



Fall Edition
2008

PROVEN INSIGHT

Helping Build & Maintain Wealth



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Prudence Not Panic

Market Musings:

The past few months will certainly go down in the books as some of the most volatile in the history of the markets. In a short period of time we have been hit with a slew of bad news and witnessed some of the most extraordinary market movements in history (87 crash included). In response governments from around the world have embarked on a number of initiatives in concert with one another (and independent) in an effort to unfreeze the banking system (and in turn economy) which stands as the stubborn root of the problem.

All of this has created an unprecedented level of fear in the markets and, even worse, a fear amongst banks and lenders to loan money to one another. Credit is the lubricant that keeps the economic cycle moving; without it the economy will come to a standstill. If companies are unable to secure loans from lenders (or if the cost of capital is high) they can't grow, or must grow at a slower pace - which in turn impacts job creation. Needless to say, when people lose their jobs or are unable to access credit they stop spending - which in turn stalls the economy.

The recent efforts by the US Fed to take a large portion of the toxic mortgages off banks balance sheets, and stepping in to buy up massive amounts of commercial paper (this is what companies use to fund short-term expenses) , and injecting cash directly into banks will help towards getting the credit wheels moving again. We also need to see further rates cuts and some assistance directed at distressed US homeowners. Much like dirt in one's eye the financial excesses in the markets need to be (and are being) washed out before we can see clearly again. This will not be an overnight fix and we are in for many more months of volatility.

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Plan of Action for Today's Markets

Stock markets move in the short-term as much as a result of psychology as they do on fundamentals. It's been said that investors go through the same 5 stages of grief that someone dealing with a death does. (Denial ("there are no problems"), Anger ("This can't be"), Bargaining ("the Fed's will fix this"), Depression ("I give up"), and Acceptance (I'm ready for whatever comes next").

We have moved past the first 3 stages and by all accounts investors are in the 4th stage "Depression". This is evident when you have news or actions taken that would otherwise have a very positive effect, but do nothing to help the market, or the market declines. We can and will move onto the 5th stage which is "Acceptance". Investors need to move to this stage in order to make a recovery and focus on the long-term.

Stay focused on your long term goals.

When the markets are volatile it's easy to lose sight of your long-term objectives and make investments decisions based on short-term outlooks and/or emotions. Emotions have no place in investments – there is a reason you have never heard of a mutual fund called "Emotional Growth Fund" or an investment seminar entitled "Invest with Emotions". Despite this, it's fair to say that when you have a 1000-point swing in one day it's not rational thought but emotions that are driving the market. Like most things in life it pays to be prudent and not to allow panic to prevail. A look at history offers backup for this strategy:

Suppose you invested \$10k in the S&P500 Index at the top of the market on Jan 1, 1973. By October 3, 1974, the market bottom, your investment would have dropped in value to \$5562 – a decrease of approximately 44%. What would you do?

Prudence

If you had remained invested you would have regained your loss in less than 2 years and by Dec 31/2007 your investment would have been worth \$379,462.

Panic

If you had panicked and sold your investments, putting the money into GIC's it would take you 6 years to regain your investment and by Dec 31/2007 your investment would only have been worth \$76,450

Opportunist

If you had remained invested and invested another \$1500 into the market it would only take you just over a year to regain your loss and by Dec 31/2007 your investments would have been worth \$481,790.

Stay invested.

It's time; not timing that delivers the best returns. Many investors try to time the perfect entry and exit points from the market. While some may get lucky now and then, over the long run very few (if any) can do so consistently. Furthermore, missing the "best days" in the market can have a big impact to your long term performance.

Let's assume you have \$10,000 invested in the S&PTSX index on Dec 31/1997; over 10 years your investment would have grown to \$24,720, an annual return of 9.47%.

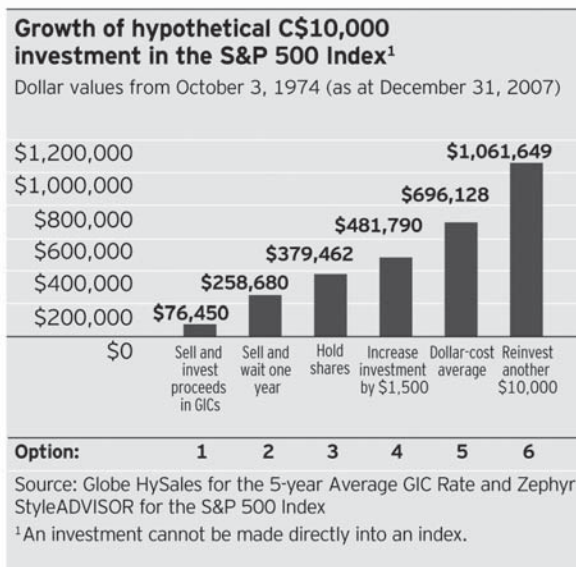
Now let's say you decided to get out of the market at some point(s) during that period and missed the 10 best single day performances over that 10 day period (keep in mind this is just 10 days out of 2518 business days), your annual return would drop to 5.24%.

To take this one step further lets assume you missed the 20 best days, you would see your annual return drop to 1.89%.

Be an opportunist.

All bear markets and recessions have one thing in common, and that's an eventual recovery and period of expansion that rivals the downturn. (The only thing that trumps investor fear is investor greed). In situations like we are in now the media never reports "Stocks are on Sale" as it's not what sells papers. This is not to say that we are at bottom or that one should simply pull the trigger on any and all stocks, but for investors who remain focused on the long term, there will be many opportunities to acquire good assets. For example, **I like companies that are market leaders with strong business models, and a long-term track record of dividend increases with low payouts ratios. Dividends are like gold in down markets. A screen of our battered markets reveals may high-quality names that have been thrown out with the bad ones in a rush to the sidelines. You may not (and probably will not) buy at the very bottom but in the long-term your investment will look quite smart.**

Please see the last page for a few companies which fit this criteria



Following the 1973-74 downturn, the investments of dedicated investors increased more than those who pulled their funds from the market.



It took investors who remained committed to their long-term goals less time to recover their investment than those who fled the stock market.



Sector in Focus: Alternative Energy

Companies in the “green space” are down far more than the rest of the market this year, despite a growing list of key drivers for the sector. The panicked markets have punished this sector as most companies are not cash flow positive and require capital which is very hard to come by. In addition, renewable energy companies trend to a degree with energy prices, that is, very high oil prices put a spotlight on the need for renewable energy and the reverse will lower prices. This is very short term thinking, as the need for renewable energy is evident both from a cost perspective and from an environmental angle. Against a backdrop of falling prices in this sector a number of initiatives are making their way through government which mandates the need for alternative energy over the next decade. The \$700 billion dollar bailout contained a section that extends the tax credits for renewable energy.

Despite all of the positives, this sector will not move up until the market regains some modicum of composure and investors are willing to dip their feet back in the risk pool. In the meantime investors with risk tolerance and a long term focus can scoop up many good names. My three picks in the renewable energy space are Western Wind Energy (T-WND), Day4 Energy (T-DFE) and First Solar (US-FSLR), all of which have seen their share prices leveled in the past month despite many positive fundamentals.

“3 Reasons You Should Own Crescent Point Energy Trust” (CPG.UN)

1. In rough markets all one can do is wait – but I prefer my clients make money while they do it. Crescent Point pays 11.41% in income while still keeping a very low payout ratio. Its free cash flow and growth profile means that it may not have to cut distributions in 2011 when (and if) the income tax kicks in on trusts.
2. With 85% of its production outside of Alberta, it's one of the least exposed to the new Alberta royalty tax structure. Its growth profile also helps to off-set weaker oil prices.
3. Its current price represents a good long-term entry point into a high-quality energy name. A slower economy (or recession) will certainly hurt oil prices but according to most analysts the price estimates for oil prices fall in the \$70-\$120 range which makes CPG.UN very profitable. The trust has a 10+ year drilling inventory of very high recycle ratio prospects on its properties. **CPG.UN is currently trading at \$22.99 (10-15-08) with average analyst 12 month targets (as per Bloomberg) of \$45.75 giving it a potential return (including income) of over 100%.**



Five Values in the Marketplace

Below are 5 senior stocks with a return some incredible long-term return potential. Even after you factor in a potential 50% target reduction you are still left with a very compelling case for investment with some risk tolerance.

Prices are as of 10-28-08 and targets are the consensus average of all analysts who cover the particular stock.

Crescent Point Energy Trust

Price \$23.99, 12-Month Target \$40.67, Yield 11.62%.

Combined 12-month return potential 81%

Suncor Energy (SU)

Price \$25.40, 12-month target \$50.43, Yield 0.79%

Combined 12-month potential return 99%

Rogers Communication (RCI/B)

Price \$32, 12-month target price \$46.48, Yield 3.13%

Combined 12-month return potential 48%

Goldcorp (G)

Price \$20.59, 12-month target price \$44.59, Yield 0.67%

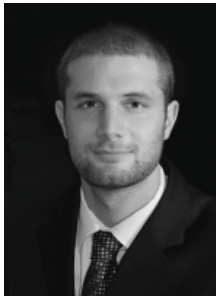
Combined 12-month return potential 116%

Brookfield Asset Management (BAM.A)

Price \$21.30, 12-month target price \$38.07, Yield 2.57%

Combined 12-month return potential 81%

There are many other long term values to be found in the market.



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To learn more about how I might be able to help **grow and protect** your wealth please feel free to contact me at your convenience.

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