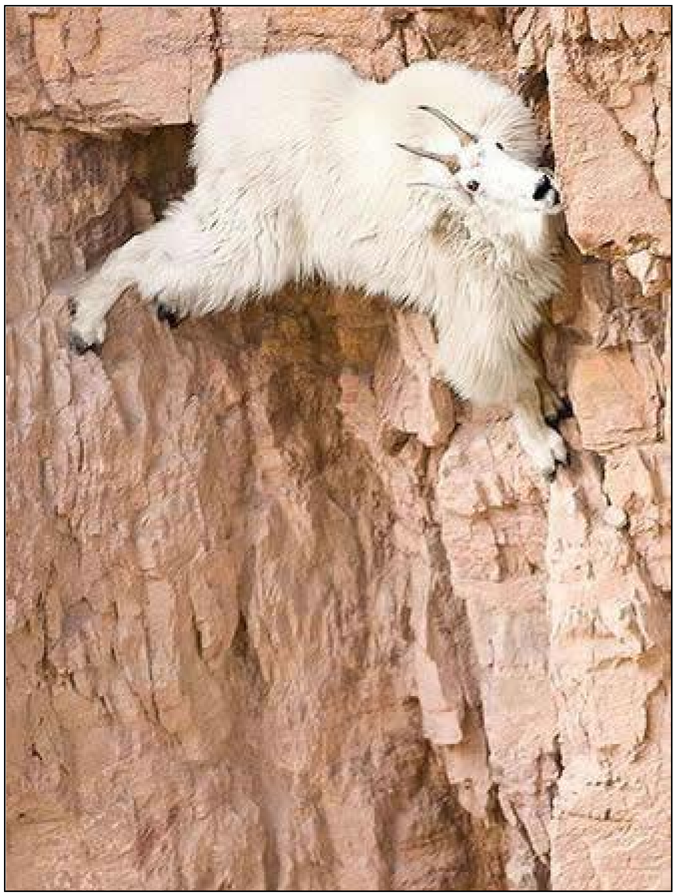
Raymond James
Steele Wealth Management Group
Mid-Fourth Quarter 2008 – "In A Bind"



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def. **historic** <hi-ˈstȯr-ik>

a. famous or important in history
b. having great and lasting importance

There has not been a period in modern history where this word has gotten more press, as Canadian and U.S. politicians failed to find a better way to express the significance of this year's market events:

"Historic Drop in the Price of Oil"
"Historic Market Decline"
"Historic Bailouts and Bankruptcies"

We touched on what ended up being the beginning of the market crash in our 3rd quarter review "Bankruptcies & Lending Freeze" with a decline in the S&P/TSX Composite of 14.7% in September. Since then, we have seen further declines, with the Composite index losing 16.9% in October and 9.5% so far in November (as of November 18th). As we have already discussed September's decline, we will focus on the new developments that arose in October and November, how we positioned ourselves throughout those months and how we are positioned for the future.

The fuse that was lit in September led to an explosion in October. An indicator called the TED spread, which is the spread between the 3-month U.S. treasury and interbank loan yields, hit all time highs in early October, suggesting that banks were no longer lending and were hoarding cash. With the major central banks aware of the illiquidity of the credit market, they coordinated global interest rate cuts in attempts to shock the market into lending again. They each then reduced their key rates further following the coordinated effort to keep pressure on banks by giving them furthering their incentive to lend. They have also injected over a trillion dollars in short-term assets into the economy and have undergone billions in equity purchases of struggling banks. As of early November, the TED spread has traded close to normal levels, indicating that the massive injections of capital are having a positive effect on lending.

Not only do central banks have to get banks lending, they have to rebuild consumer and investor confidence. To illustrate how fearful investors are, we give you this example. In reaction to the increasing liability of future U.S. taxpayers as a result of increased U.S. treasury spending, the premiums attributed to credit risk on 10-year U.S. treasury bonds have increased by 25 times over the last year, which indicates that investors are not only worried about the stock market but the stability of our money supply, the world economy and free markets as we know them. Just to clarify the previous statement, though the market for these credit risk securities is small, there are individuals out there who believe that the central bank of the United States will go bankrupt and are willing to pay 25 times what they could have paid one year ago to make that same bet. The fact that some investors are willing to make relatively expensive bets on the end of the world, at least the western, industrialized world as we've known it for the past 300 years, goes to show how irrational some investors have become.

We assure you that we are not taking on these extreme positions, although we remain skeptical that credit will continue to flow as if 'all is fine'. The severity of the current and upcoming recessions will dictate the direction of equity prices. That said, we will not wait until the recession is over to start buying up equities, as history tells us that stocks find a bottom before the end of recession is declared. We remain underweight energy, financials, industrials, IT, consumer staples and consumer discretionary overall while maintaining overweight positions in utilities, telecom and materials (due to gold exposure). We continue to hold a large position in BCE stock as we believe it remains to be a good fit for the Ontario Teacher's Pension Plan. We also believe that banks and governments are relying on that deal's completion to spark investor confidence and that they will assist each other in achieving its completion. As the industrials and consumer discretionary sectors tend to outperform as the economy booms out of recession, we will be looking towards entering these sectors in the coming months.

As of November 18th, the total decline in the S&P/TSX Composite since October 1st was 24.8%, compared to declines in our G30 and Aggressive Growth portfolios of 9.6% and 18.1%, respectively. The most significant reason for this outperformance was our cautious stance on equity as a result of the events that unfolded in mid-September. We had been reducing our equity positions since late September and we adjusted our optimal asset allocation to include more cash (approximately 50%). We will maintain this stance until the market gives us reason to believe equity prices have stabilized. The other reason for outperformance is that we have been trading actively, taking advantage of the large swings in volatility by buying well capitalized companies on weakness and selling them into strength, with most trades lasting less than a week. We will continue to produce extra income through short-term trading should the market volatility continue to create attractive mispricing in quality stocks.

Our asset allocation reflects the uncertainty that exists in the market. Most economists, including the bulk of those employed at central banks, now believe that deflation is the number one economic concern and that price stability is essential in preventing economic demise. Yet, there are still some who believe that inflation will be a major issue as banks continue to print money to pay down the growing public debt. In times of deflation, our large cash holdings will increase in value in real terms as the price level drops and our overweight gold position will protect against the possibility of hyperinflation and the loss of confidence in fiat currency. With those two positions covering either 'doomsday' scenario, we feel confident that our portfolio is positioned to weather any storm.

The key is being patient but to remain decisive. Make choices and stick by them but if re-evaluation or new information leads to a different answer, it is important to not hesitate in adjusting your strategy.

Remember that risk is measured by volatility and volatility is a natural result of a market. To experience the ups you must also experience the downs, your exposure to both is up to how you choose to allocate your capital.

Sincerely,

The Steele Wealth Management Group