

June 2003

Clients who attended our spring seminar ("Bear Facts and Necessities") should be well versed on the theme of this quarterly newsletter, "The News". Thank you to those who chose to attend. If you did not have a chance to be present at the seminar, the slides and notes are available on our web site: www.ddhumes.com.

Anybody that studies aviation knows that the air above us comes in layers and that each of these layers simultaneously blows in their own direction. The direction in which we'll move depends on the layer we choose. This law also governs human sentiment. At any given time there is both good and bad news, it's simply a question of which one of these the overall population chooses to rule. While bad news ruled the roost for the past three years there has been plenty of good news, which now is favorably influencing markets, as most will see reflected in their quarterly statements.

So what is this good news?

First, let us look at domestic real estate prices over the past three years. I recently had lunch with an appraiser, who stated that on average prices of homes in the Montreal region have risen by approximately 60% since 2000. That's to say if you owned a home with a fair market value of \$250,000 in 2000, its

FMV today would be approximately \$400,000. Not bad when you consider that the gains on our primary residence are tax free!

Want more good news?

How about the income tax cuts both federally and provincially. Since 2000 the income tax marginal income rates have cumulatively been reduced approximately ten percent. Besides this reduction the basic personal exemption has been re-indexed to the cost of living, while the surtax has been eliminated. These benefits alone would offset portfolio losses in the 15 to 20% range depending on the amount of income one realizes.

Then how about our Canadian dollar!

Three years ago it was floundering around in the low sixties opposite its American cousin. Today it's around the 75-cent mark, which represents over a 15% increase. When a nation's currency strengthens, profits of export companies are crimped, but price-earnings ratios (p/es) for that country's stocks rise. When the yen soared in the 1980s, Japanese p/es doubled; the dollar bull market was a big reason U.S. p/es more than doubled during the 1990s.

Finally, we want to look at interest rates from two perspectives.

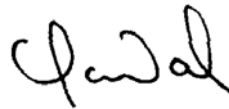
From a domestic view we are bordering on forty-year lows. This makes it a favorable time for people to borrow for that mortgage or extension or for businesses to make capital purchases or expansions. On the international front our short-term rates reflect a healthy spread in our favor as compared to the U.S. and most foreign countries, encouraging outside investors to hold Canadian dollars, whether that's through short-term deposits or investing in other bonds or even investing in stocks.

The fact is that there is always good and bad news, but often we have to look beyond the media bombardment to find the good news, because unfortunately it doesn't sell as well. It appears that more and more of this good news is now surfacing and casting a positive effect on our portfolios. I applaud those who have been patient and stuck to their plans. Your rewards over the past quarter have been merited. My hope for all of us is that this prevails well into the future, which will provide a welcome respite from the plethora of bad news we've been exposed to over the past three years.

The negative markets of the past few years may have influenced your tolerance to risk. It is during these tougher times that we want to explore your tolerance with you. Higher tolerance is much easier to achieve when times are good. If you have not recently done so, we invite you to complete an updated risk profile to make sure that your portfolio allocation is right for you. The risk profile questionnaire can be obtained by calling Anthony at 631-0725.

Thank you to all of those who completed it at the seminar. In the coming months we will be reviewing your updated profiles and comparing them with your current mixes to make sure that you are in line with your current tolerances.

Have a great summer,



Dave, Chantal, & Matthew