

IPC SPECIAL REPORT



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What's going on with the Markets?

The recent market gyrations may be very disconcerting to you as an investor. We want to shed some light on what is happening out there and help you understand the potential impact of these events on your investments.

What is happening?

In the investment world, there will always be concern when uncertainties abound. This latest bout of uncertainty began a year ago in July with the surprise announcement by Bear Stearns that two of its hedge funds had collapsed. In a coordinated bid, Bear Stearns was eventually rescued by the U.S. Federal Reserve and JP Morgan Chase.

This week, the concerns surround other major banking institutions, namely Lehman Brothers Holdings Inc., American International Group Inc. and Merrill Lynch & Co. Due to its hefty losses, Lehman announced that it was filing for bankruptcy on Monday, sending shockwaves through the markets. This time however, the U.S. Treasury Secretary, Henry Paulson, and the U.S. Federal Reserve Chairman, Ben Bernanke, did not see the rationale to structure a rescue for Lehman, akin to the sale of Bear Stearns in March. This intensified concerns around the stability of other financial institutions.

Investment experts believe that the global de-leveraging of credit is nearing an end.

Nonetheless, even as we near this end, other banking groups with large mortgage debt will feel the wrath of the markets. In fact, many have already seen their share prices discounted in the markets. However, some investment experts believe that stronger global financial institutions may have the ability to weather the storm, and in fact add to their portfolios. They will no doubt take advantage of the weaker companies, just as Bank of America and JP Morgan have done.

Despite the current gyrations, there are unmistakable signs of tenacity in the U.S. market: the crop of stocks hitting new lows has dwindled since January, suggesting that selling pressure has reduced. This is despite the concerns in the market over the last few days.

Some respite for consumers

Consumer confidence has sunk to a 16-year low but, more encouragingly, is beginning to mend as oil prices retreat. Money market funds now have a record US\$3.3 trillion to \$3.5 trillion in cash, according to Ned Davis Research. If the market's psychology improves, as it appears to be, there is

money sitting on the sidelines that may be able to support demand as equity prices begin to recover.

Uncertainties remain

There remains three main uncertainties in the markets:

- 1) Oil Prices – We have seen concern abate somewhat as oil prices have fallen from a high of US\$147 a barrel to below US\$100.**
- 2) Financial credit crisis – Recent news is already being discounted, and major players have been writing down their losses.**
- 3) The U.S. election – The guessing game around the U.S. presidential election will soon be over with the November 4 election fast approaching, eliminating some of the uncertainties around U.S. economic policies.**

Despite the uncertainties around these issues, some experts are optimistic that the current heightened level of concern over these issues may abate in the near future.

What should you be doing?

Veteran investors who have lived through various investment cycles know that conditions like these will eventually normalize. In addition, good-quality investments tend not only to survive but may eventually prosper. This may be an opportune time to capitalize on these extreme fluctuations and add to your portfolio at bargain prices.

These are times when many investors really start to panic. Before making any changes to your investments, it is critical that you first carefully reassess your investment strategies and your portfolios with a professional.

If you are feeling nervous or discouraged with your investments, we encourage you to visit our offices and determine whether your portfolios are still suitable for your long-term objectives. We should also use this time to assess the great opportunities that may be presenting themselves.

We look forward to speaking with you soon.

