



WEALTH MANAGEMENT



Q1 2008 Commentary

The theme for the first quarter of 2008 was “More of the Same”. The same issues which plagued the equity markets in the second half of 2007 continued to be the driving forces at the start of 2008 namely; sub-prime and fears of a US recession. Continuing the trend from last year, the top performing sectors in Canada so far this year are materials and energy while financials and consumer stocks are the laggards.

Unfortunately the “same” also included volatility. The equity market roller-coaster continued with the most volatile quarter in the last 70 years according to Sprout Asset Management. We saw numerous triple-digit days both to the upside and the downside.

The markets have settled down of late and at the time of writing the TSX is roughly where it started the year. International markets suffered this quarter given the high proportion of financial services stocks in the EAFE index. These (and US) financials are still feeling the effects of the sub-prime mess. Write-downs are continuing and until the full effect of the sub-prime losses are known we expect the financial sector to remain quite volatile. That being said, there is an argument to be made that the prices of financial stocks reflect much of that uncertainty.

The Canadian dollar has stabilized within a few cents of parity with the US dollar. Commodity prices have been mixed, but gains in oil and metals have helped support the Loonie.

This quarter saw dramatic interest rate cuts by the US Fed designed to help support the struggling homeowners south of the border, and to head off or reduce the effects of a recession. The Bank of Canada cut rates as well, but not to the same degree as the US, thereby adding further support to the Loonie. Here in Canada the cuts have not needed to be as significant as we are not experiencing any house price declines although the rate of increase in housing prices appears to be slowing. The economies of Western Canada continue to experience strong growth which helps offset the export-led declines suffered in Ontario. On the whole Canada, although slowing, is still growing at a reasonable rate.

While there remains a great deal of short term uncertainty particularly beyond our borders, our advice is more of the same. We believe that prudent diversification by geography and asset class is the way to get through these rough periods.

The foregoing is for general information purposes only and is the opinion of the writer. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call Peter Watson Investments to discuss your particular circumstances.

220 Randall Street, Oakville, Ontario L6J 1P7

Tel (905) 842-2100 Fax (905) 842-2103 www.peterwatsoninvestments.com

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