

Dear Client:

June 2002

Summer is finally upon us in all its' glory. Whether it's a big vacation, a few weekend getaways or just enjoying leisure time close to home, I wish you the best for your warm weather plans.

But while we bask in this fine weather, I'm sure you're probably aware that the stock market hasn't hit its sunny season quite yet. For several quarters in a row, markets have either gone sideways or declined and most of us have viewed our portfolio reports with some alarm. Despite encouraging data pointing to an economic recovery on both sides of the border, leading indexes such as the Dow Jones, the Nasdaq, the S&P 500 and the TSX composite have all slipped during the first half of 2002. And the dreaded term "bear market" has become inescapable in every source of media.

We have experienced an unprecedented triple-whammy in recent years. First, the technology bubble collapsed in 2000, taking the North American economy with it. Then, in 2001, just as we were beginning to recover, the terrorist attacks on New York handed markets what they like the least – uncertainty. Now, in 2002 we are seeing signs the economy is clearly recovering. Inventories are non-existent. Inflation is at 1.2% this year and may be zero next year. Corporate profitability is about to boom in Canada and recover in the U.S., but these signs are being ignored. Rather than focusing on good news such as employment, business fundamentals, GDP growth, and the lowest interest rates in 40 years, investors are engulfed in a crisis of confidence brought on by several corporate scandals. Investors are now selling as aggressively as they were buying during the height of the technology bubble two and a half years ago. Now, as then, economics and business fundamentals are being dismissed. This has tested the two key attributes of successful investing: patience and discipline.

The market has fallen back to where it was in 1998, but real value has been created between 1998 and 2002. Over time, stock prices follow earnings, and while these appear to have become disconnected, I am confident that that relationship will re-establish itself. Valuation levels should return to historical norms and market opportunities will once again be greater than market risks.

It is tempting to be swayed by media wailers who sing a song of doom if the markets don't move up every day or every year. The fact is that markets don't move consistently up, but rather up over time. Being in the market is not about timing but rather time in, and on that premise I remain optimistically bullish.

Sincerely,

*Don*

Donald G. Flack, CFP CLU CHFC