

January 2008 Newsletter

Having coffee with my wife Franca this morning we were talking about how lucky we are to live in Canada.

It is sad to read about the recent assassination of former Pakistani Prime Minister Benazir Bhutto, and the riots that now engulf the country.

We are going through yet another crisis in the financial markets which are related to Sub-Prime Mortgages, Asset Backed Commercial Paper (ABCP), and the housing market collapsing in many U.S cities.

The ramifications are being felt around the world, for example:

- Central Banks pumping \$Billions into markets to ensure liquidity.
- Hedge Funds being shut down.
- Banks and Brokerage firms taking \$Billion write downs.

I am happy to report that we did not directly own Sub-Prime or Asset Backed Commercial Paper.

However, stock markets around the world have been very volatile, and companies that have had nothing to do with these disastrous investments have seen their share prices suffer. Reasons for this include:

- Margin calls that force investors and companies to sell quality investments to raise cash.
- The emotion of fear which causes investors to convert equity holdings to cash.

You may find the following price comparisons interesting.

| Company | 52 wk high | 52 wk low | Closing price December 28th | 1 Year % Change |
|----------------------|-------------------|------------------|--|----------------------------|
| Royal Bank | \$61.08 | \$48.55 | \$50.80 | -7.10% |
| CIBC | \$107.45 | \$70.00 | \$71.17 | -27.97% |
| Citigroup | \$56.28 | \$29.03 | \$29.29 | -46.86% |
| Merrill Lynch | \$98.68 | \$50.50 | \$52.97 | -43.89% |
| CP Rail | \$90.15 | \$51.21 | \$66.13 | 22.92% |
| Ford | \$9.70 | \$6.68 | \$6.70 | -11.45% |
| Bank of Montreal | \$67.61 | \$55.00 | \$57.78 | -18.92% |
| Pfizer | \$27.76 | \$22.24 | \$22.90 | -13.35% |
| TransCanada Pipeline | \$54.99 | \$49.00 | \$50.21 | -3.34% |
| Loblaws | \$55.00 | \$30.73 | \$34.07 | -31.65% |

**Yahoo Finance and Reuters

Interest rates have been lowered in the United States and to a lesser extent in Canada, as Central Banks attempt to stop our economies from going into recession.

It is my belief that the U.S has allowed their dollar to fall relative to most other major currencies for 2 reasons:

- 1) To make domestically manufactured goods and services less expensive for foreign companies to buy, thereby, increasing GDP.
- 2) To effectively devalue the debt held by other countries (especially China).

Warren Buffet has been quoted recently advising investors to avoid the U.S currency for the next five years because you cannot continue to spend \$2 Billion more per day than you bring in.

One of the major strengths of the Canadian economy is our natural resources, and companies in these industries (Mining/Metals and Oil & Gas) have also been unable to avoid their share prices being hurt to the downside.

What does a Gold, Silver, Copper or Platinum mining company, or an Oil & Gas Producer have to do with Sub-Prime and ABCP problems? Answer is: Nothing! However, if companies or individuals have liquidity problems, they will do whatever necessary to raise cash, no matter what price they have to sell their equities. We need to be cognizant of when crises happen in the financial markets and the opportunities that are then presented to us.

China currently consumes 40% of global consumption of commodities and growing at 4% per year, while India consumes 9% and is growing at 10% per year.

Global statistics on oil consumption show that in the United States each person consumes on average 25.1 barrels of oil per year, while in China it is 1.8 barrels per year.

I believe we are still in a long-term bull market for Commodities and Oil & Gas, which presents a bright future for Canada and those companies and investors who are involved in these lines of business.

The recent pull back in the share prices of many of these companies has been a problem for those who need cash and are not liquid, and at the same time, I suggest presents an opportunity for long-term investors to take advantage of temporary bargains.

Flow through shares that are maturing in early 2008 are not likely to show the same kind of gains we had for those that matured in early 2007, however, the new 2008 issues to be offered present the other side of the coin, in terms of opportunity to buy at discounted prices.

I expect we will be busier than ever in the months of January through March with our purchase of flow through shares because of the price discount.

For long-term investment of money we continue to be conservative as we diversify between income producing investments products such as preferred shares and income trusts. Also, we seek to avoid currency risk with our investments and would rather sit on the sidelines and not own U.S. banks and brokerages until the current crises play themselves out. No point catching a "*falling knife*" as it looks like it could get much worse in these businesses.

Peter Fortune who is handling the * insurance related needs of our clients had about 12 inquiries following our last newsletter, so I have invited him to write another information supplement which is included. Peter is very approachable and knowledgeable, and you can either phone him or email him at pfortune@blackmont.com if you have any questions or specific needs you would like addressed.

In closing, thank you for the opportunity to work with you, and I wish you the most fabulous year of your life in 2008.

Sincerely yours,

Fred Banwell, B.A., CFP, TEP
Senior Vice President & Investment Advisor

The opinions contained in this newsletter are those of the author and are not necessarily those of Blackmont Capital Inc. Every effort has been made to ensure that the contents of this document have been compiled or derived from sources believed to be reliable and contains information and opinions which are accurate and complete. However, neither the author nor BCI makes any representation or warranty, expressed or implied, in respect thereof, or takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. The comments contained herein are general in nature and professional advice regarding an individual's particular tax position should be obtained in respect of any person's specific circumstances. BCI is an independently owned subsidiary of CI Financial Income Fund. CI Financial is a Canadian owned diversified wealth management firm, publicly traded on the TSX under symbol CIX.UN. Blackmont Capital Inc. is a member of CIPF and IDA.

* Insurance products and services are offered by Blackmont Insurance Services Ltd.

