

Investment Insights

BEV'S COMMENTARY

Market Outlook

Although the global economic news flow continues to improve, the equity market's reaction was muted in August. Performances ranged from 4 % in the U.S. to 1.7% in Canada to -16% in China. Nonetheless, the S&P 500 is up 11.9% since the start of Q3. Scotia Capital believes the lack of momentum in August, and the potential for a pullback in September/October, have more to do with the current overbought situation and seasonality than overpriced equity markets. On that basis, our outlook over the longer term for the US markets remains positive. We expect equities and corporate bonds to outperform US treasuries over the next 12-18 months. The S&P 500's fair value should hit 1,025 in December 2009 and 1,200 in December 2010.

The September Effect

Our US research affiliate, Credit Suisse, had their quantitative team look at seasonality in various aspects of the equity markets. The monthly returns for the S&P 500 since 1928 indicates September is on average the worst performing month in a calendar year. Since 1928, the S&P 500 has on average decline 0.67% in September followed by gains in October through December.

On a calendar basis, returns are highest in December averaging over 2%. Analysis of the returns since 1990 confirmed the validity of these results in a more modern era. September still reigns as the worst month for investors with an average decline of 0.82%. Since 1990, returns have been negative on average in February, June, August and September. These four months are significant for upward movements in the VIX Index, which measures volatility. Popular explanations for this include: 1) a decrease in risk appetite due to Seasonal Affective Disorder; 2) window dressing and tax loss selling by mutual funds; and 3) market correction of trends formed during the low volume of summer months.

Capital market fluctuations are a fact of life. What's important is to maintain one's perspective by having an investment strategy that's appropriate to your goals and risk tolerance, and sticking to it.



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CLIENT QUESTIONS ARE ALWAYS WELCOME

Recent headline news reporting various advisor scandals such as what were perpetuated by Bernie Madoff in New York City and Earl Jones in Montreal have upset many more than their clients. Financial services professionals who are accredited and who operate with honesty, integrity and in their clients' best interests are dismayed by these situations. Not only do they diminish our collective reputation, these occurrences raise the level of distrust in our client's minds and in that of our potential clients.

What can be done to protect oneself? One of the best actions is to ask questions of your advisor or, if you're looking to hire one, a potential advisor. Most advisors welcome the opportunity to answer questions about their credentials and experience, the services and value they bring to the table, and the security of money invested. Red flags should go up if there is not full and open disclosure.

Client questions have an additional benefit in that they alert an advisor to what other clients may be thinking about and have not yet taken the time to reach out and ask as a question. For example, recently a client expressed concern about the proposed use of derivatives in a mutual fund solution. This led to an email communication to the affected clients that sought to clarify and explain the value of the approach in hedging US\$ back into the C\$ in an effort to protect portfolio returns, and lower the overall risk.

Here are some specific questions to ask your advisor or potential advisor if you are in the process of selecting one:

Certification – Ask what qualifications your advisor has. Certification and other qualifications are a sign that your advisor is knowledgeable, up-to-date, and relevant. Most certifications in the industry require a commitment to continuing education and adherence to a code of professional responsibility. Examples of certifications are the FCSI (Fellow of the Canadian Securities Industry) and CIMA (Certified Investment Management Analyst offered by Wharton, University of Pennsylvania). Investors are also well advised to seek disclosure about what organization(s) is responsible for regulating the advisor's practice. Working with an advisor associated with a reputable firm brings integrity to the table and helps to prevent falling victim to fraud.

Background – The wisdom and experience your advisor brings to the table is invaluable. Thus, ask about your advisor's experiences, both positive and negative. This dialogue should include a discussion about the advisor's approach to investing, risk controls, and the approach to financial planning. Feel free to ask for references.

Fees – Ask how you pay for services. It may be commissions-based or fee-based. Investors need to be knowledgeable about what they are paying for and the services available. The transparency of fees should also be a subject of discussion.

Chemistry – It is important that the investor and advisor have the right chemistry. Personal connection and comfort are extremely important, especially given that the investor relies on their advisor to help them meet their important financial goals. Trust is an important element of the chemistry and takes time to build. Unfortunately the recent scandals have eroded investor confidence.

The stakes are high for both investors and advisors. There is a lot of wealth being accumulated and inherited by boomers today and it needs to be managed appropriately. The unfortunate and sad situation facing investors who have lost their life's savings may have been avoided in part with more consumer sophistication and questioning. Client questions are a good thing.

CYCLICAL VS DEFENSIVE STOCKS? WHICH SHOULD INVESTORS SELECT?

Most equities were hard hit during the stock market correction of late 2008 and early 2009. As markets rebounded in the second calendar quarter, we take a look at which sectors within the S&P/TSX rebounded most strongly. Looking at the table below, one can see that the strongest gains came from the economy-sensitive or cyclical sectors of the market, while the performance of the defensive sectors, while positive, wasn't up as significantly.

Cyclical Sectors	Q2 Return	Defensive Sectors	Q2 Return
Technology	+ 43.3%	Consumer Discretionary	+10.7%
Energy	+21.6%	Staples	+ 9.5%
Industrials	+17.2%	Healthcare	+ 8.0%
Materials	+ 4.3%	Telecom	- 1.0%

These gains are positive signs of improved sentiment and have provided a measure of relief to hard-hit investors. As we anticipate what's ahead, we know that there are still serious financial and economic headwinds to be overcome. Our Scotia Capital analysts in the Portfolio Advisory Group continue to believe that investors are wise to maintain their exposure to

both sectors of the market – cyclicals and defensives. Cash in the form of dividend income

– a mainstay of the defensives - will be an important component of total performance. In what is expected to be a protracted and anaemic recovery, investors can't rely on capital appreciation alone.

IDEAS TO HELP YOU REBUILD YOUR PORTFOLIO

The initial shock of the steep market declines of late 2008 and early 2009 is starting to wear off as markets have rebounded strongly from their March 2009 lows. Now is the time to implement solutions that will assist in rebuilding your portfolio and position you for the future. Here are four ideas to consider.

1) Don't miss out on future upswings

The pain felt by many following this recent financial crisis is not forgotten. It leads investors to either avoid capital markets or to try and time the bottom as a solution to getting back in. The speed with which markets rebounded since March 2009, caught many investors on the sidelines. There are record amounts of cash sitting on the sidelines waiting to get back in. Trying to time the market is difficult for even the most sophisticated investors. The most successful investors ignore inevitable short-term volatility and remain invested. They focus on their long-term strategy and invest regularly.

2) Rebalance your portfolio regularly

The process of portfolio rebalancing says that investors who had an appropriate asset mix before the financial crisis hit should actually be adding more cash into equities right now as this is the asset class that dropped the most. Sitting with an overweight position in cash that is yielding next to nothing, will not help to advance portfolio returns.

3) Look for yield opportunities

Record low interest rates for GICs and bonds means that investors need to search more broadly for other opportunities, especially after accounting for inflation. Government sponsored infrastructure bonds, real return bonds, REITs (real estate income trusts), dividend-yielding equities, and guaranteed annuities are worth exploring for their potential to offer opportunity for higher yields.

4) Secure income

When investors rely on income from their investment portfolios, exposing themselves to the volatility of the equity markets is inappropriate. To deal with this need for stable cash flow, investors should calculate how much they need for a set period of time (such as 12 months) and set aside the desired sum of money in a conservative and liquid vehicle such as a money market or a daily interest savings account. To protect money needed for longer periods, another strategy is to ladder bonds or GICs over a five or ten year period so that an equal amount of money comes due annually.

Each individual's emotional needs and investment objective will dictate their overall investment strategy. The ideas represent practical steps that can be taken to help rebuild wealth.

The Last Word

"The first step to getting the things you want out of life is this: decide what you want."

By Ben Stein, an American actor, writer, and commentator on political and economic issues.

Closing Comments

As we move into September, good luck as you get your children, grandchildren, and yourself back into your fall routines!

All the Best from the Moir Team,

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