st</sup> are quite impressive, and are an example of one of the most important rules of investing success. The S&P500 Index has gained 16% through November 1<sup>st</sup>. NASDAQ has gained 26%. The TSE300 has added 11%. These gains take all but the TSE above their pre-attack levels. Most European markets are now above their September 10<sup>th</sup> highs. For those who were frightened from their investments or forced into selling by margin calls during that first tumultuous week of post-attack trading the results are harsh. Money markets, GICs, or other similar "safe havens" of guaranteed investing – the typical destination of money raised by panicky sellers – are now only generating around 3% annual, fully taxable, returns. This means that in the few weeks leading up to November 1<sup>st</sup>, the North American stock markets have recovered to a degree that will take a money market fund between 3.5 and 17 years, depending on the market and the tax treatment of the money market income. That rule of investing? *Don't time the market and remain invested for the long haul.* Moving to perceived safety at times of anguish tends to perpetuate the loss, and removes the most likely vehicle of recovery from ones portfolio.

For investors, there are likely to be several short to mid-term positive effects from the 9/11 attacks. The attacks will likely cause more of a "V-shaped" recovery in the markets and the economy. It is vital to remember that the stock market and the economy are not directly linked. Stock prices can move in an instant. Economies move in periods measured in quarters or years. While there is a correlation of course between the stock market and the economy, it is one that spans a period of usually 12-18 months. Markets tend to anticipate (with remarkable accuracy) the future of the economy. I believe part of

the reason for the current rising markets is the anticipation of a recovering economy in the middle of next year. This is where the 9/11 V-shaped recovery comes in. Due to the response to the attack by bankers and governments, the economy is receiving a great deal – in some ways an unprecedented amount – of stimulus. Interest rates are at historic lows and likely to continue to fall. Governments will continue to be accomodative. I was recently at a speech given by Jack Welch, the former CEO of General Electric, and a much respected manager. When asked his view of the stock market's short term prospects he coyly declined to give a direct answer, but did say that if he were looking for a perfect time to invest, he thinks it would be during a time of low and falling interest rates, accomodative and cooperative government policy, a cheap stock market, and low inflation – a time remarkably like today.

I do not believe that Canada will be among the chief beneficiaries of this recovery. In short, there has been nothing in the Canadian response to the tragedy thus far, nor in the likely outcomes of a post 9/11 world, that will benefit Canada disproportionately to the rest of the world. I do not think it is accidental that our dollar has hit a historic low since the attack nor that our market has been slower to recover. I will begin a rather gradual but deliberate reduction of the Canadian weightings in our portfolios over the months and years to follow. Sadly.

Thus far, with world markets essentially moving in tandem, there has been little cause for action in portfolios already well diversified. There may be some tax related changes for some clients as a result of the attack and the anticipated recovery, but otherwise, it will only be a gradual change in our views of the Canadian market and economy.

I hope that both your life, and the world, are returning to normal. Even if that “normal” isn't quite what is once was.

Sincerely,

Alan Cameron