



November 1, 2007

**“What Rate Can I Get?”**

Dear Client,

About the only thing predictable about the stock market is its unpredictability. This does not seem to stop the prognosticators from predicting a stock market correction for example. Rarely can anyone predict the nature and timing of major stock market fluctuations. No one predicted the timing and extent of the both upside and downside of the technology sector in the late 1990's and early in 2000 and 2001. Today, we have oil over \$90US a barrel, the Canadian Dollar beyond par with the US dollar, and the price of gold hovering around \$800US an ounce. These factors continue to help Canada's economy flourish, but it is unlikely that anybody saw this coming say five years ago.

The latest crisis to hit the financial market has been the sub prime lending market in the United States and the associated asset backed commercial paper (ABCP) market.

Howard, Barclay & Associates stayed clear of these investments. We understood that although the rates were marginally better than Canadian Government rates, this was not the place to take on additional risk. Our philosophy is that the equities in a portfolio should reflect an investor's risk tolerance and the bonds in the portfolio should be for safety (i.e. Canadian Government bonds). Investors will often ask when purchasing bonds:

**“What rate can I get?”**

While this is a reasonable question to ask, the more critical question is “What risk are you willing to accept?”

As portfolio managers, Howard, Barclay & Associate's goal is to first protect or limit the downside of a portfolio and then to fully participate when the market performs to the upside. We do not try to predict or time the market. Rather, we stay primarily fully

invested in quality Canadian companies that we understand. Those quality companies meet certain criteria that allow them to perform well in good markets and ride out the storm fairly well in a downturn of the market.

There are many risks and worries to keep one occupied:

- a cool down of China and India's rapid growth
- the ever-mounting US national debt now at over \$9 trillion dollars
- the sub prime lending market and its growing mountain of inferior-quality mortgages which has staggered several US and International banks
- the War in Iraq
- and tensions elsewhere in the Middle East and other countries

We need to be prepared for further significant stock market fluctuations in the future.

Historically, the month of October has been a volatile month in the market and this October was no exception. The price of oil and gold continue to skyrocket and the Canadian dollar keeps gaining momentum against the US dollar. China and India with their huge population and rapid economic growth is combining to create incredible demands for energy and raw materials. Canadian companies remain poised to continue benefiting from this demand. All of this bodes well for the Canadian economy. We continue to feel comfortable with our equity investments in the portfolios. In particular, we continue to like the Canadian financial sector as many continue to pay solid dividends and increase their dividends each year. It is fair to say that the status quo is alive at Howard, Barclay & Associates.

Sincerely,

Stephen Sisokin

President