

September 2006

A TOP DOWN VIEW

The past quarter gave investors little to be concerned about, current events of day-to-day went by relatively un-noticed. The world markets favoured equities while interest rates remained unchanged. A milestone in the equity markets passed without any fanfare as the Dow Jones Index hit an all time high in the last week of September. For the first time in many years the Dow Jones Index had surpassed that of the Toronto Stock Exchange. This is a significant move that was greatly overlooked; this recent move on the Dow Jones came at a time when investors had seemingly written off the resilience of the world's largest economy. Make no mistake; the US economy has its' troubles; from the political firestorm in Iraq and the double deficits of spending & trade to the contraction of the recent housing bubble. Amongst all this, is the favourable fact that the US Federal Reserve has probably overshot it's tightening on fiscal policy and increased interest rates more than required. This will lead to a possible drop in interest rates or at the very least a stabilization of current rates. A stabilization of interest rates should allow the housing market a soft landing opposed to the housing recession of the early 90s' and further sustain corporate profits in an already enriched environment. Ultimately this should translate into higher stock prices south of the boarder.

Over the last four years it has been difficult, if not impossible for Canadians to realize the growth of the US markets due to the unprecedented strength of the Canadian dollar. However, it appears the tide is turning; the fundamentals that rocketed the Loonie from a low of 62 cents US to a 28 year high of 91.34 cents US have started to change. The growing sentiment is that the Loonie could pull back and settle in the 82-84 cents US by the end of 2007. Our dollar has been propped up with near record commodity prices that have recently seen oil prices fall from 78 US dollars a barrel, down to the low 60's and a flow of Merger & Acquisitions turn to a trickle.

What this means to our investors is that as the US markets continue to rally against a backdrop of falling commodities and a falling Loonie, your investments stand to gain from both positions. Nevertheless, no one has a crystal ball and no one can predict the future, however we can use our insights to balance our portfolios to reflect the changing times.

I look forward to working with you as times continue to change.

Regards,

Don

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