

Dear Client:

September, 2004

Summer had finally arrived, albeit in September, and for only 3 weeks. However, as the saying goes, better late than never. The same sentiment is currently being felt about the markets. What happened to the anticipated recovery? Will it just show up late? With the economy improving, corporate earnings rising, rates still historically low and inflation benign, the stock market should be higher yet market indexes are trapped in a narrow trading range that show few signs of an impending surge.

To the end of September the Dow Jones has declined 3.57% for the year, while the S&P 500 has gained .24%, calculated in U.S. dollars. Taking currency conversions into account the Dow has fallen 6.33% and the S&P 500 has dropped 2.52%. The TSX however has been bolstered 5.44% with surging oil prices increasing 52.5% in the last 9 months.

For the balance of the year, it is unclear where the markets will go. For some clues about what we might expect moving forward we often look at history. However, as we all know past performance is no indication of future performance. I am more inclined to refer to the two models used by the Federal Reserve that look forward not backwards. These two models compare projected 10-year bond rates and projected earnings to come up with an estimated value. When using 'operating' earnings of \$68 and a 5.25% 10 year Treasury yield they come up with an S&P 500 value of 1292. When using 'core' earnings the projected value declines to 1121. Whichever method you rely on, both provide a range of growth up to 15% moving forward. Although these numbers don't encourage most equity market investors to run out and throw a recovery party, they certainly do not point to further market declines from this point.

As I have indicated in the past, sometimes fundamentals are thrown to the wayside in favor of emotional investing. Although there is a lot to be optimistic about, currently little can be done to excite and entice investors into the equity or bond markets. With near record oil prices, consistent threats of terror and rising interest concerns overshadowing the positive corporate earning reports and favorable growth rates, investors are being put into a state of analysis paralysis. Today's investors are looking for an absolute Utopian scenario before stepping up, but from the beginning of time, there have always been reasons to worry, and the markets have always found a way to forge onward and for the most part upward.

Enjoy the balance of 2004 and look forward to the opportunities of 2005.

Regards,

Don

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