

BWMG QUARTERLY CAPITAL MARKET COMMENTARY

MARCH 31, 2008



The extreme market volatility that began midway through 2007 increased in the early stages of 2008. Three weeks into the year the market had declined drastically as the ill effects of the sub-prime mortgage crisis sent equity markets from a position of uncertainty into a state of panic. The dramatic market volatility was further boosted by the ongoing negative media coverage which caused many speculative investors to liquidate and unnerved many long term investors. The US equity market has experienced moves (both positive and negative) of over 1% on half of the trading days in 2008 which represents the most volatile behaviour in 60 years. The reasons for the market decline have been well publicized – primarily the fear of a US recession and continued fallout from the US credit crisis. This pushed the MSCI World (Global) index down significantly over the initial three week period marking the first major sell-off of the quarter. The market did bounce back at times during the quarter – these rebounds were due in part to the fact that equity markets received some support from the interest rate relief provided by the US Federal Reserve undertaken in an effort to stimulate growth and provide some assistance to borrowers. However, the pullback continued over another three week period to mid-March with a second significant decline. The net result was that the MSCI World Index fell almost 12% (in local currency terms) over the course of the quarter. This was alleviated somewhat by the significant decline in the value of the Canadian dollar against most major currencies which reduced the decline in Canadian dollar terms to less than 6%. More specifically, the Canadian Dollar experienced a major weakening against both the Euro and the yen (down over 12% and 16% respectively) and also declined 3.5% against the US dollar.

The Federal Reserve and Bank of Canada aggressively cut interest rates during the quarter (the Fed by 2% and BOC by 0.75%). That represents the largest reduction in the federal fund rate in any quarter since 1984. The result is that the yields on US treasuries/bonds are well below US inflation (3 month US Treasury yield is 1.4% and 2 year US Government bond yield is 1.75% versus inflation of 4%). In the opinion of some, this current crisis is more financial than economic in nature and the typical characteristics of previous bear markets are not present (ie. both inflation and interest rates are relatively low). Therefore, some expect that the excess cash that the Federal Reserve is pumping into the economy will be returned to the equity markets as investors deploy their cash which is currently waiting on the sidelines.

Stock markets declined across the board to varying degrees — regardless of market cap, investment style, or geography. While the Canadian market was not immune to the declines experienced across the globe, the impact was much more muted in part because the Financial sector was not hit as hard but also due to the strong continued rally in commodities which pushed both the Energy and Materials sectors to positive returns in Canada. These were the only sectors in the Canadian market to gain ground during the quarter, led of course by oil and gold, which both surpassed key price points during the quarter. The US Equity market experienced negative results across all sectors with several sectors declining 10% or more – led by Technology, Financials and Telecom. The S&P500 decline of 9.4% (in US\$) represents the worst quarterly performance for the index since the third quarter of 2002 (during the last period of aggressive rate cuts by the Fed). Emerging Markets were down significantly as both China and India plunged over 20% in local currency terms in the first quarter.

On a positive note, Canadian bond market values increased to record levels during the quarter as recessionary fears kept downward pressure on interest rates driving the return over the past year on bonds to almost 6%.

<u>Index (CDN \$ Returns)</u>	<u>Quarter</u>	<u>1 Year</u>	<u>5 Years</u>
Canadian Equity	-2.8%	4.0%	18.5%
U.S. Equity	-6.2%	-15.6%	3.5%
International Equity	-5.6%	-13.1%	13.1%
Global Equity (U.S. & International)	-5.7%	-13.5%	8.4%
Bonds	3.0%	5.8%	6.3%
Cash	1.2%	4.6%	3.4%