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Market Commentary

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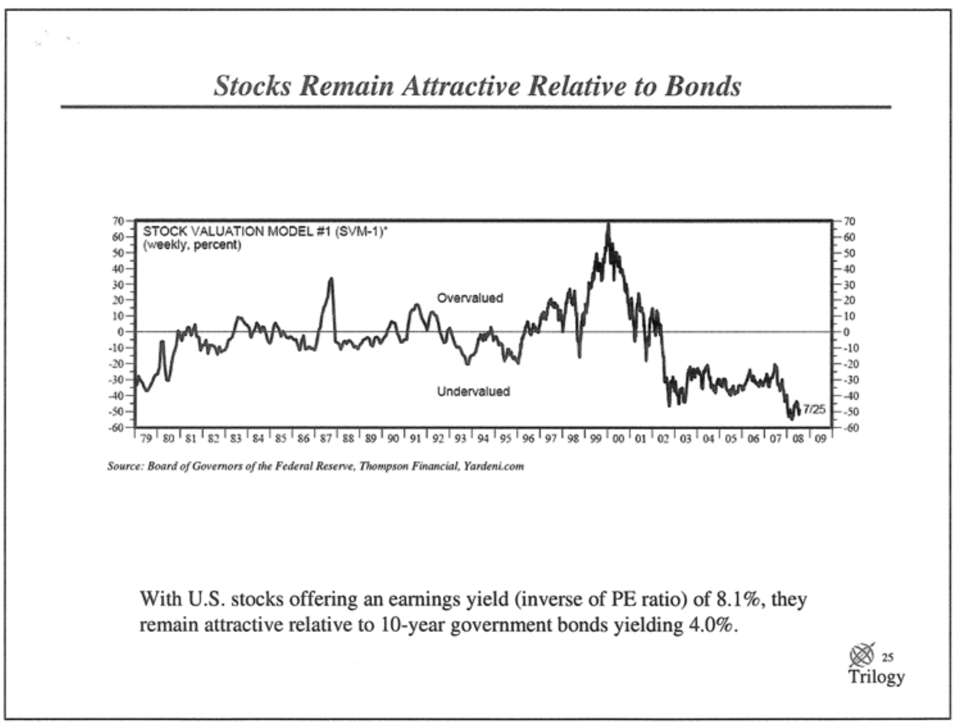
The unprecedented turmoil in the financial sector of global equity markets leads many investors to question future equity return expectations and those sectors that will provide above average returns. Notwithstanding last weekend's events which reshaped the landscape of Wall Street, the investment outlook is a positive one for investors but perhaps not traders.

If one is a longer term investor who buys good businesses at reasonable prices, the events of the past weekend should not deter you. Equity yields dwarf bond yields by a factor of at least two to one even allowing for a decline in corporate earnings next year.



Source: Trilogy Global Advisors, LLC

On the other hand if one's time horizon is shorter term like that of a trader, that world just got worse. Volatility is larger, leverage is less available, and the risk per unit of return advertised just went through the roof. The outlook for many hedge funds has deteriorated as liquidation notices from investors soar precisely at the same time they are forced to deleverage their portfolio because of unprecedented volatility in the capital markets.

Epoch has been negative on the financial sector since 2006 emphasizing the negative effects to come from a housing bubble, opaque financing investments, massive leverage through the derivative markets, and the emergence of the unregulated “shadow” banking system. This view was brought home to the world this past weekend.

Our clients’ relative performance has benefitted significantly from our view. This has happened because our investment metrics require evidence of free cash flow, little or no financial leverage, a transparency of the business model, management with a demonstrated history of effective capital allocation, and a reasonable valuation level in terms of the equity price.

Although the world may very well be entering a global recession over the next year as the deleveraging effects from the financial sector impact the real economy through higher unemployment and lower growth in personal income, there are many sectors and companies that will continue to prosper. America is on sale from the point of view of Canadian, British or European investors. The dollar’s decline of the past few years has made many American companies highly attractive to foreign investors. Investing in companies with world leading technology, significant market share, or global brands at today’s prices will prove to be a good strategy. Overall, we expect U.S. equities to outperform the equity markets of other developed countries.

Globalization is not going to stop. With over one third of all the goods and services produced in the world traded, opportunities surface. The pace may slow but globalization with its favorable effects on productivity, profitability, and inflation will continue.

As a firm, we are well positioned to protect client’s capital in a difficult market, just as we have demonstrated over the recent period, and we are positioned to capture an investment world that is destined to become less trading centric, employ less leverage, and return to identifying a good business at a reasonable price. Today’s turmoil will ultimately result in a superior return for investors.