LONDON CAPITAL MANAGEMENT

Monthly investment commentary

April 2008

Q1-2008 HIGHLIGHTS
• Oil and gold prices hit new record highs, surpassing the $100/barrel and $900/ounce levels and ending the quarter at $101.55 (U.S.)/barrel (West Texas) and $932.40 (U.S.) per ounce respectively.
• U.S. Federal Reserve dropped interest rates 2% (to 2.25%) and took significant actions to restore market stability.
• Bank of Canada dropped interest rates 0.75% (to 3.5%).
• Bear Stearns' financial failings cause a Saint Patrick's Day sell off on global markets.

BEAR-ISH HEADLINES

Negative returns prevailed in equity markets around the world this quarter (see Table 1). Europe and Asia in particular were weighed down by worries of the U.S. economic slowdown and its effect on their exports and economic well-being. Canada, while still in negative territory, had the strongest performance among peers found in Table 1, due in part to a surge in commodity prices such as gold, oil, and base metals. This helped the Canadian equity market claw back from a 2008 market low on January 21, to being up 10% to March 31, 2008. It's hard to believe we had such a strong rally amongst all the volatility and doomsday headlines.

Table 1– Summary of major market developments

Market returns	March	YTD
S&P/TSX	-1.7%	-3.5%
S&P500 (US$)	-0.6%	-9.9%
S&P500 (C$)	4.1%	-6.6%
NASDAQ	0.3%	-14.1%
Russell 2000	0.3%	-10.2%
FTSE 100 (U.K.)	-3.1%	-11.7%
NIKKEI 225 (Japan)	-7.9%	-18.2%
EAFE (C$)	2.3%	-7.0%
EAFE (local currency)	-4.3%	-15.5%
Canadian Bond Market	1.0%	3.0%
World Bond Market (US $)	0.1%	2.5%

*local currency (unless specified); price only

Digging down to a sector level in Canada (see Table 2), the Materials sector had the strongest quarter despite being the worst performing sector in the month of March – a good reminder of this sector's volatile nature. While there remains strong global demand and support for commodity prices, it is far from being the next 'defensive sector', and investors should expect their ups and downs when investing in natural resource sectors.

The slowing economy and ongoing credit concerns weighed on the Financial and Consumer sectors both the U.S. and in Canada. In particular, bearish headlines (or rather, 'Bear Stearns' headlines) delivered a blow to investor confidence, and their belief that the U.S. can skirt a recession.

Table 2 - Sector level results for the Canadian market

S&P/TSX sector returns	March	YTD
S&P/TSX	-1.7%	-3.5%
Energy	-0.7%	0.4%
Materials	-5.9%	7.2%
Industrials	-3.2%	-2.3%
Consumer discretionary	0.7%	-15.0%
Consumer staples	3.6%	-6.5%
Health care	2.1%	-3.6%
Financials	-1.9%	-9.4%
Information technology	9.0%	-1.6%
Telecom services	-2.8%	-12.9%
Utilities	-2.8%	-6.3%

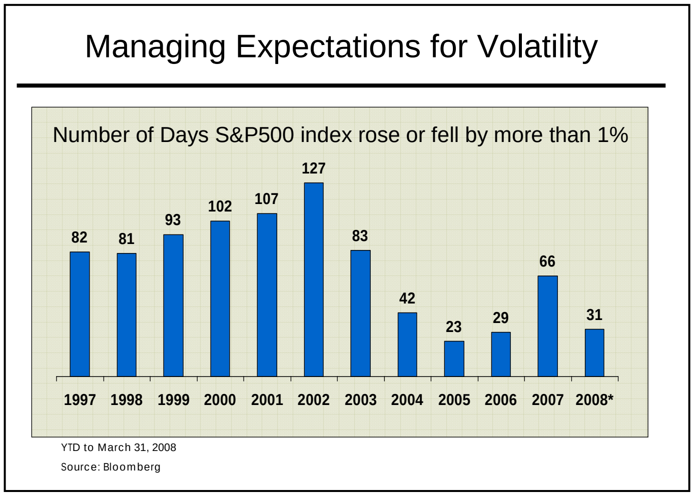
*price only

The strong returns of the Canadian bond market this year is both a reflection of anticipated (and actual) interest rate cuts, and investors' flight to the safety of government bonds. The increased demand for Government of Canada bonds has pushed yields down to three per cent for a five-year Government of Canada bond. Once adjusted for inflation, that doesn't leave a lot of yield left to give back to the investor. While the overall low interest rate environment has muted fixed-income returns for some time now, a fixed-income component within a portfolio has served to mitigate the volatility experienced in equity markets.

MARKET VOLATILITY GIVING YOU WHIPLASH?

During this 1st quarter of 2008, 31 out of 60 trading days saw the S&P500 index rise or fall by more than 1% (26 out of 60 days for the S&P/TSX). Compare this with 2005 or 2006 when less than 30 days during the entire year experienced similar volatility and it is easy to see why investors are feeling a bit seesawed. Perhaps more surprising is that the degree of volatility we have seen lately is more of a reversion to the mean, than an anomaly. From 2005 to the early part of 2007 we were experiencing periods of abnormally low volatility, and that lulled many investors into forgetting just how volatile equity markets tend to be (see Graph A for a decade long perspective).

Graph A



WILLING TO DO 'WHATEVER IT TAKES'

Beware the Ides of March! When news hit in mid-March that Bear Stearns' financial situation had turned dire, it caught capital markets by surprise. A large and significant financial institution in the U.S. falling on hard times touched off concerns about the severity of the credit troubles in the world's largest economy and rocked capital markets. In an effort to minimize the market volatility and economic fallout, the U.S. government and U.S. Federal Reserve clearly positioned themselves as ready and willing to do 'whatever it takes' to stabilize the capital markets. Whether it's injecting capital, or easing interest rates, they've stepped up a number of times since last summer. Here is a brief list of some of the actions we've already seen the U.S. Federal Reserve and U.S. Government take:

- Aggressively cutting interest rates since September 2007 (including their discount lending rate to financial institutions).
- Announcing a $168 billion economic stimulus package, including tax rebate cheques to 110 million U.S. households.
- Broadening their lending requirements and allowing primary dealers (which include independent securities firms such as Lehman Brothers, Goldman Sachs and Morgan Stanley) to borrow directly from the U.S. Federal Reserve.
- Lending $30 billion (U.S.) to JPMorgan to buy-out troubled Bear Stearns.

The U.S. Federal Reserve's actions are designed to short-circuit any spiraling effect from credit concerns and financial failings (such as Bear Stearns) and to prevent far greater economic damage. They have announced that they will continue to act aggressively until they see sustained stabilization. Joining the ranks, central banks, governments, and financial institutions from around the world have come to the table to help stabilize financial markets. These coordinated and combined efforts bode well for the U.S. economy and for equity markets going forward.

DON'T MISS THE UPSIDE

Equity markets and the financial industry can be hard to love during a bull market…in a bear market; they virtually wear a 'kick me' sign. Yet focusing solely on the negative headlines usually means missing out on a significant portion of the upside in equity markets.

Stock markets are leading economic indicators. This means that most losses experienced in stock markets tend to happen prior to, and in the early stages of an economic slowdown. Likewise, much of the market recovery and growth happens prior to, and in the early stages of economic recovery.

Have we hit the market bottom? Is the next market rally about to begin? Maybe it is, and maybe it isn't. Nobody can predict the exact timing of a stock market turnaround. But by avoiding the emotional reactions that can cause indiscriminate selling on 'bad news', and by maintaining a long-term and risk appropriate perspective for your investment plans, you will significantly increase your chances of being in the markets for the upside in the next market rally.