A&Q Update

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AGF International Value Management Change

On March 26, 2002 Brandes Investment Partners of San Diego, California announced its intention to withdraw as sub-advisor to several AGF Management Ltd. mutual funds. These funds include: AGF International Value, AGF RSP International Value, AGF International Stock Class and AGF Emerging Markets Value Fund. Brandes plans to establish a Canadian-based mutual fund business available to investors through independent financial advisors.

In order to fulfill its obligation to AGF, Brandes will continue to manage the funds for at least 90 days from the date of the announcement. AGF has the option of requesting that they continue to sub-advise until the end of the calendar year. At this point it is not known whether they will take this option.

AGF is currently undergoing a global search for the best possible replacement management. They feel that the substantial assets held within these funds will allow them to attract top-notch money managers. AGF is further assuring investors stating that the investment strategy and mandate of the funds will not change.

At this point we are taking a 'wait and see' approach. Brandes will continue to manage the fund in the short term. We remain in close contact with AGF and will re-evaluate our position when the new fund management is announced. The AGF International Value Fund has been an excellent performer for so many of our clients. We want to ensure that it continues to meet their investment needs.

If you have any questions, please do not hesitate to give John or Rich a call.

Spousal Option for the Retirement Gratuity

Employees that receive a retirement allowance when they leave work (such as the gratuity due to many retiring teachers) have the option of rolling at least a portion of this amount directly into their RRSP (no RRSP contribution room is needed). When deciding how to handle a retirement allowance, remember that this may offer an income splitting opportunity.

If the retiree has RRSP contribution room available, they might consider taking a portion of the gratuity in cash and investing it in a *spousal* RRSP. The money will be considered income for the year, but the contribution deduction will offset this, resulting in no tax consequence.

Because RRSP contribution room is used up, the benefit of the direct roll to the RRSP is lost for this portion, but if it remedies an out of balance family income situation, the income tax benefit may make it worthwhile. Each retirees situation should be looked at individually to determine the appropriate gratuity strategy.

Inside this issue:

Worthwhile stops on the information highway...

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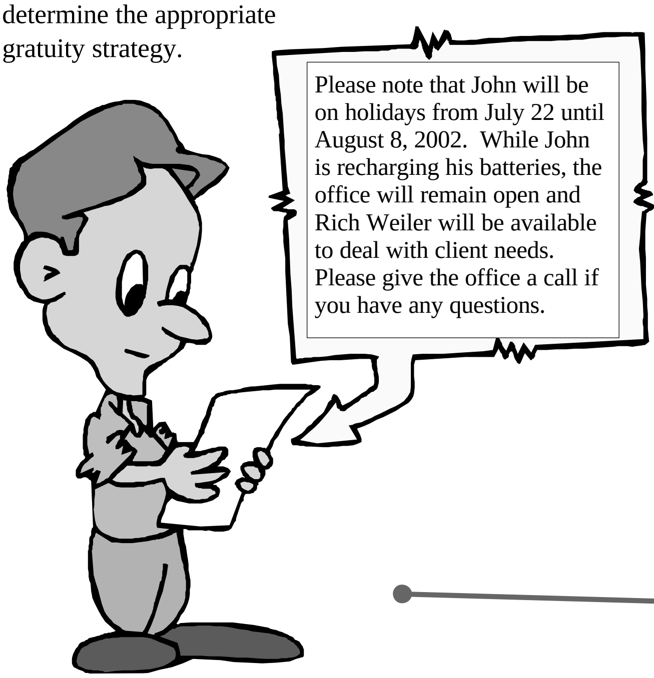
All the information you will need for a summer of fun in Ontario's provincial parks.



Interest Rates : What does the future hold?

In the last year interest rates hit their lowest point in 42 years. Consumers have become accustomed to mortgage rates in the neighbourhood of 4% and current consumer spending patterns reflect the enthusiasm for inexpensive borrowing.

David Dodge, Bank of Canada governor, must now decide how dramatically to start reigning in the economy in order to avoid inflation. First quarter numbers indicate that the Canadian economy is well on the road to recovery, particularly in the consumer sector. New house starts are up, and the real-estate market is red hot in much of the country. Consumer behaviour showed little impact from the economic slowdown. How does the Bank of Canada avoid over stimulating the economy without stifling the recovery?

On Tuesday, April 16th Dodge raised the rate by .25% (the first rate increase by the Bank of Canada since May 17, 2000) to a level of 2.5%. Further rate increases seem likely over the next few months. The Federal Reserve Board in the United States however, is not expected to start raising rates until late June. The difference in timing is due primarily to the fact that the U.S. economy was hit much harder by the economic slowdown, and the recovery south of the border has not been nearly as robust.

Many feel that a target rate of 5% by the end of 2003 is reasonable.

Because interest rates are so far below historical averages, most economists speculate that there will be a series of rate increases over the next two years, taking up some of the slack created by the ten previous rate decreases. Many feel that a target rate of 5% by the end of 2003 is reasonable. Even at this level, it would be considered a relatively low interest rate environment.

The key point for Canadians is that rate hikes are on the horizon, but that the interest rate rise over the next two years is expected to be gradual.

Product Feature: Northwest Mutual Funds

Many clients are familiar with the scatter charts we use as part of our investment fund analysis. The vertical axis on these charts represents the rate of return posted by an investment over a given period of time, while the horizontal axis represents the volatility of the investment. When the chart is divided into quadrants, investments falling into the upper-left or *northwest* quadrant have attractive rates of return and low volatility relative to the rest of the field. Northwest Mutual Funds takes its name from this quadrant and focuses on managing funds which consistently achieve above average returns with below average volatility.

Northwest refers to itself as Canada's premiere niche fund company. The unique feature of all Northwest funds is that investment decisions are made solely on the basis of Economic Value Added analysis, or EVA®. This is a patented set of principles that attempts to determine the capital efficiency of a company - whether it is creating or destroying shareholder value. The process is meant to determine the true intrinsic value of a company. EVA® is an estimate of true economic profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could achieve investing in other securities of comparable risk.

Northwest further defines their approach to investment by using EVA® to target companies that exhibit the following traits:

1. Generation of a superior cash return on invested capital.
2. Dominance within an industry due to a strong competitive advantage .
3. Management that thinks and acts like a shareholder.

The decision to buy comes when the share price of such a business trades at a 40% or greater discount to the value Northwest managers place on that company. This accomplishes two objectives: it provides a cushion against any substantial deterioration in share value (the true meaning of risk), and provides the potential for large share price increases.

Many fund managers use a value approach to investing, but it is the strict adherence to this method of analysis that differentiates Northwest. We feel that Northwest is well worth considering for the value portion of your portfolio. The family of funds includes both Canadian and foreign funds and because reduced volatility is one of the key objectives, the majority of the funds can be considered core holdings for both registered and non-registered savings. The value approach also tends to provide some important tax efficiencies for non-registered money.

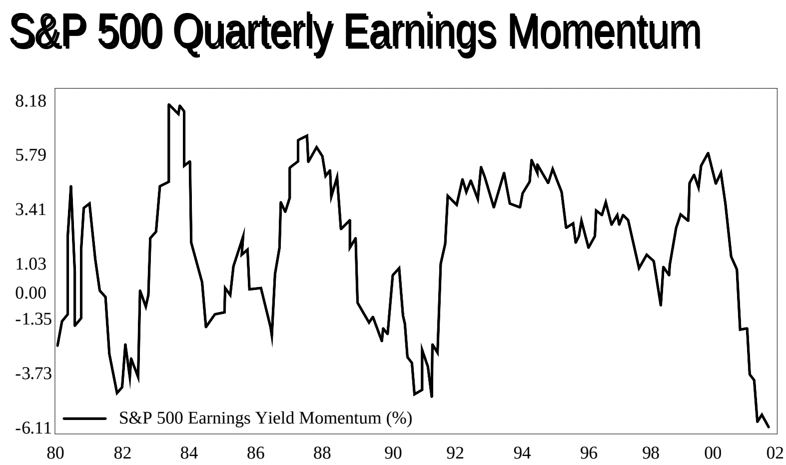
Market Watch : A Focus on Corporate Earnings

This graph illustrates the massive drop in earnings in the S&P 500 (an American stock market index). Historically, periods following a massive drop in earnings have been the best times to invest because sharp earnings decline has always been followed by sharp earnings growth.

Simply put, the price earnings ratio (P/E ratio) is the valuation of a company divided by that company's yearly earnings. For example, if the total value of the company's issued shares is $20 million and the earnings for the year are $1 million, then the P/E ratio is 20. The higher company P/E ratios, the higher the valuation of the market. The lower the P/E ratios, the lower the valuation of the market.

Since 1926, the average P/E ratio across the entire North American market is 14, while the current P/E ratio for the market as a whole is over 20. Some experts tell us that the market is over valued because P/E ratios are over the average of 14, while others argue that we have reasonable price earnings ratios when considering the interest rates currently offered on debt investments. In a low interest rate environment, equity investments look attractive and companies that have good yields may be viewed favourably even though their P/E ratios may be somewhat high.

The bottom line however, is that the earnings of companies (the 'E' part of the P/E ratio) have plummeted . This is due primarily to the global recession, and more particularly the U.S. recession that started in early 2001. As a recession takes hold, company earnings drop, resulting in reduced company valuations and sagging markets.



Graph courtesy of CI Mutual Funds

Growth of the 'E' part of the price earnings ratio is what will bring the markets back. An increase in earnings is an indicator that the economy is growing. This is why so much attention is given to the company earnings.

Earnings information is communicated in two ways: 1) through company announcements regarding earnings *expectations*; and 2) through announcements of the *actual* earnings figures. During the recession, many companies have revised expectations. They have lowered their earnings estimates and taken the opportunity to get all the skeletons (bad news that may have previously been hidden) out of the closet. What we want to see is companies revising their earnings upward.

The bad news is that companies are often afraid to revise their earnings expectations upward because of uncertainties in the worldwide marketplace. Management worries about the threat of things like: rising energy prices, interest rate hikes, increasing material costs, decreasing worldwide demand for the product, and increasing labour cost. All of these issues can affect a company's earnings negatively. Companies are therefore very conservative when they announce earnings expectations. This conservative approach is what we are currently seeing as companies revise their expectations.

The second part of the earnings story is revealed in the earnings results. Companies publicly announce their actual earnings figures and, if the numbers are in line with previously announced expectations, then the market reacts in a neutral way (if indeed that is what the market was expecting). However, we will start to see positive earnings surprises. Company expectations have been conservative, and if those uncertain factors mentioned earlier stay in a positive state, we will have *actual* earnings numbers – not just *expectations* – going up. These will be viewed as positive earnings surprises and markets will react very favourably. It is at this transition point that we currently sit.

Growth style mutual fund managers are looking for companies that have the potential for positive earnings surprises. Value style managers are looking for companies that have both a very low P/E ratio and the opportunity to increase earnings.

I feel we are poised for economic recovery, good news for anyone who has money in the markets now or is thinking of investing soon. As things progress, we will see positive earnings surprises. This will tend to drive the markets upward, increasing the share prices of our equity investments.

Armstrong & Quaile

ASSOCIATES INC.

"Providing Sound Financial Direction"

John Armstrong is a Certified Financial Planner. Financial planning and financial planning education are his key areas of interest and expertise.

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

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The Financial Plan vs. The Investment Plan

In my planning practice I try to emphasize the difference between the financial plan and the investment plan. The financial plan sets expectations, identifies goals and objectives and attempts to maximize after-tax income. The investment plan concentrates on timeframes, risk tolerances and the taxation of investments in an effort to distill a meaningful investment mix. That mix will include: cash, bonds, Canadian companies, U.S. companies and International companies. The objective of the investment plan is to achieve an above-inflation return after-tax and to stay within the risk tolerance as identified by the client. The key strength of my practice is that I focus on both plans.

If we have not talked recently, you will be getting a call from me over the next few weeks. I hope to encourage clients to again focus some time on the plans, both investment and financial. If there are substantial changes in your situation it is imperative that we revisit your plans. It is important that I keep my files up to date in order that I may continue to provide clients with good advice. I look forward to speaking with you soon.

Fall 2002 Client Appreciation Event

We are in the process of finalizing arrangements for our Fall 2002 client appreciation event. This year's event features a performance of 'My Fair Lady' at the Stratford Festival. We have secured a block of A+ seating for Saturday, November 9, 2002. This production is in high demand, and we felt it worthwhile to delay our event in order to secure good seating.

The package will include transportation to and from the theatre by luxury coach, and a meal before the performance. Clients will be receiving invitations by mail as soon as details are confirmed. Seating is limited, so don't delay in responding once you have received the invitation.

Please contact Sharon Ogilvie in our office should you have any questions concerning our client events.