

## **Quarterly commentary: Fourth quarter 2005**

Once again, your core portfolio generated a gross return representing an increase over the previous quarter. Portfolios kept pace with key domestic and global indices.

### **“Didn’t I (not) tell you so?”**

After 2005, even the most experienced economists may agree that no amount of data can ensure the accuracy of their market forecasts. For example, in a Wall Street Journal survey of 55 economists on January 3, 2005, 47 expected that 10-year U.S. interest rates would be significantly higher by year-end. In fact the 10-year rate barely changed. Then, many of Canada’s most respected forecasters put their money on an S&P/TSX Composite Index gain of between 2 and 5%. Wrong again. The index finished the year with a 22% increase vs. 2004. When you enter the forecasting arena, you do so at your peril.

### **“It was the best of times, it was the worst of times”**

When Dickens wrote the opening sentence of *A Tale of Two Cities*, “It was the best of times, it was the worst of times,” he may have envisioned the lot of today’s economic forecasters. When you are right, you are exulted. But when unexpected consumer confidence and other variables tenaciously fuel growth ... that is another story. Since 1785, when securities were first formally traded on the Amsterdam Bourse, economists and money managers have put systems and theories to the test in forecasting market performance. One truth has emerged: setting realistic financial goals and remaining diversified over the long term is essential to realizing those goals.

### **2005 was a year of positive surprises**

The U.S. economy came through the twin shocks of the hurricanes and an 18-month energy price escalation quite well. Many economists were surprised that despite soaring oil prices, natural devastation and rising costs of the campaign in Iraq, U.S. economic performance was positive. Commodity prices rose and inflation was benign. The U.S. dollar emerged from a 15-year slump and gained on the Euro and Yen. Global diversification and an efficiently managed portfolio will remain the keys to creating long-term value for you, through 2006 and beyond.

### **Closer to home: Canadian Core Holding outpaced the index**

Canadian equities continued to hold investors’ attention by registering a 2.4% increase in the fourth quarter of 2005 and a 21.9% gain during the year. Our well-diversified Canadian core holding modestly outpaced the index with a gain of 22.3% during 2005. This represents a solid performance because a) it is impossible to invest directly in an index and b) associated costs that negatively affect investment returns are always present.

## **Going for the gold**

Speaking of diversification, a notable Canadian investment counseling firm went headlong for the gold with Barrick Gold Corporation, the firm's solitary gold holding. When Barrick announced its Halloween offer to purchase all outstanding shares of Placer Dome Inc., the Placer share price rose while Barrick shares fell. Your Canadian core holding is invested in both companies. You were overweight in Placer, as it was less expensive than Barrick, which was underweighted. Extensive academic research has shown us that it is more prudent to emphasize cheaper holdings rather than their more expensive counterparts whose value is closer to being fully realized.

## **International investments...and the remaining 97%**

Canadian investment opportunities constitute approximately 3% of those offered around the world. While many investors remained focused on our stellar Canadian market performance, emerging markets were showing considerable promise. For example, your Emerging Markets holding gained 7.9% during the fourth quarter of 2005 and 31.2% over the year. Your International Small Companies holding advanced 7% in the fourth quarter while growing by 19.4% in 2005. This demonstrates the power of diversification overseas and the fact that asset classes seldom move in lock step.

## **Ending the year on a high note**

Distributions were made on your Five Year Global Fixed Income holding. 81% was in the form of capital gains and the balance was paid as income. The result: a timely and efficient tax management strategy to close out 2005 on a high note.

Investing is more of a marathon than a sprint, and pacing oneself along the ups and downs is key to success.

On behalf of the rest of the Bruce team, I wish you an enjoyable winter and a happy and prosperous 2006.

Yours sincerely,

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