Mike Robinson

From: Mike Robinson [mike@signaturefs.ccsend.com] on behalf of Mike Robinson [mike@signaturefs.ca]
Sent: January 18, 2008 10:55 AM
To: mike@signaturefs.ca
Subject: The Signature Line - A quarterly update on the markets and the economy

Signature Financial Security

January 2008

The Signature Line

A quarterly update on the markets and the economy

This Quarter's Update

Invest like someone with TEN MILLION dollars, not ten thousand!

2007 in review and a look to 2008

What the Affluent Investor should Know

Mike Robinson, Financial Security Advisor and Principal at Signature Financial Security recently authored a new report on four issues the affluent investor should know. Click here to view the report at no charge on our website www.signaturefs.ca.

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Dear Michael,
Happy New Year!

I was recently interviewed by a reporter from Alberta Venture magazine for their February edition on personal finance and spent some time talking to him about the value in accessing institutional investment counselors. I highlighted the fact that the greatest value in these managers will be seen when the markets are in turmoil rather than when markets are positive and everyone is happy. As that edition is now in print and soon to be distributed it seems this may be more relevant than ever. This edition of The Signature Line is dedicated to looking at the year in review and a look to 2008 but given the volatility in the markets we have experienced over the past week I felt it worthwhile to provide some brief comment on what we are seeing.

Right here is a quick update on the current market activity over the past week and then below is a full commentary on 2007 and outlook for 2008.

As you receive your year-end statements (from us or from someone else) if you have any questions or concerns please feel free to contact me directly at any time.

Current Market Volatility
Unfortunately, at the time of writing this report the markets are in significant decline. Further write-downs in the financial sector due to trouble in the credit markets in the US, and continued fears of a recession are driving markets lower and into bear market territory. Regarding the credit crunch in the sub-prime market, these write downs are not entirely unexpected. As has been mentioned in previous communications it was known that there would be more fallout. Reaction by the market is a bit startling in it's severity but not unexpected. As for recession fears, experts are divided as to the likelihood of a US recession although most agree Canada should avoid a recession. However, given the globalization of economies and markets a recession south of the border would have an impact here, which has raised some concerns in Canadian markets. Interest rate cuts are expected from both the US Federal Reserve and the Bank of Canada amid continued pledges by both to support the economy. Please refer to our economic commentary below for a full outlook on 2008. If you have any concerns over the current market activity please just give me a call at (403) 226-0321.

Mike Robinson

Quadrus Investment Services Ltd.

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If you are wondering if an Investment Counsel firm might work for you, just get in touch with Mike Robinson, the principal at Signature Financial Security, and he would be happy to discuss it with you. You can also find more information at our website www.signaturefs.ca.

As at January 7, 2008

The Economy and Markets:
The year past and the year ahead

This Past Year

The year 2007 was an especially challenging and frustrating one for Canadian investors. Even though the Canadian, and world, economies continue to move ahead, investors were preoccupied with inflation during the first half of the year, and with the sub-prime credit problems during the second half. As such, even though economies were strong the stock market was more concerned about potential future issues and gains did not reflect the strength in the economy. True, most popular averages posted moderate gains, however the advances were heavily concentrated in a small number of large cap stocks and special situations; the "average" stock performed much less than the popular averages. Also of note was the unprecedented intra-day volatility as the equity markets experienced more than 20 days during the year in which volume was at least 90 per cent to the downside or to the upside. A"normal" yearly average is approximately four days. This made swings in the TSX of 100 points or more (in both directions) a day fairly regular occurrence.

Internationally, Canadian investors also had to cope with the relative weakness of the United States dollar against the Canadian dollar. Even though many investments produced positive rates of return in local markets, most international results were negative when translated back into our strong Canadian dollar. This is why some investment statements will show lagging returns in non-Canadian investments despite positive markets in that country.

The credit markets meanwhile, reflected the economic worries, as might be expected. In the first half rates rose as inflation concerns dominated and this put downward pressure on fixed income investments (bonds). However, as the sub-prime crisis consumed investors during the second half, the markets began to diverge. For government issues, yields fell as investors sought relative safety. Rates on 10-year Treasuries in the United States fell 60 basis points to close near 4.0 per cent, while in Canada rates fell 20 basis points also to close at approximately the 4.0 per cent level. For non-government issues where the deteriorating credit conditions were the issue, credit spreads increased some 80 basis points. Fortunately, the drop in government rates tended to cushion some of the rise in credit spreads in the more junior grade issues. Overall though, total returns for fixed income (bond) investments were weak for the year. This will be reflected in some investment statements with bond portfolios showing fairly flat returns.

2007 Summary

Overall it was a very volatile and difficult year for investors. Despite strong economies in most major countries, markets primarily reacted negatively. Fears about inflation in the first part of the year kept markets concerned as interest rates rose. This further put pressure bond investments sending them lower. The credit crisis and new recession fears later in the year again dampened the markets although provided some relief for bond portfolios. Gains were made in 2007 in Canadian equity investments but non-Canadian investments lagged due to the strength in the Canadian dollar. Although it depends on one's asset allocation (the weighing of your portfolio between bonds, Canadian equities, foreign equities and cash) most were fairly flat on the year with flat returns in bonds, positive returns on Canadian equities but negative returns in foreign equities.

2008 - The Economy

As we look ahead, the investment landscape will continue to be dominated by the sub-prime crisis. Total write downs have now reached $100 billion, and the big issue remains whether this Wall/Bay Street problem will be confined to the financial and housing sectors, or whether it will spread through the balance of the two economies, thereby causing a recession.

On the surface, the bearish case is easy to make; it is hard to believe that a recession can be avoided given the magnitude of the write downs. GWL Investment Management indicates they would rate the chances of recession at 35 per cent.

There are some major offsetting factors which we believe should tilt the outcome to one of slow growth rather than an overall economic contraction. These include:

- The significant increase in money supply and reduction in short-term rates by the central banks. Such stimulative action normally leads to a pick up in economic growth. Also, with 2008 being a presidential election year, we expect fiscal policy to be expansionary as well.
- Relatively low inflation and interest rates which, again, tends to be conducive to economic growth.
- Ongoing growth overseas which should remain a favourable influence for United States exports as well as for the current account of the country.
- Strong corporate balance sheets in the non-financial sectors

For Canada specifically, slower growth is expected but no recession. Certainly, our manufacturing sector will still struggle in view of the reduced growth in the United States and our strong dollar. However, this weakness should continue to be offset by ongoing growth in the service industry, a firmness in domestic demand, and our significant exposure to the robust resource sector. We expect economic growth in 2008 to remain in the 2.5 per cent area and corporate profits to level out after strong gains in the last 2-3 years. While the outlook for inflation is worrisome given the strength in commodities, it is believed that the impact from the sub-prime issue and the strength of our loonie should keep the core rate in a range of 2.0 - 2.5 per cent.

Financial Markets

As for the markets, investors undoubtedly will continue to be concerned with the sub-prime issue. However, markets have a remarkable ability to adjust and anticipate a turn for the better. This may take time but it is believed that the seeds are now being sown for 2008 to be an "up" year for stocks. Remember that monetary policy is expansionary, inflation and interest rates remain low, and 2008 is a presidential-election year, which is normally a bullish sign. Furthermore valuation rates are not expensive. From a Canadian market perspective, the outlook remains favourable in the resource sector. The important financial stocks, which have traded under a cloud for some time, are expected to begin to strengthen.

Overall, while volatility will continue, equity markets should deliver reasonable results in 2008. We also believe much of the risk of the United States dollar impacting the Canadian dollar returns has been seen. Thus, Canadian investors should be able to fully participate in the improvement expected in the United States stock market.

As for fixed income investments, interest rates remain near 40-year lows. While this is positive for equities, it will tend to limit returns for bonds and mortgages. However, bonds remain an important asset class for diversification and help to reduce portfolio volatility. Fixed income is still recommended within client constraints.

Based in Calgary, Alberta, Signature Financial Security is a professional, independent wealth management and retirement planning firm that specializes in working with successful self-employed, and other affluent, individuals. The principal, Mike Robinson, established the firm following a successful period as a Private Wealth Counselor where he was an advisor to other financial planners working in the affluent market. He is an expert in creating comprehensive financial plans taking into consideration all unique factors of working with the affluent and self-employed.

Get to Know Signature Financial Security

Mike Robinson and Signature Financial Security know that there needs to be a fit for you and your potential financial advisor. There has to be a fit for Signature as well. That's why Mike is committed to spending some time with you in person and in a casual way, perhaps over coffee, to let you get to know him, and vice versa.

To see if Signature Financial Security might be a valuable financial asset for you, give Mike a call at (403) 226-0321 or drop him an email at mike@signaturefs.ca today. Additional information about Mike and the firm can be found on the website at www.signaturefs.ca.

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