January 2008

Dear Client,

At the beginning of a new year it is a natural time to review the past twelve months and reflect on the events that made significant impacts on our lives and in particular our investment portfolios. Where the media has chosen Conrad Black and his devilish greed and fall from grace as the top story of 2007, it pales by comparison to the more important and impacting stories of the soaring Canadian dollar and the U.S. sub-prime meltdown.

Throughout the year investors were faced with more volatility than they have experienced since early 2000 with financial markets providing investors with mixed results for 2007. The Dow finished with a gain of 6.43%, the S&P managed to meek out a positive return of 3.43%, while the TSX posted an increase of 7.16%. While these numbers seem reassuring to your portfolios we must factor in the damage of a soaring Canadian dollar. With the Dollar's incredible thrust forward of 17.57%, the Dow's gain of 6.43% was erased to a loss of -11.12% and the S&P's meager gain turned to a trouncing of -14.12%.

While the recent moves in the Canadian dollar have been dramatic, currency changes tend to "wash out" over the longer term. While it is expected to see the dollar at its current level for months to come, it should retreat to more normalized levels in the years to come. As the raising dollar has hurt us in the short term, the falling dollar will assist us in the years to come. The TSX was helped once again by raising commodity and energy prices with gold gaining 31.21% and oil jumping 59.06% on the year. In the TSX's narrow market, these unprecedented gains were able to offset the unexpected average stock decline of 28.03% of the big six Chartered banks, with the CIBC losing 36.89% from its peak. The sub-prime fallout has decimated shares in financial institutions in the US, Canada and around the world while investors wait for accurate data on the total effect of this event. Investors can take some confidence in that governments globally are taking appropriate measures to stem losses and turn this problem around.

Asset allocation geared to your long-term goals and risk tolerance remains one of the most important considerations when assembling a portfolio. We believe that this objective should be revised in response to changes in your financial goals or stage of life, not in response to short-term gyrations in the financial markets. 2008 will continue to provide investors with short-term volatility as well as opportunities. It will be increasingly important to filter out the noise and resist our natural instincts to be hyper reactionary to the short-term news that ultimately has little effect on our long-term goals. As always we are here to assist you in your concerns.

We wish you and your family a healthy and prosperous year.

Sincerely,
Halton Financial Group