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R E P O R T

Economic Environment

When 2007 started, there were small concerns about slowdowns in North America and Europe, the rising price of oil, and the rising Canadian dollar. As the year progressed these issues became more of a concern.

Oil prices peaked at almost \$100 a barrel on concerns about Iran. It has fallen off of its peak but still remains historically high. A continuing slowdown in the United States and Europe will help stem the tide of rising oil prices but demand from the developing countries may stop it from falling much further as well. The prices at the pump will continue to fluctuate but will be affected more by changes in the Canadian dollar than by the price of oil itself.

The credit crisis in the United States has thrown shock waves throughout the global economy. The initial scope of the Credit Crunch is much smaller than the savings and loan crisis of the early 90's but because the Credit Crunch is not confined to one sector it has the potential to grow. For every dollar a bank takes in it can lend out up to \$10; this means the credit crunch could amplify by ten times the initial effect. The other worry with the credit crunch in the states has to do with the peak of the maturing mortgages which are due to peak in the spring of 2008 which could make things worse. The good news with the credit crunch has to do with the response to the problems. The Central Banks, and the US federal & state governments appear to have recognized not only the problem, but the scope of the problem, and are working on solutions. We expect this issue to continue to effect financial markets but to a much smaller degree going forward.

The Canadian dollar has experienced an extremely volatile year rising rapidly to \$1.10 US and then falling again almost as rapidly to under \$1. We expect the dollar to continue to fluctuate but at a much slower rate throughout the next year. In our meetings with many of the worlds top investment professionals we have been led to believe the true level of the Canadian dollar should be roughly \$0.92. How long it takes to achieve this level and the path it takes getting there remain to be seen.

Interest rates have fallen recently in both Canada and the US. As the economic slowdown continues we can expect the rates in both countries to continue to fall over the next year.

In summary, the outlook for 2008 is mixed, there is a chance of recession in North America and questions remain about how long the sustained growth in the developing countries will last given these conditions. Inflation may become a problem as we have seen a rise in not only Oil prices but in Food and other items. The coming year may be full of surprises both pleasant and not but should be less volatile than the year that just passed.

Canadian Equity Funds

The past year was one of opposites in Canadian Financial markets. We had periods of growth in the market coupled with two rapid declines. Certain sectors had good years such as materials and technology while others were quite poor such as gold and real estate trusts. Going forward we see an opportunity for certain areas of the Canadian market to perform well while others will languish.

Global Equity Funds

The past year has been a good one for international equities in their own currency but has been difficult when converted back to Canadian dollars. The rapid rise in the Canadian dollar has not only diminished returns internationally but in some cases turned gains into losses. We expect the coming year to be much more stable from a currency perspective and perhaps even reverse itself to enhance gains overseas.

Fixed Income

Bond markets have experienced a rough year due largely to the credit crunch in the middle of the year. Real return bonds and high yield bonds have experienced poor years which bodes well for the future. Traditionally these areas have poor periods of roughly 1 – 1 ½ years in length followed by a lengthy period of gains. Going forward we expect government bonds to produce returns in the low to middle single digits. The real return and high yield bonds should produce higher returns in the range of 3-13% next year unless we experience further credit crunch problems.

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