



PWL's Point of View on Market Volatility

The PWL Capital Investment Committee

September 17, 2008

Recent events have raised concerns among investors about the stability of the financial markets. This letter aims to reassure you about the robustness of PWL portfolios in the face of the current uncertainty and to provide some perspective on the current financial market volatility.

Disciplined Investing

Your PWL investment portfolio is governed by a disciplined investment philosophy, which emphasizes risk management. Your portfolio is constructed to diversify the investment risks across many asset classes (bonds, GICs, income trusts, stocks). In addition, its equity component is globally diversified across thousands of securities, including Large Cap, Mid Cap and Small Cap securities. This diversification protects the portfolio from suffering permanent damage in the event of the failure of a single company or sector. Portfolios are affected by the general movements of the stock market, but to an extent that is controlled through your asset allocation policy. We remain confident that your portfolio is well constructed to protect your capital and positioned to take full advantage of the market's eventual recovery.

The U.S. Financial System Is Being Realigned

The current stock market volatility was caused by a series of specific events that led to dysfunction in the institutional credit markets. While the S&P500 Index is down approximately 21% so far in 2008, the financial services sector is the major driver behind this negative return.

The events surrounding the demise of Bear Stearns, Freddie Mac, Fannie Mae and AIG are extraordinary if only because they have resulted in massive government intervention. Here are a few examples of these interventions:

- i. The U.S. Federal Reserve has reduced its key Fed Funds rate from 5.25% to 2% since September 2007;
- ii. The Federal Reserve and the U.S. Treasury Department brokered the acquisition of investment bank Bear Stearns by rival J.P. Morgan;
- iii. Freddie Mac and Fannie Mae were placed under the conservatorship of the Federal Housing Finance Agency (FHFA);
- iv. The U.S. Federal Reserve allowed investment banks to borrow money directly from its "discount window," a privilege that had previously been reserved for commercial banks;
- v. The U.S. government rescued AIG, injecting \$85 billion in capital in exchange for 80% ownership of the firm.



We believe that central banks around the world are intervening to stabilize the financial sector and to avoid a prolonged economic downturn. In the U.S., the likely outcome is continued industry consolidation, where the weaker institutions will be eliminated and the surviving entities will be those that were better at managing risk.

In short, the financial sector will not disappear. Financial services are essential to the functioning of a developed economy. The sector will realign itself for long-term stability.

So What Does This Mean For You?

We cannot forecast when a bear market will end, but one thing is historically consistent: market recoveries are typically strong.

Average Return in the first 6 months following a Bear Market (1960-2008)

| | Observations | Total Return |
|---------------------------------------|--------------|--------------|
| Canadian Equities (S&P/TSX Composite) | 7 | +17.76% |
| U.S. Equities (S&P500) | 4 | +21.10% |
| International Equities (MSCI EAFE) | 3 | +24.94% |

Source: Ibbotson Associates

The table above highlights the risk of market timing. On average, the total return for the first six months following a bear market ranges from more than +17% for Canadian Equities to almost +25% for International Equities. Your portfolio will (as expected) fluctuate with the asset classes, but it is also built to capture the benefits of market recovery.

Disciplined Investing, Acting Rationally

When facing market volatility, investors are often tempted to doubt their initial strategy and to worry about meeting their long-term goals. While a market decline may make us feel uncomfortable, your portfolio is engineered to weather these types of events. A successful investing experience is underpinned by three strategies:

1. Acting rationally in volatile markets
2. Being well diversified
3. Staying invested.

In closing, we would like to thank you for your confidence in our ability to serve you. We look forward to our continued relationship and welcome any further inquiries. Please do not hesitate to contact your PWL Capital advisor.

