



April 24, 2009

Turning Point??

Dear Client,

To say that the last eight months have been extremely volatile and turbulent would be an understatement. For months now, investors have been expecting dreadful economic news almost on a daily basis and for the most part they have been receiving that bad news. There has been no shortage of headlines in the newspaper, lead stories on television and daily radio reports of dire economic news. In many ways, we at Howard, Barclay felt that we would be fortunate if the economy only got as bad as it was during The Great Depression. By reading and listening to the media it felt like the current economic downturn would make the 1929 crash seem like a mild cold in comparison to the current downturn.

It has been said many times before that investors ride an emotional pendulum that swings between widely optimistic future economic outlooks and extremely pessimistic future prospects that border on the end of any future economic activity. Only in hindsight are we able to determine when such extremes have occurred. Earlier this century, we experienced the technology bubble. It was thought that a new era was upon us and many companies with little earnings were being justified at trading at P/E multiples of hundreds of future times earnings. For those companies that had no earnings new parameters such as multiples of future revenues were used to justify stock prices. As a portfolio manager at the time, the pressure to be invested in technology stocks was great and the longer the enthusiasm lasted the more foolish we appeared by not fully participating in the seemingly easy stock gains. Within months of the high being reached by NASDAQ (the US technology index), a full page article ran in The National Post debating whether Warren Buffett (who is arguably one of the greatest investors of all time) was yesterday's investor. The morning of the article, I clearly remember the Company's co-founder Charlie Howard walking into my office and we both looked at each other and speculated that we were maybe nearing the end of the silly/foolish optimism of technology stocks. We did not sell all of our technology stocks at the time and our portfolios suffered slightly by the few technology stocks we owned. However, our skepticism allowed us to have very little exposure to technology stocks.

We now fast forward almost ten years later and the Y2K problem that was so prevalent at the turn of the century seems but a distant memory. We have been somewhat surprised by the depth and the scope of the current downturn in the world's economies. The extent of the sub prime lending and toxic assets held by financial institutions in the US and other countries in the world is still incredible to us. It would now appear to us that the sentiment among investors has swung to extreme pessimism. This is not to minimize the problems that the economy is experiencing. Real estate values have plummeted, many consumers (particularly in the US) are over leveraged, the Big Three US automakers have very serious ongoing financial concerns and many company pension plans are severely

under funded to name some of the issues. However, we do not believe that the world is coming to an end and although troubling and very scary we may have reached the depths of despair among investors.

The defining moment for us came from a conference held earlier this month in Toronto. The conference was sponsored by Sprott Asset Management and was called “A Night with the Bears” and featured four prominent analysts who correctly called the financial turmoil that we are now experiencing and predicted large declines in the US market. The headline individual was Eric Sprott whom we regard highly and enjoy hearing what he has to say. What caught our attention though was that the event was basically standing room only with the conference hall filled with 1500 people most of whom were retail investors. We would hazard a guess that if the conference was held 2 years ago that you would have been fortunate to have 150 people attend the same conference. At a time when markets were down close to 50% it was tough to get a ticket to an event calling for a significant pullback. We would argue that the damage has mostly been done. The amount of toxic assets is better known, the fall in real estate prices has largely occurred, and companies have and are cutting costs to adjust to the slow down in the economy. When the absolute worst is expected and that expectation is reflected in the price of securities it does not take much improvement in the economy and its future prospects to have stock markets start to improve.

In our portfolios, we have largely stayed invested. We have not come through this unscathed. As I indicated earlier, we did not forecast the amount of destruction that was to occur and as a result, our equity based portfolios suffered. Also, as companies around the world were going bankrupt or essentially nationalized, we in some cases pared back positions that exceeded 5% of a portfolio. Our rationale for that was to protect a portfolio from too much exposure to a company that could suffer unforeseen unfortunate events. In some instances, we were able to take advantage of some equities that had fallen significantly as well as investing in some high yielding corporate bonds. Going forward, we feel comfortable with our asset mix and that our portfolios will participate in the eventual rebound in equities.

Sincerely,

Stephen
President