

A Fall in Commodities



Autumn has come early, frosty and fast to commodity prices. In the first half of the year, with the exception of March, every month of '08 had seen higher prices set by the Commodity Research Bureau's Index. Metals, oil, natural gas, minerals, and agricultural products ran up on the flight from the US dollar, in the midst of the rate cuts and operations to liquefy the banking system. Investors became convinced the US did not care to support its dollar. However, the credit crisis has snapped at the heels of the commodity boom and broken the trend. The US dollar is climbing and commodities are falling.

Their fall has been sharp and swift. The CRB Index is down over 18% from its July 3rd high. Oil is down 22% from its high and down four of the past five weeks. Corn, cocoa, wheat, and soybeans fell from their spring highs. Copper, gold, and silver have fallen. The Canadian dollar is following suit.

Pooled Fund - Month End Unit Values

Unit Values	Mar-08*	Jun-08*	Jul-08
Cdn Balanced	13.75	13.63	13.60
Cdn Small Cap	21.93	22.06	21.25
Cdn Equity Fund	10.14	10.19	10.08
Global Equity Fund	8.92	8.37	8.49
Cdn Income Fund	10.44	10.29	10.36

* Post distribution

An old saw in the investment business is that all bull markets have a copper top. The rationale being that the red metal is so important to late consumer and capital spending it typically has price momentum that continues late into the cycle. Copper has been trading sideways for the last few years. Today it is at \$3.33 a pound, down from a \$4.08 high. We will truly be convinced that the slowdown is here for good if we see copper trade below its December low of \$2.85.

With the tumble, it is reasonable to expect the Loonie to trade south of 90 cents whence it came. As the energy and metal and mineral industries grew to dominate the Toronto market, it is reasonable to expect Canadian stocks to deflate on Index also, especially as our market has hardly been touched by the deflation in global stock markets; Australia a commodity market comparable is off 21% this year.

Total Return - Capital Gains plus Income (%)

To July 31, 2008	1 Mo	3 Mo	1Yr	3 Yr	5 Yr	10 Yr
QV Pooled Funds:	%	%	%	%	%	%
Canadian Balanced Fund	0.0	-1.2	2.2	5.8	8.5	9.3
Canadian Small Cap	-3.4	-1.8	-8.2	9.4	18.3	14.1
Canadian Equity Fund	-0.8	-2.3	-2.8	9.9 ⁺	15.7 ⁺	19.4 ⁺
Global Equity Fund	1.1	-4.8	-7.1	-	-	-
Canadian Income Fund	0.8	0.2	5.7	4.1	5.0	-

⁺ Historic equity returns from the Cdn. Bal. Fund

[^]8yr

Benchmarks:

Balanced Fund Index	-2.1	-1.1	2.3	8.0	10.8	7.7
BMO Small Cap Index (unwtd)	-7.8	-6.5	-18.3	3.2	11.1	6.6
DEX Bond Universe	0.9	0.7	7.7	4.0	5.6	6.1
S&P/TSX Comp. Index	-5.9	-1.8	0.6	11.9	15.8	9.0
MS World Index (\$CA)	-1.9	-8.0	-16.0	-0.8	2.3	-1.5
S&P 500 Index (\$CA)	-0.2	-6.6	-14.4	-3.1	0.5	-1.0

- Pooled fund returns are gross of management and custodial of fees. Returns over one year are annualized.

- The Balanced Fund Index reflects the total rates of return earned by the DEX 91-Day T-Bill Index (5%), the DEX Bond Universe (45%), the S&P/TSX Composite Index (40%), and the MSCI World Index (CS) (10%)

A Rise Elsewhere

While we expect our market index to shrink, we also expect some assets to benefit. Our high dollar and the cost of energy and metals is a burden. We expect as these costs deflate bonds will benefit. Additionally, in Canada and in the US forest products, airlines, auto part manufacturers, chemical companies, machinery, food and beverage producers, manufacturers of information systems, and communications equipment will see relief. In Canada, the market size of the beneficiaries will not offset the losses in energy stocks. However, in the US, the Dow Jones is showing benefits daily. In New York, as our commodity dominated S&P/TSX Composite falters the Dow Jones Industrials rally.