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To our clients,

We know that the debt crises raging in the United States and Europe are not reassuring for investors. On the other hand, we believe the current nervousness in the stock market comes mainly from the fear of investors of a repeat of the 2008/2009 financial crisis.

It is not our intention here to make predictions, but here are some observations on three key sectors of the Canadian economy that lead us to believe that such a relapse seems improbable:

Sectors	2008/2009 Financial crisis	2011 Debt crisis
Banking	Canadian banks lost between 55-65% of their market value during the worst of the crisis. This decrease was mainly due to the credit freeze and the loss of confidence in the global financial system, which nearly collapsed.	The banks have recovered their market value since 2008 and are in excellent financial shape. They also demonstrated their strength on a global scale because unlike many other banks in the world, they required no government assistance in 2008/2009. Their current reserves are solid and their capital levels are more than adequate.
Mining	Many mining companies made significant acquisitions before 2007. Once capital markets became inaccessible during the credit crisis, the future of some companies became uncertain. These companies lost a lot of value - for example, Teck Resources lost 93% of its market value during the crisis.	This sector has generated significant profits over the last three years thanks to high commodity prices. Instead of making large acquisitions, mining firms have significantly reduced their debt levels. As of today, most of the companies in the sector have no debt on their balance sheets.
Oil & gas	The oil & gas companies have lost between 40-50% of their market value due to the nervousness of the markets, fears of economic slowdown, their elevated levels of debt and the drastic fall of oil prices, which declined from $140 in the summer 2008 to $40 in the first quarter of 2009. You read that right, it's not a typo!	Debt reduction, streamlining of costs and rising oil prices have allowed oil & gas companies to strengthen their balance sheets and to generate record profits. Although the industry is cyclical by definition, there has been some stability in the price of oil over the past two years.

The high debt of the United States is certainly a worrying situation, but not catastrophic as long as we tackle the problem. As evidence, Canada has been there in 1992 and emerged stronger.

The U.S. Treasury bills remain a safe haven, despite the discount. Against all odds, this week we have seen a decline in U.S. bond rates, while logically this discount should have the opposite effect. This is proof that international investors still perceive the U.S. as a safe bet.

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OUR STRATEGY: STAY THE COURSE

It is not in times of panic that investors should change strategy. The current situation only confirms the importance of having a long term vision, an asset allocation consistent with your situation and risk tolerance and above all not losing sight of the quality of the businesses held in the portfolios.

Investing in high quality companies with low levels of debt and generous dividend yields has always been and will always be a guarantee of success for patient investors. History has shown repeatedly that the stock market rewards investors willing to seize the opportunities that arise when others give in to panic. In our view, trying to time the market is a futile exercise.

As society becomes more aware that an excessive level of debt is not any more desirable for a government than it is for individuals and corporations, we believe government spending and tax revenues will be better managed in the future. We hope that political parties will have the wisdom to put the interests of their nations above partisan interests.

We hope you find this short commentary helpful. We are always available to discuss it further with you.

Sincerely,
Your portfolio managers:

Caroline, Louis & Jean-Pierre Allard

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