

## ***An Update from David Chalmers with Respect to Current Economic Conditions.***

Dear Client(s):

I am writing this letter on Monday, October 6. Stock markets have not yet closed for the day, but it appears that today will be yet another day of heavy stock market losses.

While I have just sent an issue of my "Clientel" newsletter to you, I felt that it would be appropriate to follow-up with this letter to make some additional comments in light of the economic events that are unfolding.

This letter is being sent by e-mail to all clients for whom I have an e-mail address. In addition it is being sent by regular mail to all clients, to ensure that it is received. (If we have your e-mail address, you will most probably receive this letter, both in its e-mail and regular mail format)

### ***An Overview of the Current Situation***

It is hard to turn on the television or radio or pick up a newspaper without seeing plenty of news about the current financial crisis. I went into a considerable amount of detail in my newsletter of last month... outlining some of the strategies that we had taken (in anticipation that we would have an economic crisis). All of my prior newsletters and special communications to clients, such as my "Andex Letters", can be found on our firm's website at [www.rogersgroup.com](http://www.rogersgroup.com). I am also happy to send you hard copies of prior publications, or help you navigate through our website, to find these items if you would like to refer back to them.

My primary advice (as stated in last month's newsletter) is that most clients should not make any fundamental changes to their portfolio. The portfolios were designed with the expectation of a significant market correction, and we have employed a number of defensive strategies within those portfolios.

However, you may not be comforted by generic advice given out to my entire client base. I am sure that many of my clients would like to know the effect that the current world economic events are having on them, and their specific portfolios, and may like to have a discussion about any action that should be taken. In light of this, I would like to address the subjects of:

*"Advice Coupled with Feelings"*

*"Meetings and Communications"*

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### ***"Advice Coupled with Feelings"***

I have designed portfolios for clients whereby (taking into account their entire financial position and their objectives), their portfolios have been divided into five main asset classes (**cash and equivalents**, **fixed income**, **gold and precious metals**, **equities** (stocks and mutual funds), and **real estate**) in the proportions that I (based on my discussions with you) have recommended to be most appropriate.

A number of defence mechanisms have been built into portfolios... such as making sure we have cash set aside for any large expenditures... or making sure we can draw income from the cash and fixed income components of a portfolio, for an extended period of time (so we don't have to sell equities when the prices are down).

I recommended (starting a few years ago) holding some money in gold and precious metals in case we have a "*crisis of confidence*". We are now having such a crisis.

Using an analogy, I have suggested that my clients install storm shutters on their house in case we have a hurricane... the hurricane has now arrived.

Thus, as noted earlier, the general advice that I am giving is that clients should not react by making large changes in their portfolios. The portfolios were designed with the storm in mind.

However, while it may be "intellectually correct" to hold fast during the current storm, you may simply feel too uncomfortable in order to do so. I don't want to, in any way, ignore or trivialize these feelings.

*I too am very nervous about the current financial position.*

Nobody knows if this will be a short and violent storm that will have its ending soon, or whether we are heading into another great depression.

I also note that nobody can be entirely sure where the safe haven lies during the current economic storm. If you look at your portfolio (noting that one should always "adjust for cash flows" when determining results), you will probably think of the cash and fixed income components of your portfolio as being the safe portion, as you will have been nicely earning interest for the past several months.

You will probably think of the equity portion as being the unsafe portion, as equity values have dropped (across the board). You may have some difficulty in determining whether the gold and precious metals portion is safe or unsafe, as there have been extreme fluctuations in the price of precious metals over the past few months... where on one occasion the price of gold went up by about 10% in a single day.

If you were to realign your portfolio, you would most probably want to move money from equities into cash or fixed income. This may well be the strategy that we follow, if you do express discomfort with the way your portfolio is allocated, given current economic conditions.

One of the very frightening developments that we have seen in the United States is that traditional cash and fixed income investments may not be that safe. Some U.S. money market funds have lost money (economists refer to this phenomenon as "breaking the buck").

To reassure its citizens, the U.S. government has increased the FDIC coverage (FDIC stands for Federal Deposit Insurance Corporation... the equivalent of Canada's, CDIC or Canada Deposit Insurance Corporation) from \$100,000 to \$250,000. This, of course, is in light of the insolvencies of some very large financial institutions. (One assumes that the U.S. government could ultimately make good on this guarantee...let us hope so).

Other countries such as Germany have now instituted an unlimited government guarantee on bank deposits.

Canada has financial institutions that are generally quite healthy, and we have avoided some of the perilous mistakes that have been made in other countries. We are, however, not immune to the insolvencies of financial institutions, and it is possible that the asset classes that we traditionally see as being the safest may not be necessarily so.

I hope that the Canadian government will take steps similar to those of other countries, and increase the deposit insurance on investment products such as guaranteed investment certificates, so we can at least have the comfort of a government guarantee.

Thus, I would like to examine each and every client's portfolio, and receive feedback with respect to *your feelings* about the current crisis. If it does become appropriate to reallocate your investments, we will do so... and we will implement the safest strategy based on the information that we have.

(Alternatively, some of my clients will see the current "crisis" as an "opportunity" and may want to increase their equity position)

***"Meetings and Communications"***

In order to receive feedback from you, I need (where appropriate) to have meetings or conversations with clients as quickly as possible. It would be most helpful if you could communicate back to me one of the following messages:

I/We are comfortable with our current portfolio and do not need a face-to-face or telephone meeting at the present time

Or

I/We would like to arrange a face-to-face meeting with you as soon as possible.

Or

I/We would like to arrange a telephone meeting with you as soon as possible.

You can call me or any of my three support team members (Mihaela Vulpe, Jamie Bodnarchuk, Karen Falkenberg) at (604)732-6551 to provide this feedback.

Mihaela, Jamie and Karen will coordinate arrangements, so that I can speak or meet with anyone who wishes to do so.

Please also let me, or my staff, know if you would find it helpful to participate in a general discussion about economic issues. For example, I could arrange a series of meetings in our boardroom... with 10 or 12 people at each meeting, where we have a general discussion, followed by questions and answers. We will coordinate an appropriate number of meetings, if there is interest.

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You receive periodic statements showing the value of your investments. (An explanation of the various statements that clients receive is contained in a "Clientel" newsletter entitled "[Statement about Statements](#)", which can be found on our website).

During this period of uncertainty, you may wish to see your Consolidated Investment Report more often than you would ordinarily receive it. (Most clients receive this report semi-annually). Please don't hesitate to call any member of my team, at any time, and request

one of these reports. (There is some manual work involved in preparing these reports for you, but we shall endeavour to get it to you as quickly as possible.)

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### **Overall Objectives**

My objective is now, and always has been, that your portfolio is allocated in the best manner possible, to complement your financial position and your objectives. I want to ensure that everybody feels comfortable with the strategy that we have followed, and we will take appropriate remedial action if you do not feel comfortable.

I want to ensure that everybody has the opportunity to meet or speak with me whenever they would like to do so, or to participate in a group discussion, if that would be helpful to you in gathering some information and insights into our current economic challenges.

I want to ensure that everybody receives, in a timely manner, whatever information they need about the status or progress of their accounts.

Thank you for your attention to this letter/e-mail.

Thank you for our ongoing relationship.

We are going through some very challenging times, and while everybody is nervous about "what may happen next" I believe that there is "light at the end of the tunnel". In fact, now that the market correction we have all worried about is here, I would like to see it get as ugly as it's going to get as quickly as possible, so that we can emerge from the other side.

Again, through all this, I want to make sure that all of my clients are positioned properly, and feel comfortable in that positioning, and that we discharge our obligation to give you the best service and information possible.

Thank you,

David Chalmers

*David Chalmers* is a Financial Advisor with Rogers Group Financial. The views expressed are those of the author and not necessarily those of Rogers Group Financial, which makes no representations as to their completeness or accuracy.

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