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Subject: VALUED CLIENT MAIL LIST: Economic Outlook - End of Summer Economic Commentary

CHANGE IS IN THE WIND FROM OLD TO NEW ECONOMIES

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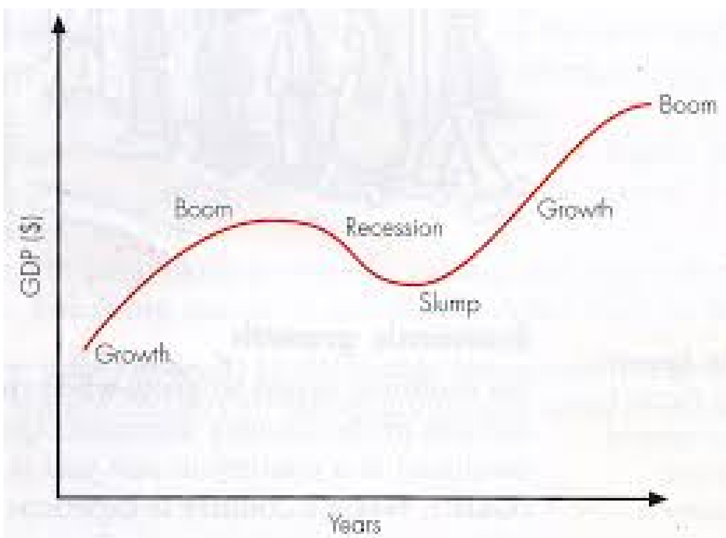
CHANGE CAN BE GOOD BUT UNPLEASANT IN THE PROCESS. WE PRESENTLY FIND OURSELVES IN THE MIDST OF A DRAMATIC AND EXTENDED FINANCIAL MARKET TROUGH WHICH IS APPROACHING A YEAR SINCE IT WAS TRIGGERED BY THE OIL PRICE WAR LAST OCTOBER. NORTH AMERICAN MARKETS HAVE NOW ENTERED A CORRECTION PHASE OF MORE THAN A -10% DECLINE IN A CYCLE. That's where we are right now but the critical consideration is *where we're going*. Common wisdom is anxiously waiting to emerge from the decline and to return to status quo. However, this is increasingly less likely given structural changes which have been taking place to alter the economic environment.

We're witnessing a systemic change **from old to new economies**. As an example, China is being touted as the rationale for the current correction although we have been monitoring a slowdown in the Chinese economy for most of this year. Over the past 30 years the process of global commodity resource production feeding primary and secondary manufacturing in China and other emerging regions has defined the global economy. But this system now represents part of an *old economy which is breaking down under the weight of over production and competition*. The world is awash in oil and emerging market countries continue to add new primary manufacturing capacity for export.

Other signs of systemic change include employment amongst traditional large institutions continuing to decline and being replaced by self-employment or start-up companies. Manufacturing robots are routinely replacing manual labour as our economy becomes ever more service based. Even information technology which is a constant catalyst in the change of business cycles has its old and new economies. Early pioneer companies like Microsoft and Apple are maturing and becoming providers of commoditized products rather than driving sources of new innovation. Instead, new players are creating more powerful programs and smaller and more powerful processors which are enabling advances in new economy businesses.

Previously less prominent sectors such as healthcare, consumer and transportation are increasingly representing new economy financial performance in the investment markets while investments in the traditional energy related sectors and pollutive industries continue to decline. People are living longer, lower fuel costs are making travel and delivery cheaper, on-line shopping is incenting consumer demand, cloud data management is expanding the channels of communication, and so forth. These are all instigators of new economy growth.

Economic cycles follow a pattern which offers a great degree of predictability. It is the length and magnitude of each cycle that is more at question than whether a cycle will ever change or return. *But, expansion does not always means a reversion back to what was.* We saw this in the 90's with economic recovery fueled by the emergence of a new economy information technology boom, ultimately culminating in the dot.com bubble by the end of the century.



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True change is typically disruptive and can take time. That's not to say that old economies won't become new again or cease to exist. They're just going to stop being the primary determinants of economic activity and expansion. *In this phase of change our investment approach should rely on the applications and strategies which have helped us outperform the markets during volatile periods.* Relative better performance compared to the market is a key indicator of the effectiveness of the strategy. Our investment approach should:

- **Continue to seek alternative returns such as income and tax efficiency versus market gains**
- **Maintain a degree of cash/near cash balances which are immune to market volatility**
- **Utilize market hedge mechanisms when possible**
- **Be open to new economy sectors and companies which will prove to have a greater potential for return over the foreseeable future**

- **Seek to opportunistically add quality companies which will make attractive holdings over time and may be moving in sympathy with, but not driving, market weakness**

Ultimately and inevitably there will be recovery. How quickly and profoundly investment performance does this will depend on the strategies employed now.

Regards
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