

The image shows a spiral-bound notebook with a light brown, textured cover. The spiral binding is on the left side. The text is centered on the cover.

Global Capital Market Overview

**Attack on America & The War on Terrorism
The Economic Consequences**

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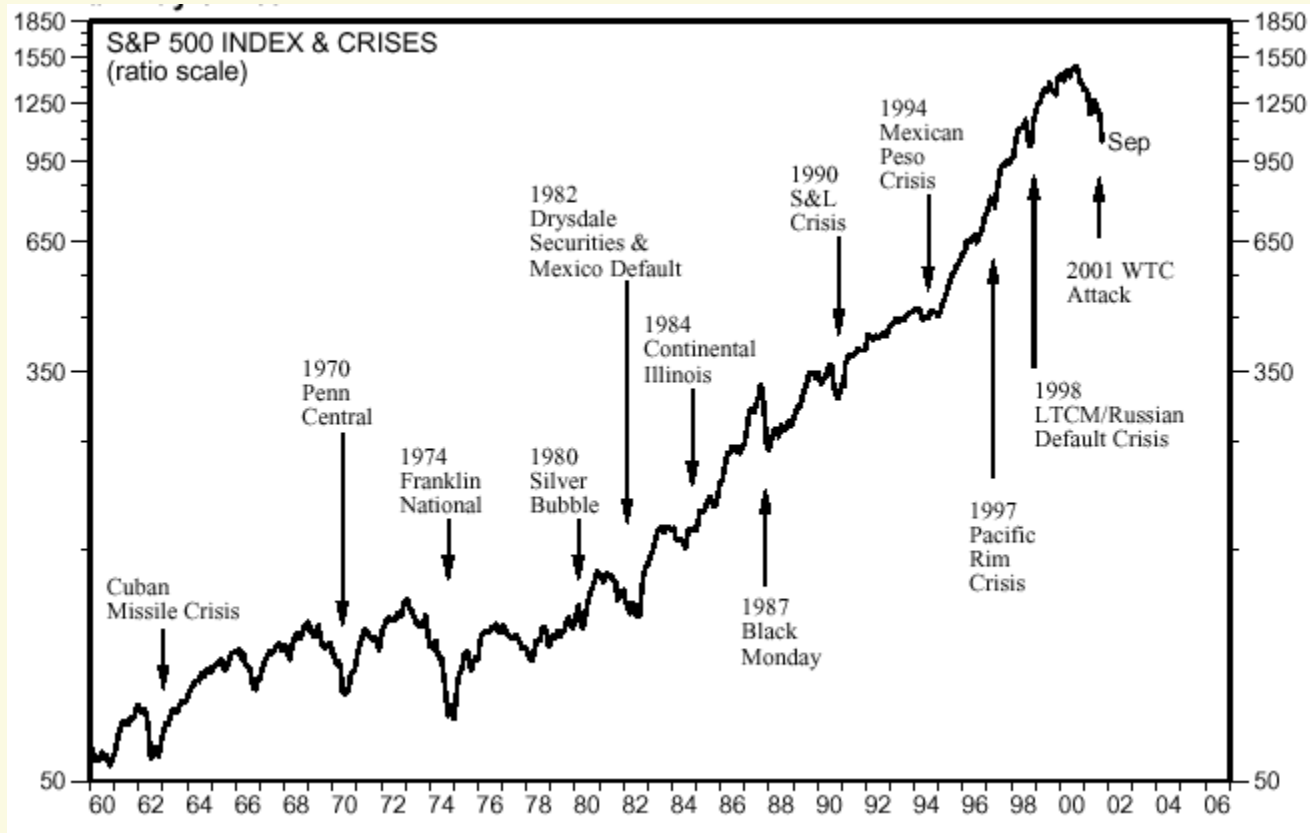
Crisis & Market Reaction

A Historical Perspective

Major Events & The Stock Market's Reaction

Event	Reaction Dates	DJIA %Gain/Loss	DJIA %Gain/Loss 126 Days After Reaction Dates
Pearl Harbor	Dec. 6, 1941 to Dec. 12, 1941	-6.50	-9.60
Korean War	June 23, 1950 to July 13, 1950	-12.00	19.20
JFK Assassination	Nov. 21, 1963 to Nov. 22, 1963	-2.90	15.10
Arab Oil Embargo	Oct. 18, 1973 to Dec. 5, 1973	-17.90	7.20
Nixon Resignation	Aug. 9, 1974 to Aug. 29, 1974	-15.50	12.50
Financial Panic of 1987	Oct. 2, 1987 to Oct. 19, 1987	-34.20	15.00
Russian/LTCM Crisis	Aug. 18, 1998 to Oct. 8, 1998	-11.30	33.70

Crisis & Market Reaction



Living With Investment Risk

- 📄 Long-Term Returns Are a Direct Reflection of Corporate Profits
- 📄 Short-Term Returns Are a Direct Reflection of Emotions & “Noise”
- 📄 Investing is Long-Term & Requires Patience
- 📄 Risk Management - Asset/Liability Approach

Living With Investment Risk

- 📄 Terrorism on The Home Front
- 📄 Fear & Uncertainty
- 📄 Risk Premium Has Risen
- 📄 Economic Implications
- 📄 Investment Implications



Short Term Consequences

- 📄 An Already Weak Global Economy Now Moves Into Recession
- 📄 Consumer Confidence Shattered
- 📄 Consumer Spending Declines
- 📄 Pockets of Market Dislocation
- 📄 Investor Capitulation ~ “Can’t Bear The Risk Anymore”

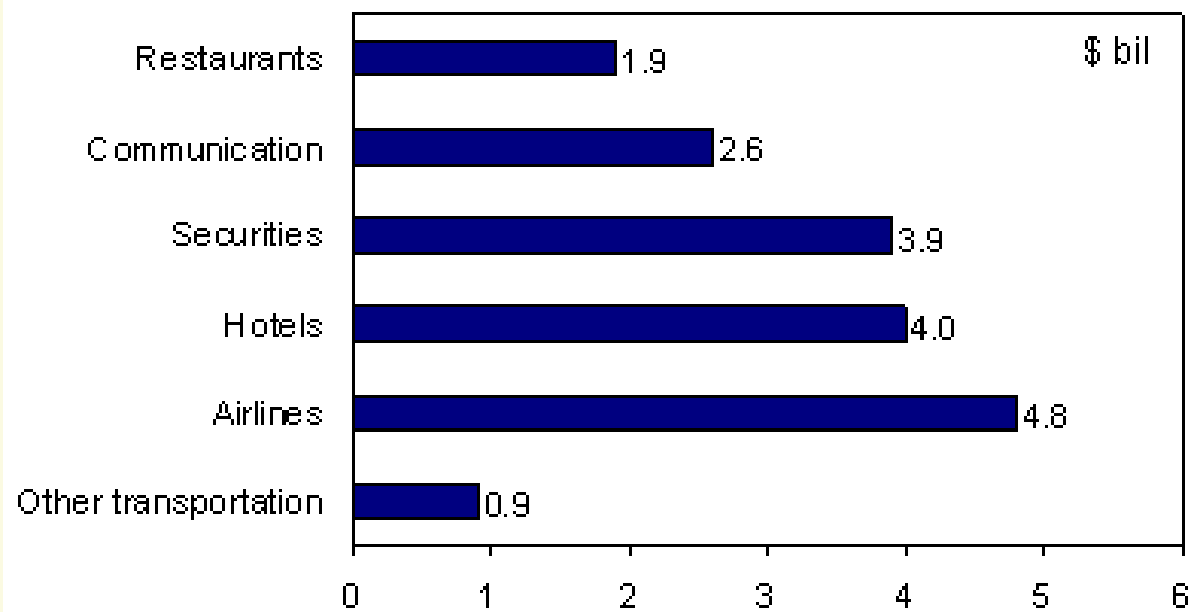
Long-Term Consequences

- 📄 The Monetary Response
- 📄 The Fiscal Response
- 📄 Positives Far Outweigh The Negatives
- 📄 Back to Investing and NOT Speculating!
- 📄 Infrastructure Rebuilding & Greater Efficiencies
- 📄 Normal Returns & Rational Expectations
- 📄 Higher Risk Premium ~ Political & Defense

Attack on America

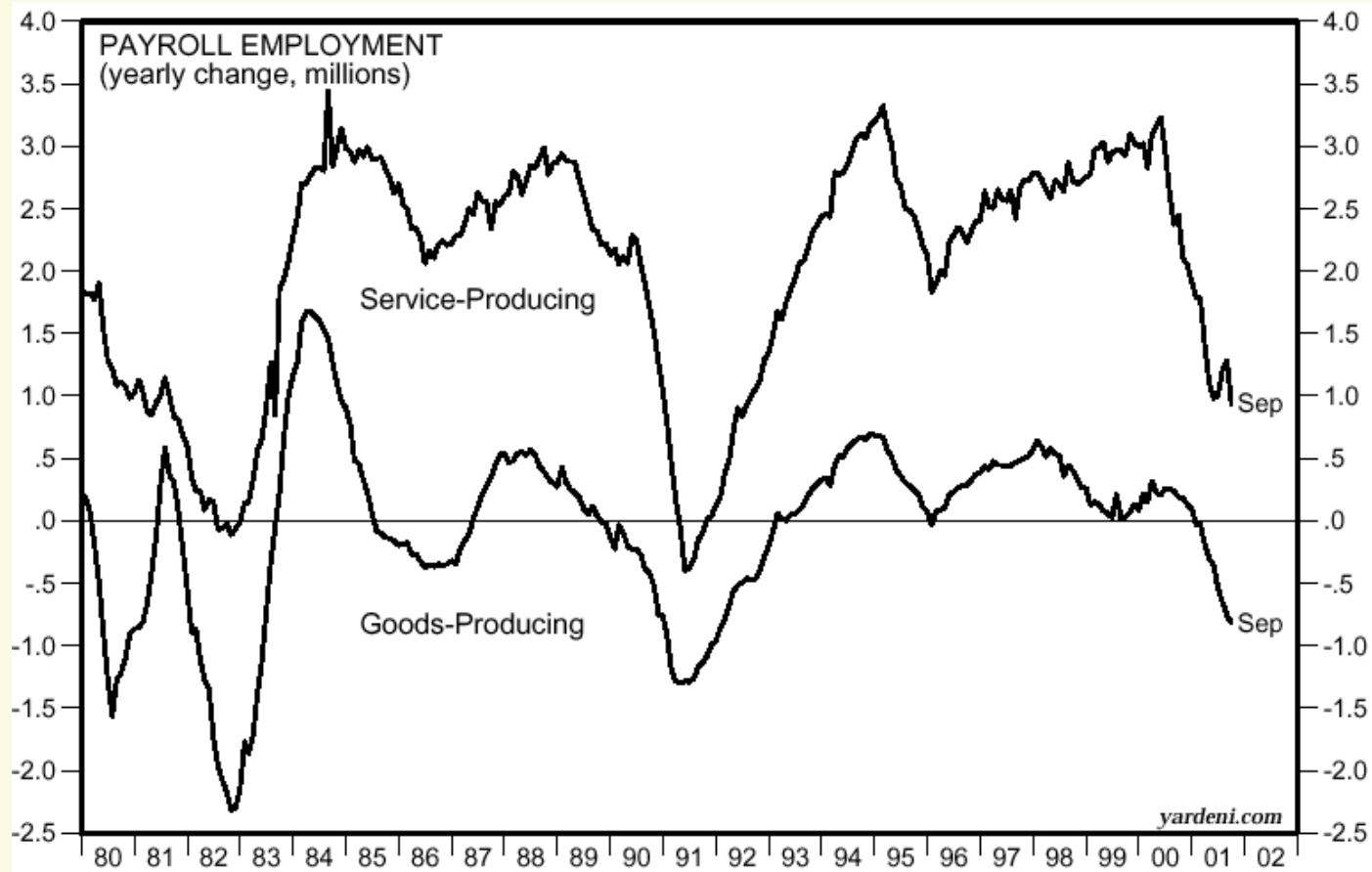
Economic Impact

Estimated Lost Output Due to Terrorist Attacks



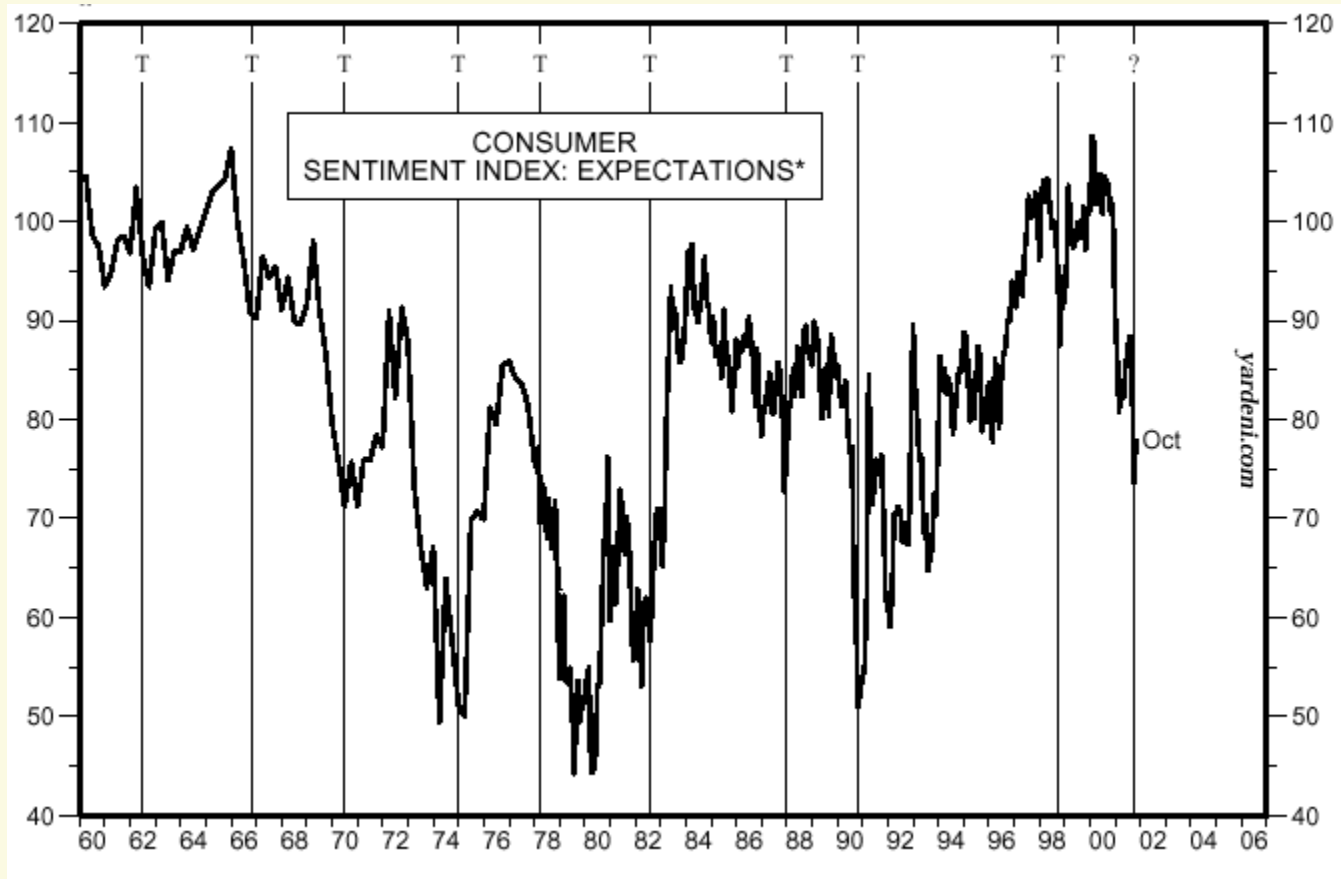
The Economy

Payroll Employment



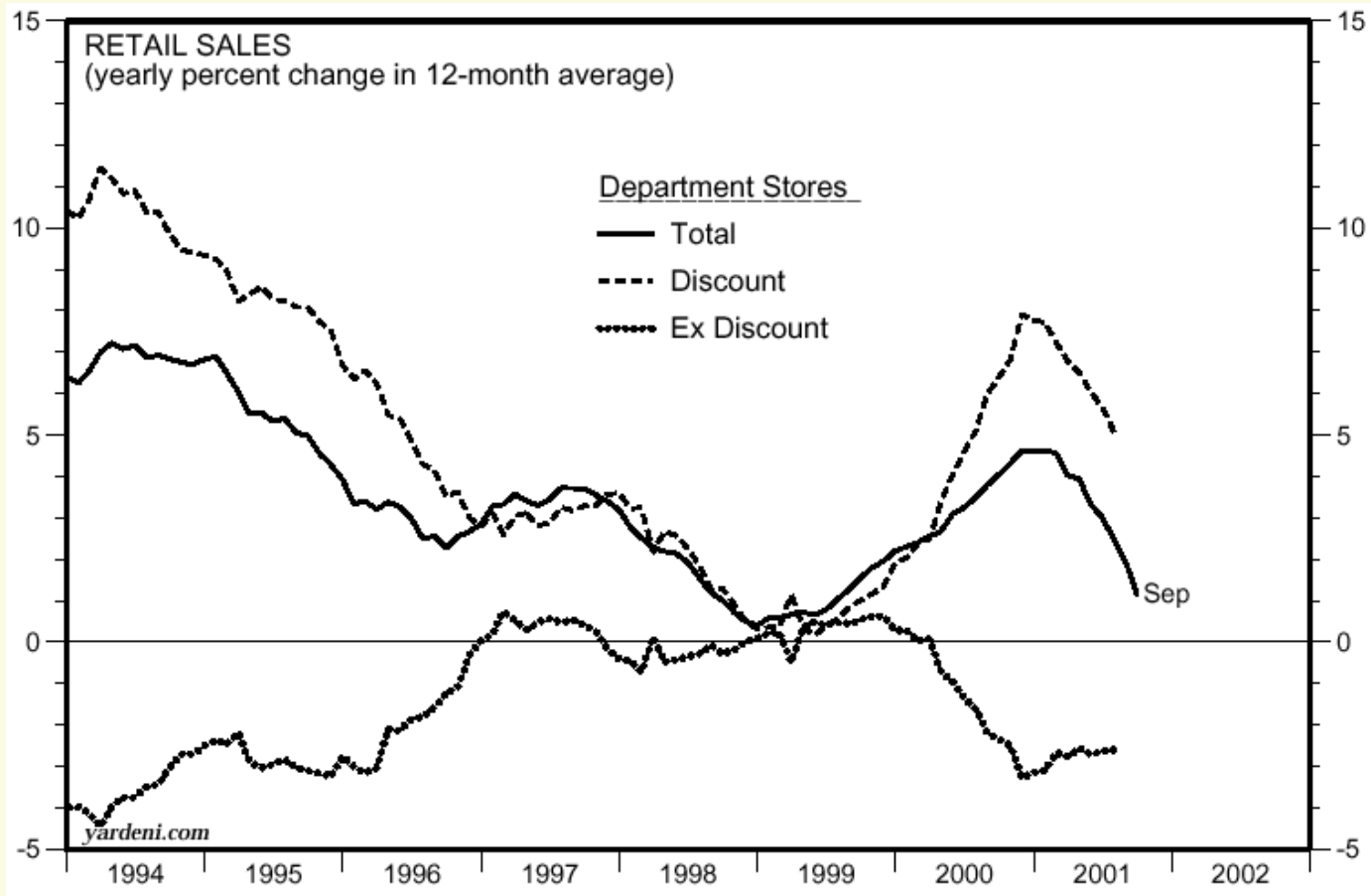
The Economy

Consumer Confidence



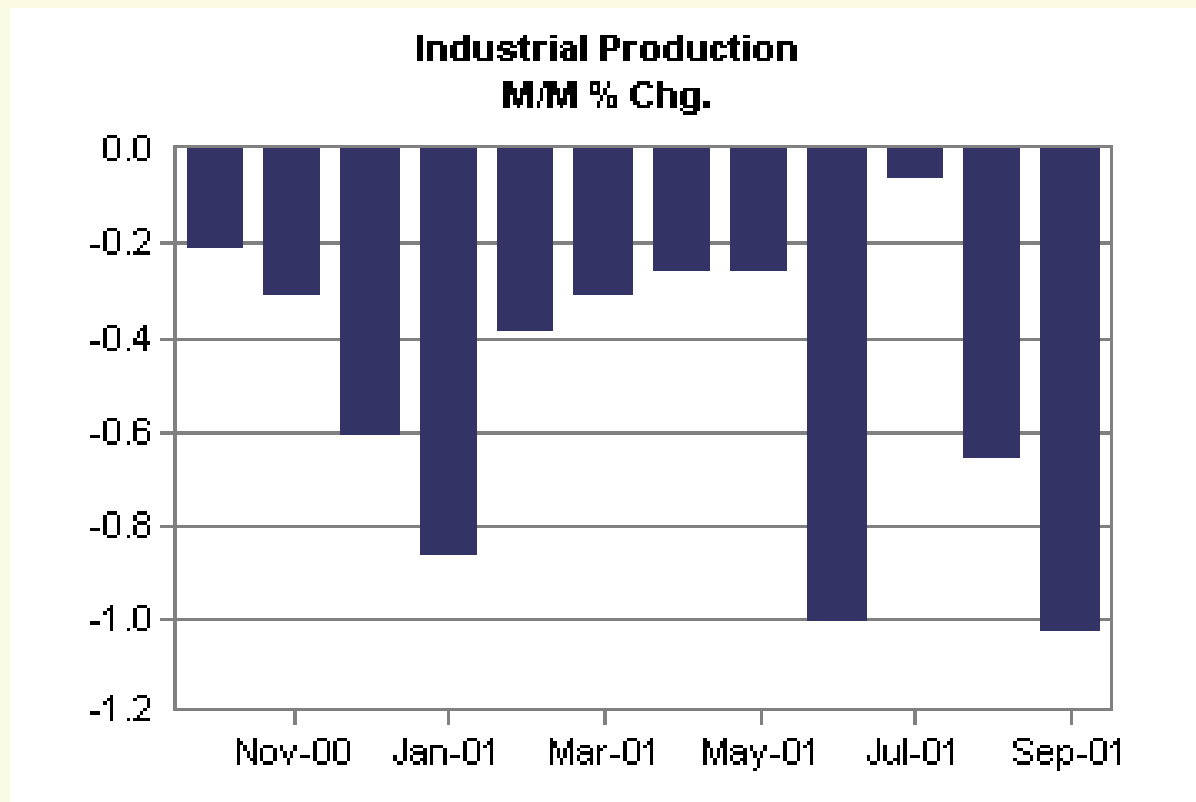
The Economy

Retail Sales



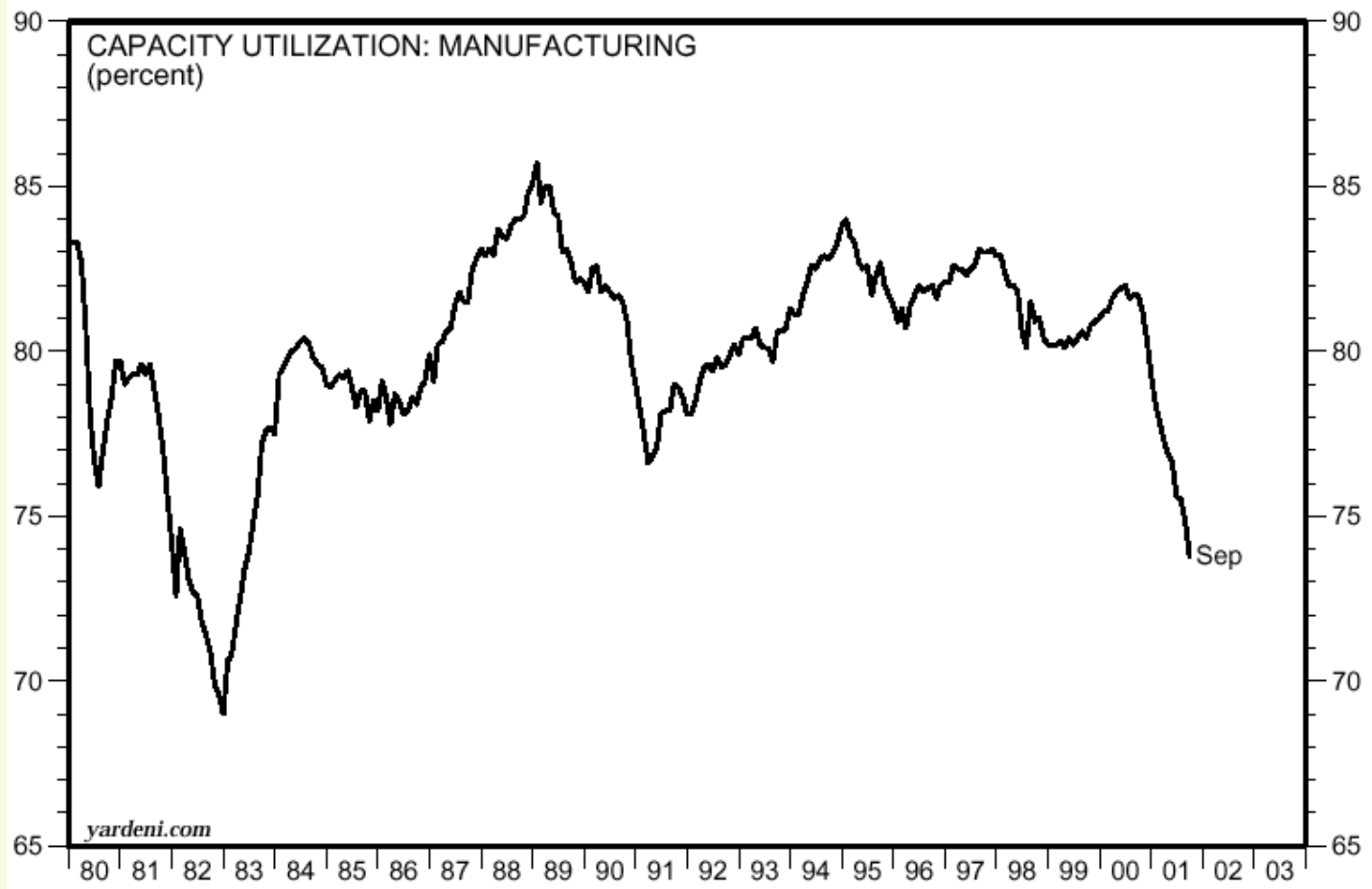
The Economy

Production



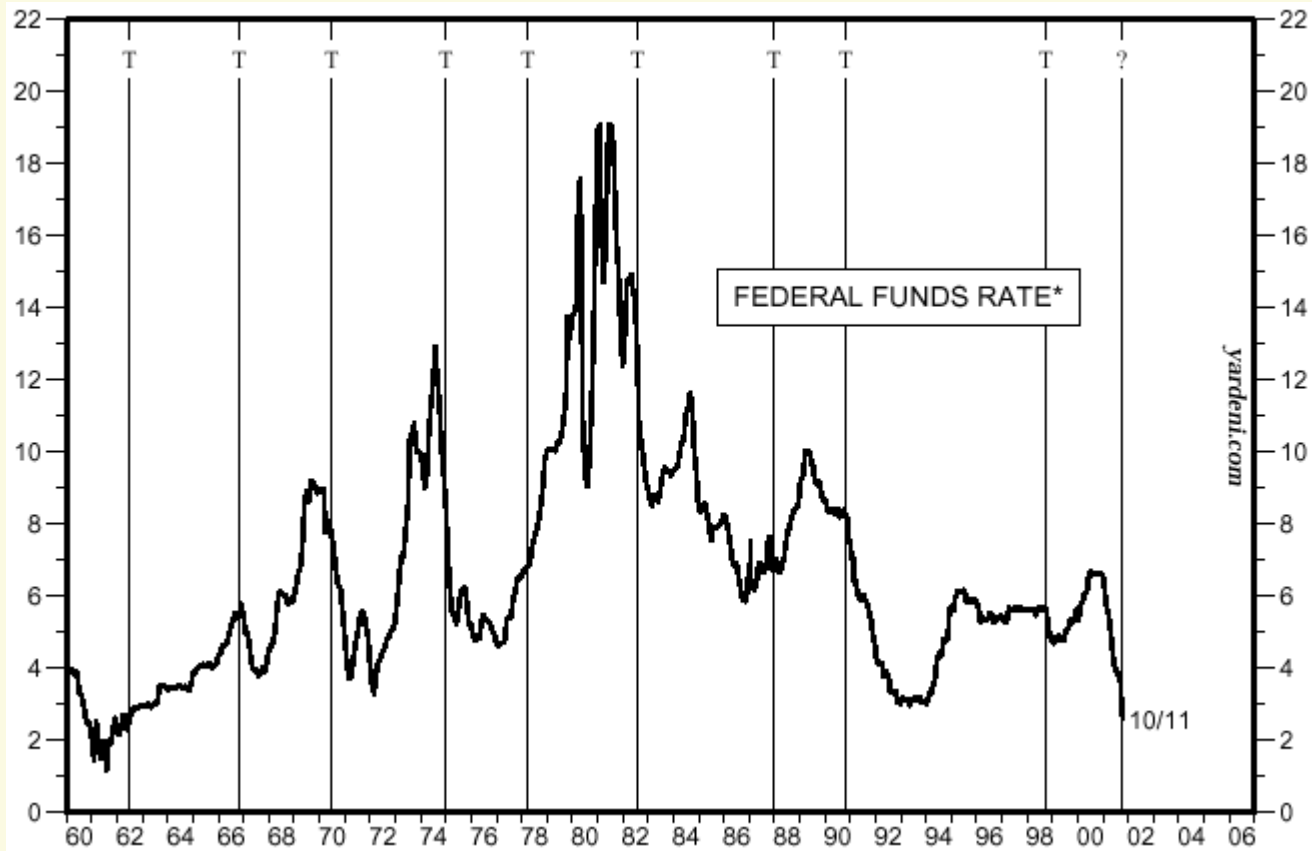
The Economy

Capacity Utilization



The Economy

Interest Rates



The Economy

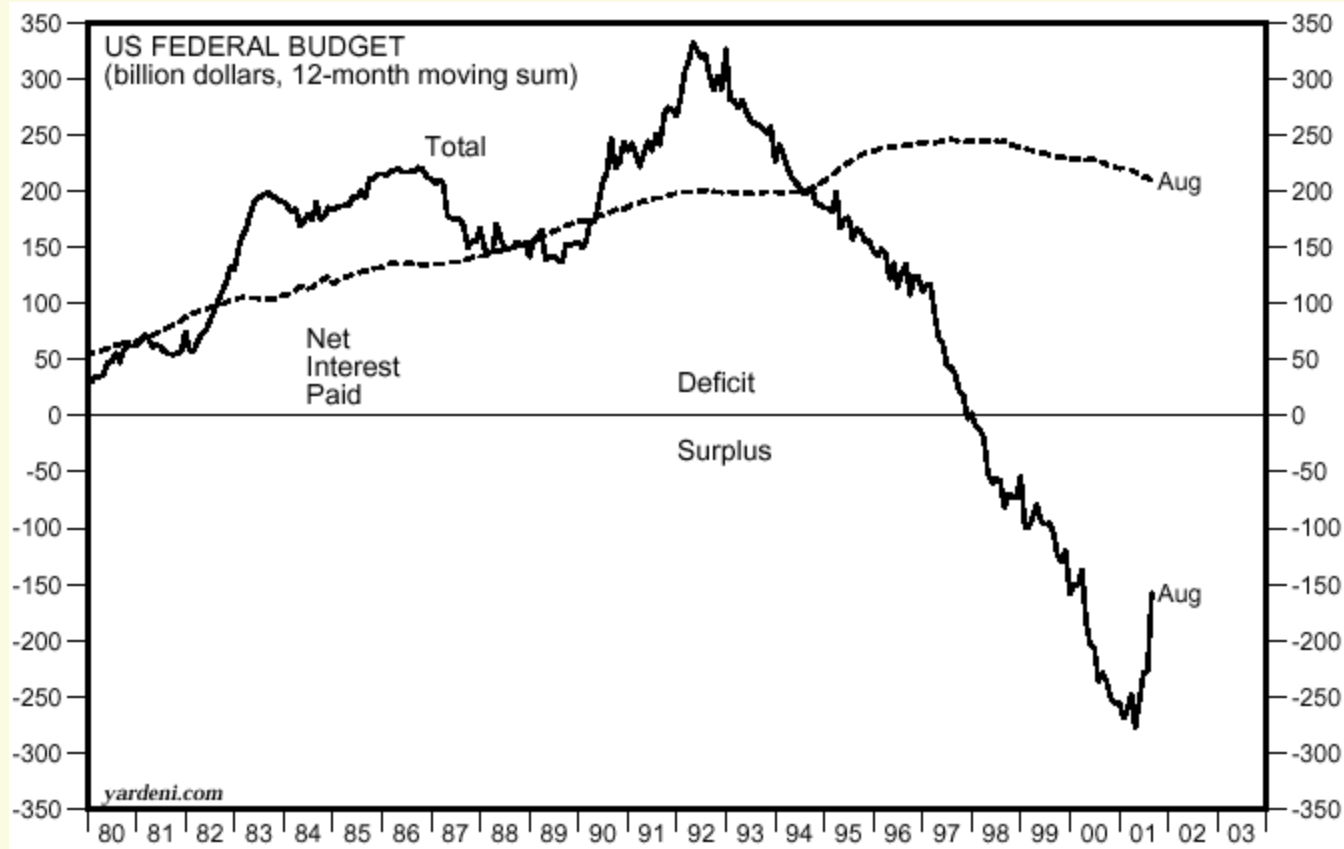
Bond Yields



* 5-day average of daily data.

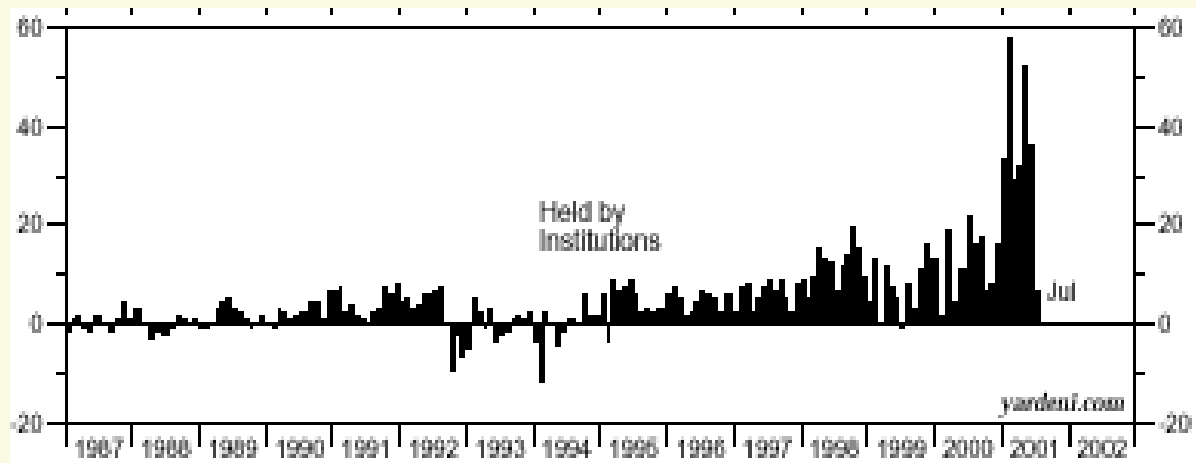
The Economy

The Government Will Now Spend The Surplus



Liquidity is Growing

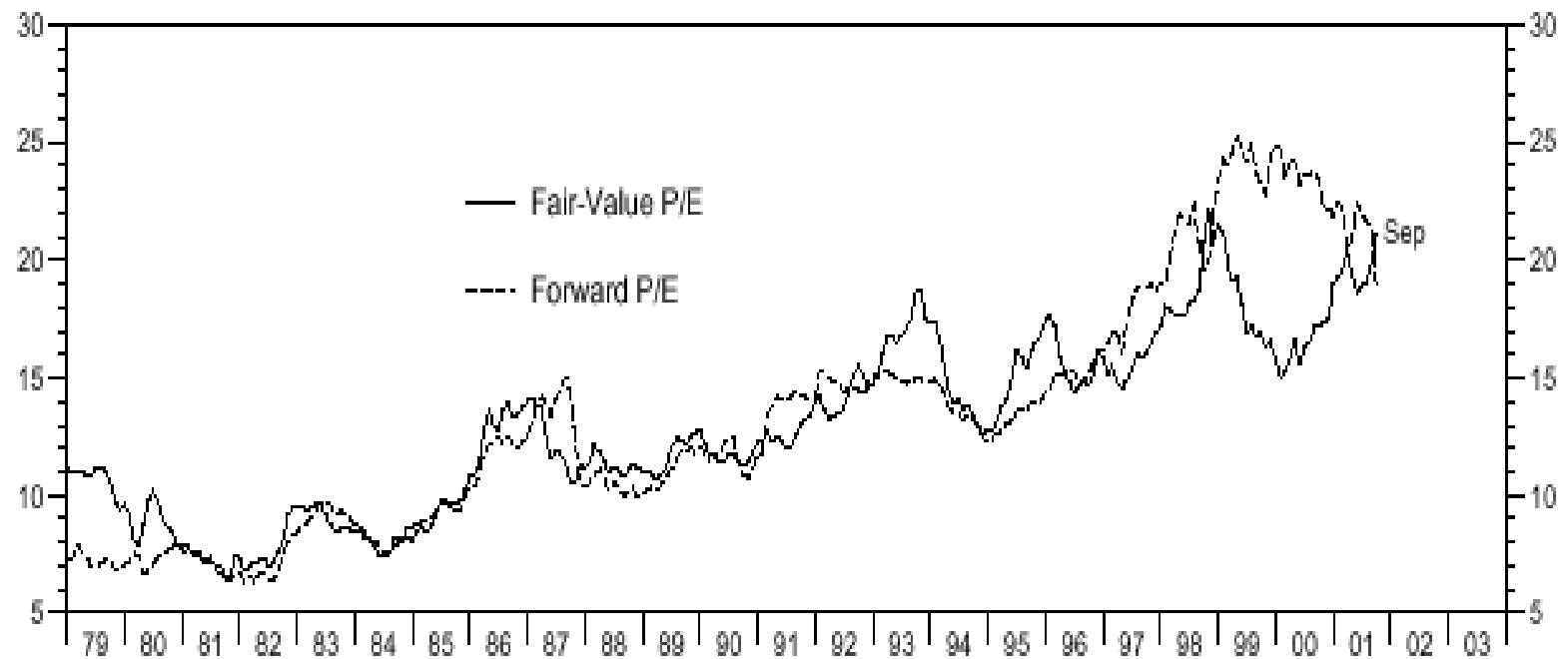
*Over \$2 Trillion in Money Market Funds.....
Represents Nearly 25% of Total Stock Market Value*



Source: Board of Governors of the Federal Reserve System

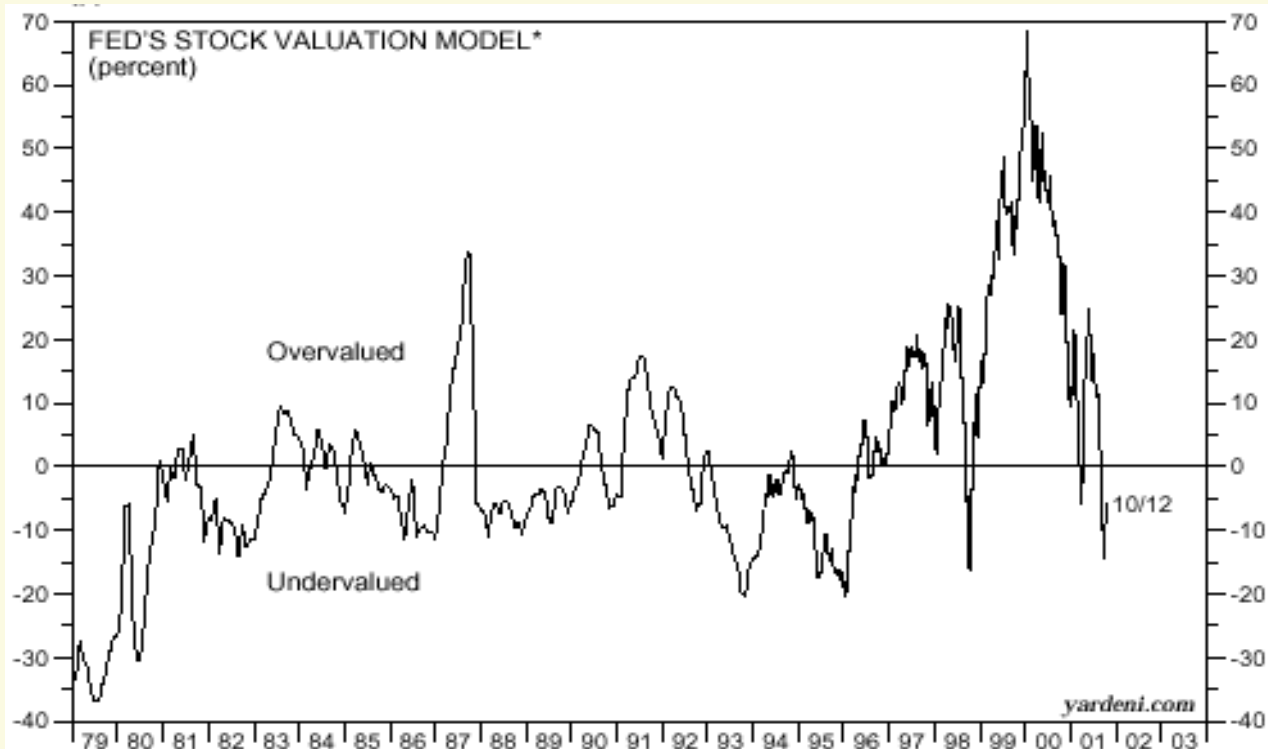
Stock Market Valuation

P/E Ratio



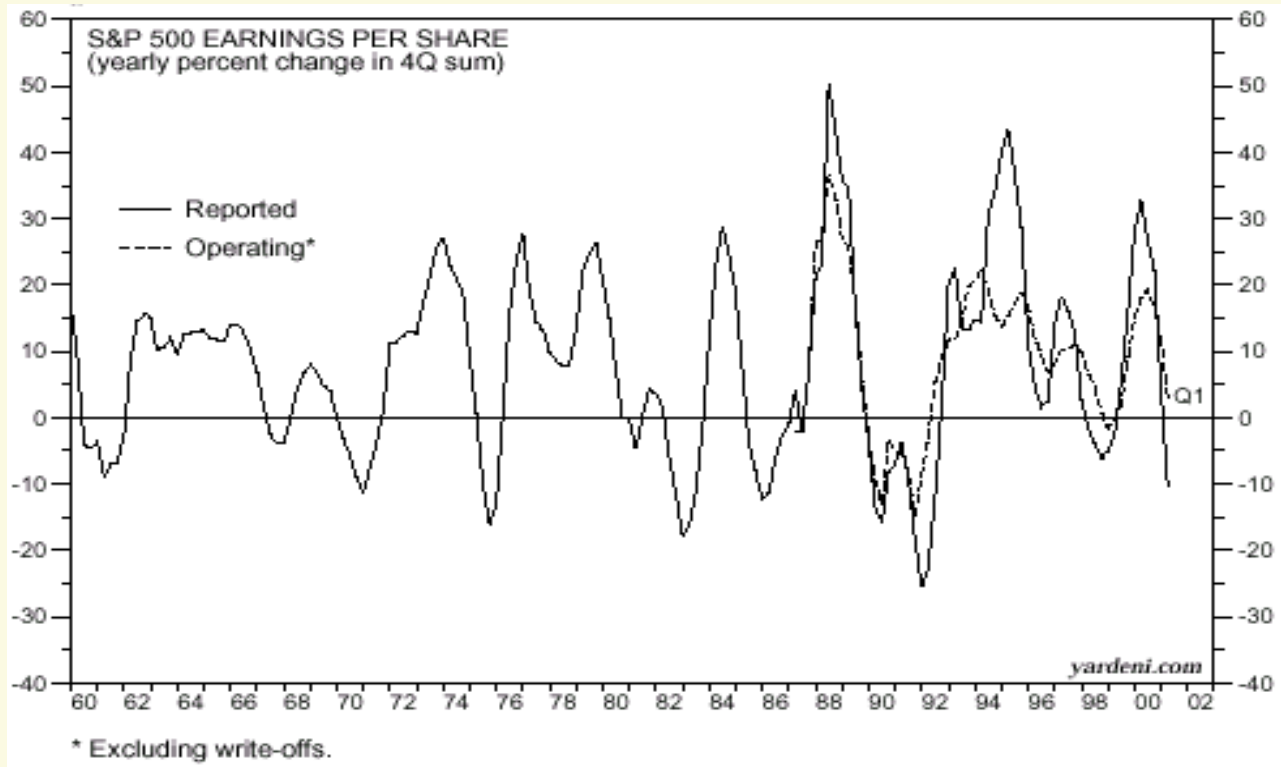
Valuation Relationships

Stocks vs Bonds



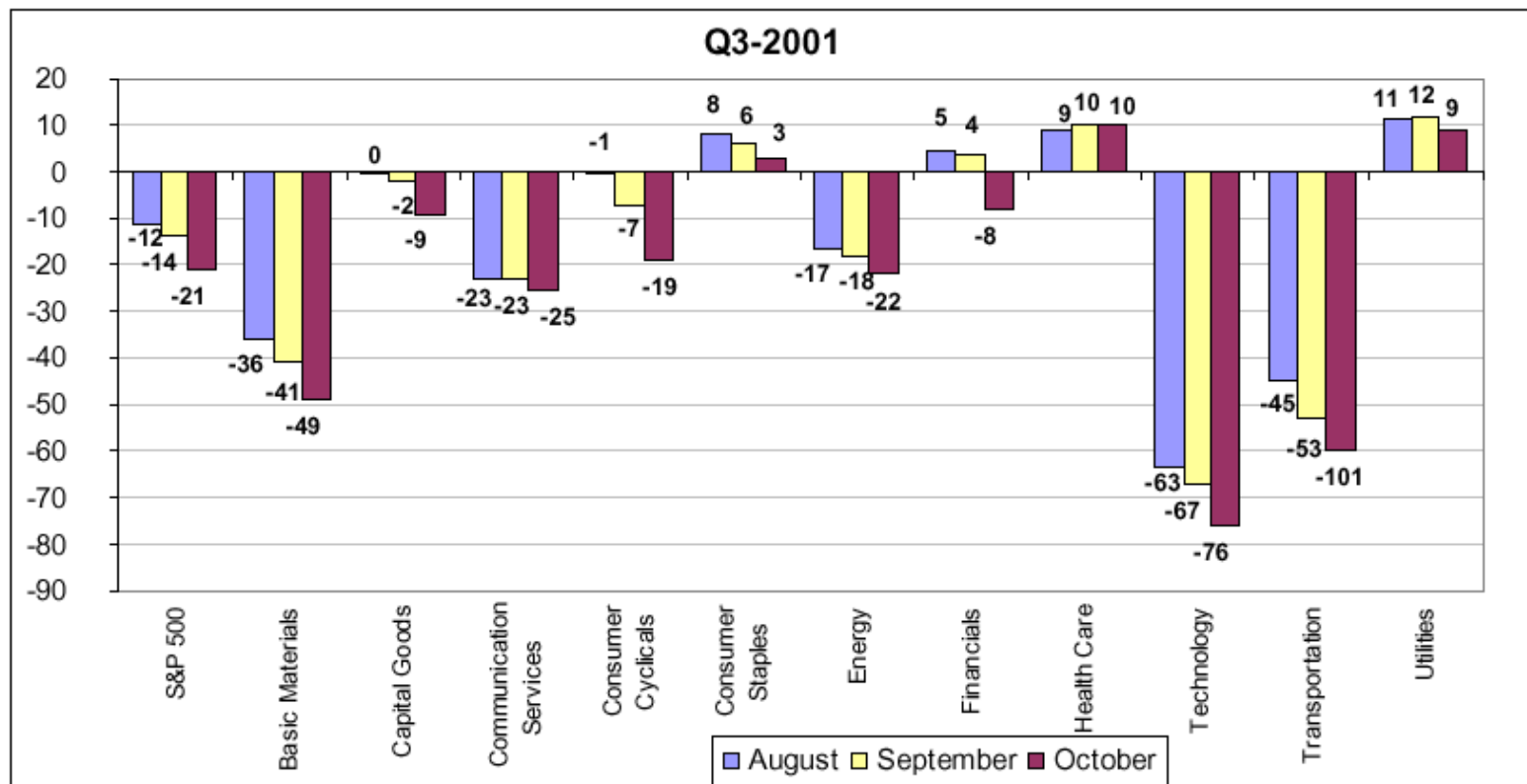
* Ratio of S&P 500 Index to its Fair-Value (52-week forward consensus expected S&P 500 operating earnings per share divided by the 10-year US Treasury bond yield) minus 100. Monthly through April 1994, weekly thereafter.
Source: Thomson Financial

We Were in a Corporate Profit Recession Before September 11th



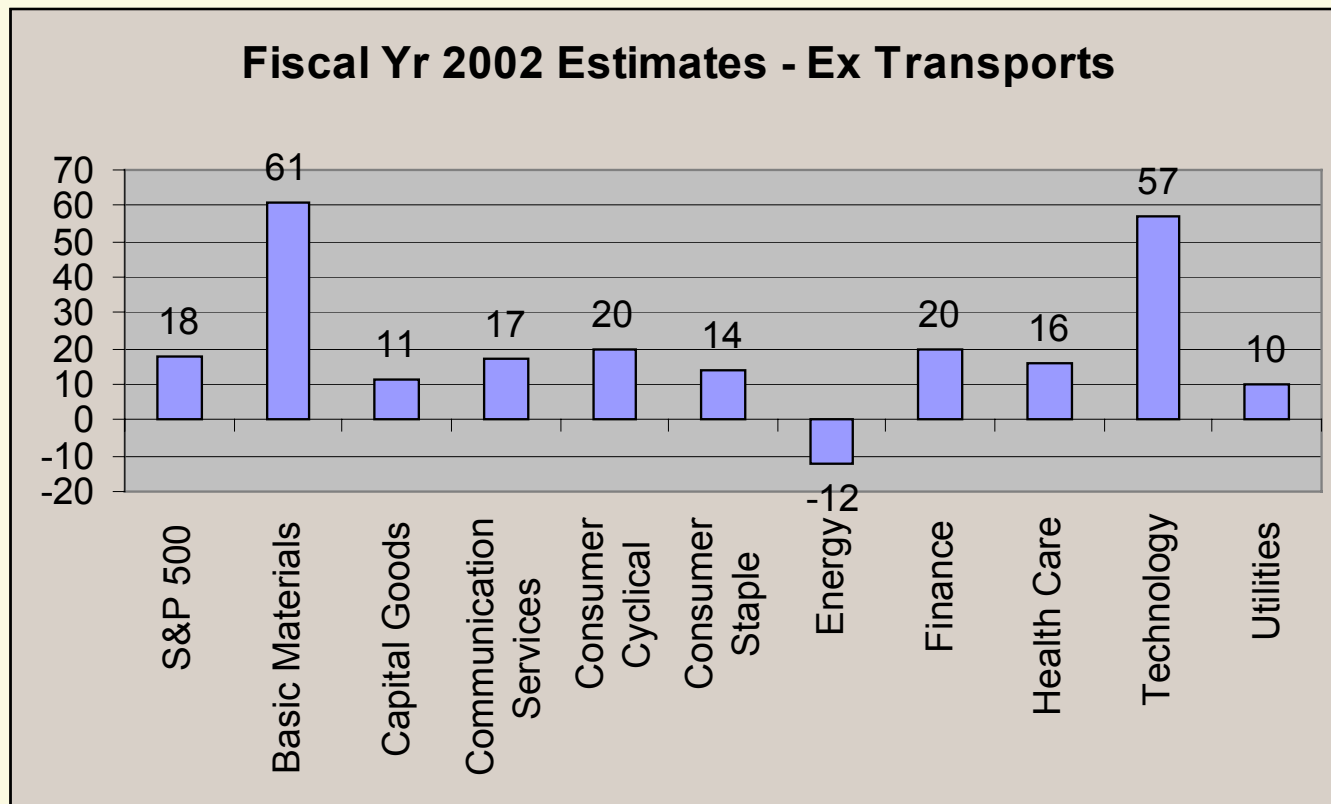
Earnings Expectations

3rd Quarter 2001



Earnings Expectations

Fiscal Year 2002



The Stock Market Fundamentals

Managing Expectations ~ A Look at History

		Age of Comfort (Jan 1946 to Dec 1968)	Age of Angst (Jan 1969-Dec 1981)	Age of Exuberance (Jan 1982 to Mar 2000)
Stocks	Initial Yield	5.00	3.10	5.80
	Growth in Earnings	6.60	8.00	6.80
	Change in Valuation	<u>2.40</u>	<u>-5.50</u>	<u>5.70</u>
	Average Annual Return	14.00	5.60	18.30
Bonds	Initial Yield	2.70	5.90	13.00
	Effect of increase(decrease) in interest rates	<u>-0.90</u>	<u>-2.10</u>	<u>0.30</u>
	Average Annual Return	1.80	• 3.80	13.30

Source: B. Malkiel

	Age of Comfort	Age of Angst	Age of Exuberance	Long Term Average
Equity Risk Premium(T-bill = Risk Free)	10.41	-1.59	11.46	6.76
Equity Risk Premium(10 Yr Treas = Risk Free)	10.59	-0.70	8.54	5.56

Current Environment

Possible Scenarios

		Pessimistic Case*	Most Likely Case**	Optimistic Case***
Stocks	Initial Yield	1.3	1.3	1.3
	Growth in Earnings	4.5	7.4	8.0
	Change in Valuation	<u>-5.3</u>	<u>0.0</u>	<u>2.5</u>
	Average Annual Return	0.5	8.7	11.8
Bonds	Initial Yield	5.5	5.5	5.5
	Effect of increase(decrease) in interest rates	<u>-2.0</u>	<u>-0.5</u>	<u>0.5</u>
	Average Annual Return	3.5	5.0	6.0

Source: B. Malkiel

* Low to Moderate Economic Growth and Market's Expected Change in P/E Multiple & Higher Interest Rates

** Moderate Economic Growth and Currently Close to Fair Valuation and Flat Rates

*** Strong Economic Growth and Market Currently Undervalued and Lower Rates

	Expected ROR	3 Month	10 YR	
	Equity	T-Bill	Treasury	ERP
Equity Risk Premium(T-bill = Risk Free)	8.70	3.63	na	5.07
Equity Risk Premium(10 Yr Treas = Risk Free)	8.70	na	5.16	3.54

Long-Term Return Estimates

- Based on Long-Term Risk Free Rate of 6.0%
- Equity Risk Premium of 4.5%
- Bond Estimates Based on Risk Free Rate Plus Premium for Default and Horizon Risk
- Future Equity Returns Are a Reflection of Expected Corporate Profit Growth
- Risk Premium is Now Slightly Higher to Compensate for The Added Uncertainty

Short-Term Return Estimates

Asset Class	Expected Return	Expected Risk
Equity		
<i>Asset Class</i>		
Core Equity	8.67	22.02
Large Cap Value	9.00	16.88
Large Cap Growth	6.75	19.43
Small Cap Equity	10.04	35.37
International Equity	13.41	18.99
REITS	9.55	15.40
<i>Sector</i>		
Consumer Services	6.16	15.85
Financials	13.52	24.50
Health Care	11.66	21.64
Technology	-2.13	30.27
Utilities/Energy	6.06	13.71
Fixed Income		
Convertibles	7.02	14.14
US High Qlty Bond	5.25	4.56
US High Qlty Tax Free	5.62	9.18
Inflation Linked Treasury - TIPs	5.73	2.84
Canadian Equity & Fixed Income		
Canadian Equity	6.52	17.44
Canadian Cash*	3.82	1.10
Canadian Fixed**	5.84	8.34

- 📄 Forecasts Based on Valuation, Earnings, Economic, Risk & Technical
- 📄 Forward Looking Discounted Cash Flow Method
- 📄 Risk Adjusted Estimates Based on CAPM Framework
- 📄 Currency Forecasts Included Based on Implied Return in Forward Markets

Asset Allocation Recommendations

- ☞ Strategic Allocation: Time to Rebalance Back to Original Targets
- ☞ For Those on The Sideline....Time to Get Back Into US Stock Market
- ☞ Near-Term: Expect Higher Than Average Market Volatility
- ☞ Yield Curve Gets Steeper
- ☞ In the Near Term.....

Yes to...*Stable Earnings, Liquidity & High Quality*

No to...*High Debt/Total Capital, Japanese Banks & Emerging Markets*

Current Market Position

The Economy

Low Growth; 2nd Qtr Recovery
Lower Short Rates; Steady Long Rates
Low Inflation
Liquidity Injections Expedite a Recovery

Stock Market Fundamentals

Slightly Higher Risk Premium
Valuations Attractive
Earnings Turnaround: 2-3rd Qtr 2002
Sectors at Risk Are Obvious

Favorable Strategies

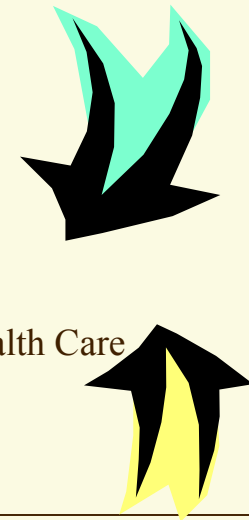
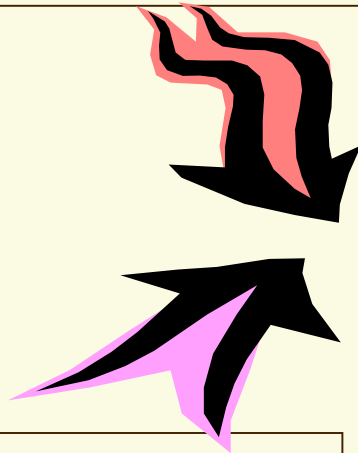
Lower Valuations
Moderate Earnings Expectations
Quality Earnings
Active Stock Pickers
Overweight: Defense, Staples, Health Care
Underweight: Transports,
Hotel/Leisure/Insurance

Technical

Consumer Sentiment Falling
Consumer Spending Slowing
High Levels of Liquidity
Favorable Demographics

Risks

Default Risk
Political
Weakening Job Market



Political Risk ~ We Are Going to Get This Guy!



Conclusions

- 📄 Review Investment Objectives & Tolerance for Risk With Your Advisor
- 📄 Establish a Clear & Measurable Policy of Investment Objective With Your Advisor
- 📄 Maintain a Diversified Portfolio of Assets That Best Matches Future Financial Goals (Asset Allocation)
- 📄 Re-balance Existing Portfolio Back to Strategic Asset Allocation Policy
- 📄 Review Entire Portfolio for Possible Tax Loss Credits
- 📄 Money Market Investors...Now is The Time to Ease Back Into Equities