

Dear Client:

June 2005

The recent acts of terrorism in London as tragic as they were, confirmed the resiliency of Londoners as well as investors around the world. It was just a short time ago that the 9/11 attacks brought the world to a stand still and nearly crippled the U.S. economy. Within the short span of time since 9/11, investors have adeptly learned to deal with geopolitical uncertainty as a possible everyday occurrence. This is clear in the unfolding of the U.S. stock markets on July 7th, 2005. The future contracts were trading substantially below fair value at the opening, by mid-day the markets were back in the black and at closing posted positive returns. This is not to say that negative events won't have negative market influences but rather that investors have realized that not all negative events are negative market indicators.

As we crossed the half way mark of 2005 the world markets left us little to be cheerful about. The Dow Jones Industrial Index was down 4.45 %, the Nasdaq Index was down 5.43 % and the S&P 500 was down 1.44%. In conjunction with falling markets Canadians have had to contend with the adverse effects of a strengthening Canadian dollar. While at home the S&P/TSX Total Return Index rose a hearty 8.1%. However, upon closer examination it is apparent that the increase in oil cost aided in boosting the energy sector's 24% representation of the index by 33 % producing the entire total return. The balance of the index actually declined marginally over the same period.

As for the balance of the year, markets still lack clear direction. However today, like in recent years there is a disparity between investor's confidence and corporate earnings that restrict share prices from reflecting their true value. Companies are producing record earnings, which seem to have momentums that show no signs of slowing. In addition investors are faced with the uncertainty of future oil prices and further interest rate hikes. It will not be until investors see sustainable growth in corporate earnings during periods of increased production costs that the confidence level will raise sufficiently to affect share prices. Unfortunately by the time the general public realizes the increased level of confidence the share prices already reflect the change in investor sentiment. The time to invest is when you have the capital, as the saying goes "investing is about 'time in' not 'timing' the market". I look forward to sharing "time in" as we continue to attain your goals.

Regards,

Don

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