



INVESTOR'S QUARTERLY

Winter 2008

Stock Market Index	Performance from January 1 to December 31, 2008
S&P/TSX	-35.03%
S&P 500	-24.13%
NASDAQ	-26.66%
MSCI EAFE (International Stocks)	-30.16%
El-Ayari Asset Allocation Basket	-11.79%

Unprecedented Market Events Around The Globe

2008 Is A Year Everyone Would Like To Forget: Needless to say, 2008 was a year that investors around the world would like to forget. About two weeks ago I had a pleasant conversation with a long standing client. I have been managing her money for over 10 years. We have always adopted a balanced approach, which meant that she was willing to give up higher returns for less volatility. Despite having low double digit negative returns for the year, she was happy that the equity portion of her portfolio was diversified across 15 or so companies. What was interesting about the conversation was she attributed her performance to being diversified across a wide range of companies and sectors. I had to correct her by letting her know that in 2008 it didn't really matter which stocks she owned – stocks were down across all sectors in every corner of the world. The reason that she didn't experience 25% to 35% in losses is because she owned bonds. Despite paying very little interest the bonds sheltered her portfolio from substantial losses. What is important to mention is that some of the money that she has invested in bonds should now be allocated to stocks. Not *all*, but some. Can I guarantee that we are entirely out of the woods? Of course not. I can, however, give some compelling arguments why it makes sense to own blue chip companies that currently offer dividend yields ranging from 5% to 6%. A few of the Canadian banks and utilities come to mind.

What Should I Do Now?

Maybe It Is Time To Take On Slightly More Risk: When I speak of risk in regards to investing, I am speaking of volatility risk. As a portfolio manager I do not have a history of recommending companies that could potentially go bankrupt. In my Asset Allocation basket, for example, none of the companies that I have owned over the past few years have gone out of business. Given that six months ago there were numerous world class blue chip companies that were falling like trees, this is something that I am thankful that I was able to avoid. In my conversation with my client, I gave her an example why it makes sense to start slowing buying some of these high dividend yielding companies. Let's assume we buy a company today that is trading at \$30 and is yielding 5%. Let's also assume that the market gets much worse and this company which we all recognize trades down to \$15. We then buy the same amount that we bought at \$30, thereby giving us an average price of \$22.50. If this company continues to maintain its current dividend or even slightly reduces it, you will still be earning an attractive yield while you wait for the shares to appreciate. The worst case scenario is that the company, for the first time in its history, cuts its dividend entirely. Even if this happens don't you think that the shares of this world class company will trade much higher in the next several years given that it has a solid balance sheet and traded in the \$60 range not so long ago? I would argue the risk is worth the reward.

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Fixed-Income Yields

<i>Issuer</i>	<i>Coupon</i>	<i>Maturity</i>	<i>Semi Annual Yield¹</i>	<i>Credit Rating²</i>
Telus Corp.	4.5%	March 15, 2012	3.77%	BBB
TransCanada Pipelines	5.05%	August 20, 2013	4.47%	A
Enbridge Inc.	5.00%	August 9, 2015	6.02%	A
Loblaw Co. Ltd.	7.10%	June 1, 2016	6.58%	A

Some of these issues may not be suitable for all types of investors. Please contact your investment advisor before purchase to discuss your investor profile and to further discuss the risk factors.

GIC Rates

1 YEAR – 2.10% **2 YEARS** – 3.00% **3 YEARS** – 3.40% **4 YEARS** – 3.60% **5 YEARS** – 3.90%³

Client Briefs

The Well-Heeled: In order to give you some thoughts on a daily (or almost daily basis) I have started a blog called The Well-Heeled. I am extremely pleased to be able to do this as there are only a handful of advisors at NBF approved to do so. Please visit it at www.TheWellHeeled.com and do not hesitate to offer some constructive criticism.

RRSP Season: I have never been one to chase after any of my clients for their RRSP contributions. My only comment in regards to contributions is to not let the current market conditions dissuade you from putting some money in an RRSP. I would encourage you to look at this as an excellent opportunity to make some long-term investments. Would you rather be investing your tax sheltered money when the market is trading at an all-time high or a ten-year low? Most investors would say the latter but practise the former.

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¹ The rates shown are as of February 9, 2009 and are subject to change.

² The credit ratings shown below are issued by the Dominion Bond Rating Service (DBRS).

³ The rates shown are as of February 9, 2009 and are subject to change.