2008: THE YEAR OF THE CRISES

Real estate crisis, liquidity crisis, confidence crisis, stock market crisis and worldwide economic recession…

WE'D LIKE TO SHARE THE FOLLOWING FACTS, DATA AND THOUGHTS WITH YOU.

FIRST, 2008 IN REVIEW

Stock markets around the world experienced one of the worst years in history

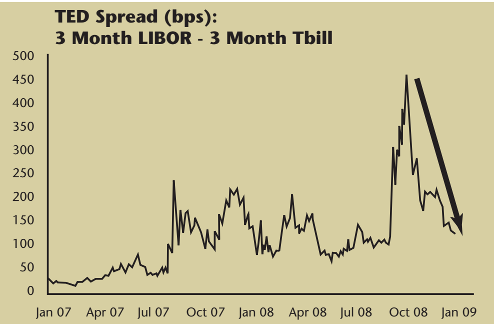
> The TSX fell 35%, its biggest drop since 1931 when it fell by 37%. In the U.S., the S&P 500 lost 38.5% (Europe and Asia - 50%)
> No sector was spared; 10 sectors out of 10 ended the year in negative territory
> Indexes dropped to values from several years ago (the TSX retreated 5 years to its 2003 value and the S&P 500 retreated 12 years to its 1996 value)
> In October, the volatility index reached a new high, testifying to the increased nervousness of investors, although the situation has settled down since November

Today, we are experiencing what could be called a "deleveraging process", as much for individuals as for corporations and financial institutions

IS THERE A LIGHT AT THE END OF THE TUNNEL?

Some encouraging signs

> Since early October, the banks have begun to trust each other again as the Libor rates have dropped closer to normal levels (thanks to government intervention)



> Several commodities that were highly valued until very recently (oil and other raw materials such as copper, nickel, aluminum, fertilizers, etc.) experienced a sudden and drastic fall

The main culprit: Excessive debt

> Though the situation may be complex, its origin is quite simple: over-indebtedness at every level, including consumers, merchant banks, commercial banks, hedge funds, and corporations. In addition, private equity funds, which over the last few years have privatized several large corporations, have taken-on tremendous amounts of debt (BCE's case being one of the remaining vestiges of this era)
> This over-indebtedness was made worse by the blatant lack of regulations controlling financial institutions in the U.S.

> Since attaining their lowest point on November 21, U.S. and Canadian markets have recovered by more than 20%
> The markets seem to be holding up in spite of continuous bad news (bankruptcies, closures, layoffs, etc.)
> The world's central banks are doubling their efforts to save the financial system and stimulate the economy. They have been forced to admit their lack of an emergency plan in the case of a generalized fall of financial institutions. Consequently, the central banks are learning to manage the crisis and though mistakes may occur, thanks to their determination, monies being provided, and cooperation at the planetary level, they will surely reach their objective of getting the economy back on track

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JANUARY 9TH, 2009

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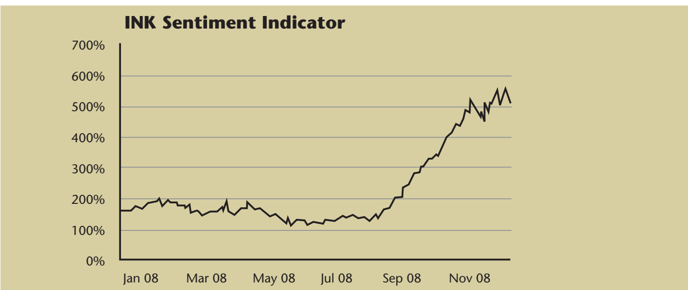
> Since September 2008, insiders have been buying stocks of their own corporations like never before, whereas investors have been selling their mutual fund shares



Expectations for 2009

> Eight experts surveyed by La Presse (January 3, 2009) predict that 2009 will see an average increase of 17% for the Canadian stock markets and 18.4% for the U.S. markets

> There are tremendous amounts of money waiting on the sidelines. Money market funds peaked in November, reaching 45% of the value of all equity funds *Source: JP Morgan, AMG, Federal Reserve.*

> With interest rates close to zero, investors will recover their appetite for risk and begin purchasing shares to obtain higher returns

Highly undervalued securities

> Over 45% of portfolio securities are currently trading below book value. 50% of corporations offer share buyback programs and pay on average a dividend of 4.8% (very advantageous compared to the 1.0% return provided by 2-year government bonds). All this paired with strong balance sheets and very little debt

> Historically, S&P 500 stocks have traded within 1.0 to 5.0 times their book value. Currently, we are on the low end of this range, demonstrating how undervalued securities are at the moment

WHAT'S NEXT?

> Our review of the situation leads us to believe that we came very close to witnessing the collapse of the financial system this past October. Since then, confidence has improved thanks to government support. The financial institutions will survive, though they will experience tightened regulations and be required to reassess their ways of doing things

> The U.S. has been in recession for the past 13 months. This one will obviously last longer than the average recession of 11 months

> Public enterprises will need to manage their resources (financial, human and material) very carefully. As shareholders, this is exactly what one would expect under these circumstances. Businesses that are over-indebted will probably not survive, whereas those with good balance sheets will prosper once again when the economy recovers

> Don't be discouraged. We have most likely hit the lowest point and the markets will ultimately recover

> We believe that the central banks will be successful in unfreezing the credit market and that increased regulation and decreased leverage will ensure a healthier use of credit in the future for everyone: individuals, corporations and financial institutions

For all of these reasons, we remain convinced that the coming years will provide patient investors with very interesting returns

Finally, we are grateful for the confidence you have shown us, even during these most difficult times. Rest assured that we continue to manage your money with the same integrity and care our reputation is built upon

Allard, Allard & Associés

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