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HIGHVIEW FINANCIAL GROUP™

Facilitating Excellence in the Management of Wealth

Capital Markets Update

September 22, 2011

After some tremendously volatile days in July and August, and subsequently beginning to see some signs of stock markets regaining their footing in early September, we are once again witnessing some significant declines on global stock markets. Many investors may be asking; "What is going on?" "Is, my portfolio alright?" and "When will these gyrations stop?" All good questions that we attempt to address below.

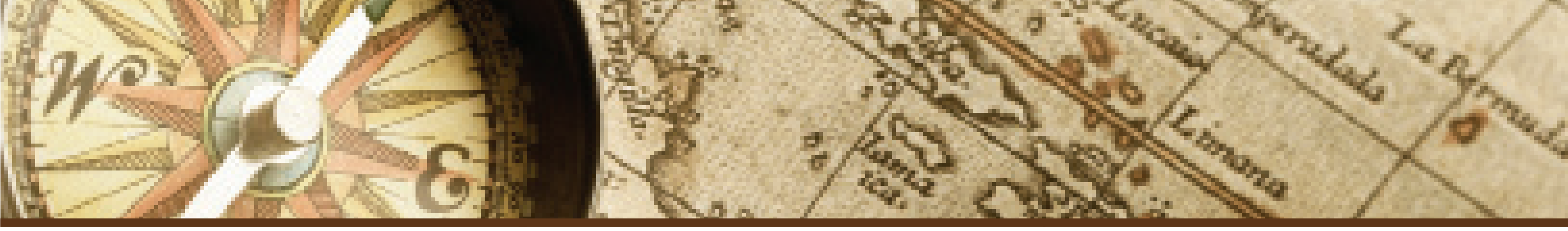
What is Going On?

For well over one year now concerns about the financial stability of Greece have dominated headlines. While there have been many attempts by the European authorities (in conjunction with the International Monetary Fund (IMF)) to put a plan in place to address Greece's financial troubles, investors have remained sceptical that such rescue packages would be effective. The growing consensus has been that the solutions proposed by the European Monetary Union and the IMF are band-aid solutions at best, and don't address the real underlying financial imbalances of Greece. The general view seems to be that it is just a matter of time before Greece goes into default on its outstanding debt.

In and of itself, a default by Greece is not all that significant (to those of us outside of Greece), given its relatively small size. The more pressing concerns are which countries might be next (e.g. Portugal, Ireland, Spain, Italy), and which banks have the largest exposure to these potentially defaulting nations. It is the concern about the banks that is most troubling. As we learned from 2008, the financial system can grind to a treacherous halt if investors lose faith in banks and banks lose faith in each other.

Canada's Minister of Finance, Jim Flaherty, today stated that "uncertainty is the enemy" in a global crisis, and urged European leaders to take decisive action to resolve the debt issues that are plaguing Europe and threatening a global banking crisis. Mr. Flaherty summed up what investors appear to be feeling, and that is that European leaders need to be seen as getting out in front of this problem as opposed to reacting to it with piecemeal solutions. Further, we would argue there is a need for this to happen on a more global basis. While U.S. bonds and the U.S. dollar have been prime beneficiaries as investor nerves get evermore frayed, it is only a matter of time before the U.S. becomes the target of such global investor concerns given their significant and rising debt levels.

In the U.S. the Federal Reserve announced yesterday that they were going to implement "operation twist" in an effort to reduce longer term interest rates (i.e. borrowing costs) and thereby "support the economic recovery". They hope to accomplish this by selling short term bonds and buying longer-term bonds, thereby twisting long rates lower. On one-hand the announcement had the desired effect as yields on U.S. Treasury bonds fell to their lowest level on record immediately following the announcement. However, the stock market also fell as investors perhaps focused on Chairman Bernanke's comment about "significant downside risks" to the Fed's economic outlook.



The challenge in our view is that investors' are looking for a magic bullet, or a quick fix to the worlds' many complex financial challenges. When they don't sense that a quick fix is coming, they run for cover out of stocks and into bonds. The reality is that it took decades for countries to get into the situation they are currently in, and it cannot and will not be turned around in a short period of time. Also, if too much debt is one of the reasons the world got into this current situation, reducing rates to encourage more debt is not necessarily going to fix the problem. It is going to take a concerted (and globally coordinated effort) over many years to effectively address the challenges.

Is My Portfolio Alright?

If you have any significant exposure to stocks in your portfolio, it will be down in value compared to where it was a few weeks ago. However, as we structure portfolios at HighView, we do so with a specific goal and time-horizon in mind.

For those clients who are focused on having their portfolio generate income, the recent stock market declines will have little impact on the portfolio's ability to continue to meet the desired goal, as a drop in the stock market does not reduce the amount of income produced.

For those clients who have a specific need for capital over the coming three years or less, we would have invested that portion of your portfolio in fixed income instruments only, and they have increased in value.

For those clients with longer term goals, and a tolerance for more month-to-month volatility, we would have invested a significant portion of the portfolio in equities. No question these portfolios are down in value over the past few weeks. However, we always stress the need to take a longer term view. It is not unusual for stock markets to suffer significant declines in value over shorter periods of time. The S&P/TSX Index is down nearly 20% from its April 5th high of 2011, yet it remains over 50% higher than the low it reached in March of 2009. We continue to have confidence that the equity sub-advisors we have hired are doing an outstanding job of purchasing the shares of companies that will do very well over the coming many years. Additionally, the value & dividend orientation of our equity managers should help to provide a relative 'cushion' for downside protection relative to the broad equity markets. As a result, we see no reason to be concerned, provided you can look beyond the current valley that we may be in.

When Will These Gyrations Stop?

The wild swings in the market can certainly be disconcerting. However, we feel it is a reflection of the uncertainty that permeates the markets today and we do not anticipate this to change in the foreseeable future. As news comes out that appears very positive the market will react (to the upside) hoping that perhaps the worst is behind us, but the opposite will likely also happen, as it has over the past few days.

Our equity managers continue to tell us that they are able to buy some great companies at valuations they have not seen in many years. If you buy a great company today at a reasonable price, it is somewhat irrelevant if its share price is up or down tomorrow, next week or next month. We are likely going to want to own this company for many years and benefit from the free cash flow that it will generate and pay to us in the form of dividends.

The best advice to our existing HighView clients during turbulent times like this is "ignore it". Take confidence in the fact that your portfolio has been structured to meet your goals, and downturns like this were expected when the portfolio was put together. And rest assured that the sub-advisors who are managing the various components of your portfolio are working hard every day to find the best investment opportunities for you, and these opportunities become more plentiful the further the market falls.