Monthly Update

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Bailing with Bigger Buckets - The Boat Still Leaks

Yesterday, Timothy Geithner, Barack Obama's Secretary of the Treasury, introduced the Financial Stability Plan FSP, replacing, the Troubled Assets Relief Program, or TARP, the acronym of which had the unfortunate connotation of a cover-up. Mr Geithner's proposals – providing more capital to the banks, a public-private pool to acquire "toxic" assets, an expanded asset purchase program, and a mortgage payment support program. In a phrase, this was another bank bailout.

Geithner introduced FSP by saying, "The financial system is central to this process [the expansion of enterprise]. Banks and the credit markets transform the earnings and savings of American workers into the loans that finance a first home, a new car, or a college education." That was the first and last mention of savings with no suggestion as to its importance in the health of the financial system, another letter.

Mr Market decided early in the trading session the Financial Stability Plan was not salvation. He sold stock all through the day and in an intensity not seen since early December. The Philadelphia Bank Index, dropped nearly 14%, but mercifully avoided hitting a new low. As some would say, "As goes the bank index, so goes the market."

Mr Market is not making new bets. Mr Market may be aware of some new reasonable voices rising above the "fix banks, urge the consumer to spend, and all will be well" blather still promoted in our respective capitals. He knows such policies are hardly working. Mr Market is alert to the maxim of Warren Buffett, "When you find yourself in a hole, stop digging." The new crew in the US capital has not stopped digging.

An old voice but one with new credibility is Richard Bernstein, Chief Investment Strategist at Bank of America – Merrill Lynch. He reacted yesterday to the FSP by saying, "Bubbles create over capacity, and post-bubble environments are ALWAYS characterized by severe consolidation pressures. …the significant consolidation of the financial sector is inevitable." He suggests investors should only consider financial companies when the government facilitates the inevitable consolidation.

We extend that remark into the market as a whole and to the other sectors that enjoyed ballooning investment over the past eight years – energy, minerals, infrastructure, and real estate to name but a few. Over investment leads to over capacity leads to price competition and leads to the death of the weak. This is the cycle. It is curative. In our investing, we are mindful of this process and that it may not be completed.

Pooled Fund – Month End Unit Values^

Unit Values	Dec-07*	Dec-08*	Jan-09
Cdn Income Fund Cl D	10.23	10.42	10.42
Cdn Balanced Cl A	13.72	12.27	12.16
Cdn Equity Fund Cl A	10.37	8.22	8.04
Cdn Small Cap Cl A	23.28	15.92	15.86
Global Equity Fund Cl A	8.96	7.95	7.46

*^ Fund NAVs reflect "full-fee" class   * Post distribution*

Bernstein advises, "The latest Treasury program is simply another attempt to stymie the consolidation process. Our feeling is that it, like the earlier programs that had the same goal, will be unsuccessful, and financial stocks are likely to continue to significantly underperform." We again are prone to stretch the caution into other equity sectors. Businesses must consolidate and share prices reflect true earning power.

He recommends to Mr Market that before becoming too bullish on financial stocks he look for policy changes from Washington. Increasing deposit insurance, seizing assets rather than buying them, maintaining interest payments on seized bank debt and shutting of large, toxic banks are his guidance for corrective action.

This cycle is not finished, but as we contemplate the future, we remind our clients of our past cautions and our view succinctly put by one of our most considerate of readers: "A crisis is a terrible opportunity to waste." We continue to think long-term and in terms of business franchises able to grow beyond this crisis.

Total Return – Capital Gains plus Income (%)

To Jan 31 '09	1 Mo	3 Mo	1Yr	3 Yr	5 Yr	10 Yr
QV Pooled	%	%	%	%	%	%
Cdn. Income	0.2	2.8	5.2	5.0	4.7	5.2^
Cdn. Balanced	-0.7	-1.4	-5.3	1.1	4.9	9.1
Cdn. Equity+	-1.9	-8.9	-15.8	-3.2	6.5	13.7
Cdn. Small Cap	0.1	-6.2	-24.5	-5.5	6.6	13.5
Global Equity	-5.7	-8.2	-10.8	-	-	-
+ Historic equity returns from the Cdn. Balanced Fund						^6 years
Benchmarks:						
DEX Bond Unv.	-1.0	4.4	4.8	4.6	5.1	5.8
Balanced Fund	-2.4	-3.2	-14.5	-1.2	4.4	5.6
S&P/TSX Comp	-3.0	-10.0	-31.8	-7.6	2.8	4.6
BMO Small unwtd	5.9	1.8	-43.0	-17.9	-6.0	2.3
MSCI World ($CA)	-8.0	-10.9	-29.4	-11.6	-5.8	-5.1

- Pooled fund returns are gross of management and custodial fees. Returns over one year are annualized.

- The Balanced Fund Index reflects the total rates of return earned by the DEX 91-Day T-Bill Index (5%), the DEX Bond Universe (45%), the S&P/TSX Composite Index (40%), and the MSCI World Index (C$) (10%)