THIRD QUARTER COMMENTARY

OCTOBER 2009

THE INDEPENDENT ACCOUNTANTS' INVESTMENT COUNSEL INC.

Positive Momentum has Continued to Build Through the Third Quarter...

The past eighteen months have tested our resolve and our ability to let logic steer us rather than our emotions. This is a difficult thing to do at the best of times, let alone during a market spiral when you are watching your wealth erode on a day-to-day basis. And this, despite the fact that you stuck to the plan and remained disciplined and diversified.

History teaches us many lessons that we have a tendency to ignore when in the midst of a crisis and the economic turmoil of 2008 – 2009 was no exception. Some of these are worth repeating.

1. One can't time the market and consistently win. Risk mitigation strategies including diversification and disciplined rebalancing have proven to be far more effective over the long term.

2. Markets are efficient or at least semi-efficient. By the time we take in any new and relevant news, the market has already priced it in.

3. After a severe downturn, the largest gains to be made in the stock market are in the two – three months following its low point.

4. The stock market is a leading indicator of our economic state. The stock market will thus rally ahead of an economic recovery because it is pricing in future expectations.

5. As time passes, the impact of a market downturn diminishes with respect to the total return of any portfolio.

So what is this all saying? Those who held diversified portfolios and stuck to the fundamentals of value and disciplined management faired better over the past year than those who deviated from these principles. Those who have sat out of the market this year have clearly missed the opportunity for the largest gains but the fundamentals remain strong. Many signals point to a strengthening economy in 2010, which should provide reasonable returns in the global equity markets over the next 6 – 12 months. We just don't anticipate every quarter going forward to continue to provide double-digit returns.

Inflation...

Over the past year, monetary policy has focused on stimulus efforts. With declining consumer confidence, an oversupplied housing market and rising unemployment, inflation was not the enemy. We now have short-term interest rates near 0% and prices have stabilized. As the global economy begins its recovery, the world's central banks will turn their attention to inflation. We have seen this already in Australia, though the Australian economy was one that never actually slipped into recession. The consensus of analysts is that short-term interest rates will rise at some point in 2010 but there are still many who worry that the recovery we are experiencing is a fragile one. The other complicating factor is the magnitude of the stimulus measures that have been implemented worldwide and the impact that this will have down the road. One other lesson that history has taught us is that government intervention targeted at a specific problem usually has unintended consequences. Some analysts have suggested that the Obama administration may be sticking to the Bush administration's policy of weakening the dollar to reverse the US trade imbalance. Unfortunately for Canada, the fallout of a weak US dollar is an uncompetitive manufacturing sector that is very dependent on US exports. If the Bank of Canada becomes drawn into fighting inflation by raising interest rates, it will drive the value of the loonie even higher in the short-term and create further hardship for Canadian manufacturers. Fortunately, Bank of Canada Governor Mark Carney seems to share the concerns of the market and has reaffirmed the bank's commitment to low interest rates until at least June of next year. This is all good news for the stock market: A recovering economy with the potential for modest inflation combined with cheap debt. However, lets not undermine the threat that inflation will pose. This will be a major challenge for policy makers trying to wade through the complexities and find the balance between stimulating the economic recovery and tipping it back into high growth and inflation.

Doing Our Share for the Environment...

At IAIC, we recently adopted a plan to go completely carbon neutral. Working with a carbon reduction consultant, IAIC set a goal of reducing our greenhouse gas emissions by 50 percent within one year. Implementing "green ideas" has resulted in significant operational cost savings and has provided the satisfaction that we are doing our part to improve the environment. For more information on our environmental efforts, visit our website, www.iaic.ca

Please contact your local IAIC Representative if you have any questions regarding this commentary.

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