



## United Financial Portfolio Manager Conference Call Summary January 15, 2009

*After a very tough 2008 that saw global stock prices fall dramatically and the world economy slip into recession, investors in the new year were looking for signs of a turnaround in the markets. This document offers insights into this period of uncertainty from two of our leading investment managers, as well as United Financial Chairman and CEO Joseph Canavan. The investment managers also explain how they are positioning their global and Canadian equity portfolios in 2009 to benefit from market opportunities on your behalf. United Financial is committed to keeping you informed of market developments and of the strategy and discipline we employ in constructing and managing your portfolio.*

Who	Manages
<b>William Sterling</b> Founder and Chief Investment Officer Trilogy Global Advisors, LLC New York	Global Fixed Income Pool, Emerging Markets Equity Pool, and the growth-style portion of the US Equity Diversified Pool
<b>Daniel Bubis</b> President and Chief Investment Officer Tetrem Capital Management Ltd. Winnipeg	Canadian Equity Value Pool, US Equity Alpha Corporate Class, and a portion of the Canadian Equity Diversified Pool, Institutional Managed Canadian Equity Pool and the Institutional Managed US Equity Pool

### **The key overall message of our investment managers:**

**Long-term investors should continue to hold diversified portfolios that include equity and fixed-income assets. The downturn in equity markets has made stocks very compelling, based on historic valuations, and in relation to fixed-income assets. However, in this environment, special care needs to be taken to select securities of companies with strong balance sheets.**

### **2008: A YEAR OF EXTREMES**

**Joe Canavan: The U.S. financial services industry was profoundly altered in 2008 as venerable names disappeared or were acquired in the wake of the fallout from the sub-prime mortgage crisis.**

- Investment bank Bear Stearns collapses and is acquired by JPMorgan Chase, and later Lehman Brothers went bankrupt.
- Oil hits US\$147 a barrel in July, but in December plunges to less than \$40.
- U.S. government bails out insurance giant AIG.
- Washington's \$700 billion Troubled Assets Relief Program (TARP) is proposed, rejected and then finally approved.
- Merrill Lynch, Washington Mutual, Wachovia taken over by stronger rivals.
- Investment banks converted to bank holding companies.
- Central banks coordinate global interest rate cuts to stimulate world economy.
- U.S. Treasury injects \$125 billion into America's top nine banks.

**Danny Bubis: In contrast to American banks, their Canadian counterparts had much better lending standards and capital ratios that are the envy of the world banking system.**

## **OUTLOOK FOR 2009**

### **Bill Sterling: Policymakers are responding to the recession with unprecedented stimulus.**

- An unprecedented degree of stimulus has been added, including sharp declines in interest rates in almost every nation.
- More than US\$3 trillion of TARP-type programs have been announced around the world.
- The incoming administration of U.S. President Barack Obama plans about US\$800 billion of fiscal stimulus over the next two years.

### **Danny Bubis: Canadian dollar has dropped on economic weakness, but that will provide some relief for Canada's exporters.**

- The fall in commodity prices is a negative for Canada's equity markets – but as economic activity eventually increases, energy prices will rise, which will boost Canadian resource equities.

### **Joe Canavan: We are starting to see lending happening bank to bank, bank to businesses and bank to individual consumers, which is very positive.**

- Consumer confidence is at a significant low point. However, markets generally bottom as consumer confidence hits a low, so that's an indicator that we are moving closer to a recovery.
- With lower interest rates and an easing of credit, people have the ability to refinance their debt at low levels, which boosts cash flow.
- The drop in commodity prices means consumers are paying less for natural gas and gasoline, paving the way to recovery by improving consumer confidence.
- The equity market's decline from its peak, as measured by the S&P 500 Index, is now 41%, compared to the average bear market decline since 1946 of 31%.
- We're likely closer to the end than the beginning of this bear market since we have now reached the 15-month average duration of these down cycles, and the percentage decline already exceeds the average.
- In this time of uncertainty, United Financial believes that investors are best served by using a disciplined, balanced approach. Most if not all of our clients have an investment policy statement and from that statement we build a customized portfolio using multiple asset classes to diversify risk and generate return over time while managing volatility.

### **DANNY BUBIS IS FOCUSED ON WELL-CAPITALIZED COMPANIES WITH GOOD BUSINESS MODELS**

- There are so many cheap stocks now available that there's no reason to buy companies with excessive debt. We are selecting companies that are well capitalized, have good business models, are inexpensive and out of favour.
- We've combed through our portfolio and got rid of companies with debt issues.
- In fact, heavy debt is one of the reasons why we sold our position in Nortel in the first half of 2008.
- Canadian bank stocks are good long-term investments, but will likely decline in price over the next two or three months as the market fully prices in the effect on them of increasing loan losses in a weak economy.



## **BILL STERLING SEES VERY ATTRACTIVE VALUATIONS IN CONSUMER DISCRETIONARY AND TECHNOLOGY STOCKS**

- Around the world, just about every industry sector now has very attractive valuations.
- Using history as a guide, after a crisis like this, equity markets often experience a 50% or even a 100% recovery over three to five years.
- We are focusing on securities of companies in sectors that have been hit hard – including consumer discretionary and technology – because they offer tremendous leverage to a global economic recovery when that recovery comes.
- Because we're uncertain about the depth and length of the recession, we're asking our analysts to pay very close attention to the balance sheet strength of the companies we're investing in.

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