

2007 Halftime Report

First Half Market Review

Overall an excellent first half of the year for the market. We heard a lot of noise out there, i.e.: the Chinese market sell off in February, the meltdown in U.S. sub-prime mortgages in March, and the potential impact of higher interest rates on merger and acquisition (M&A) activity. Even with a few bumps along the way, the first half of 2007 has shaped up to look pretty good. Lets take a look at what happened in the first half, and what we expect to see happen in the second.

Fixed Income: Bitten by Inflation Concerns

North American bond markets experienced significant volatility in the first half of the year, with prices coming under pressure as a result of stronger than expected economic data and global inflation rates running at the higher end of central banks' desired targets. In Canada, economic results showed robust economic growth with first quarter GDP rebounding to 3.7 percent and core inflation moving up to 2.5 percent, leaving little doubt that Canadian interest rates will be moving higher. In the U.S., the U.S. Federal Reserve Board (Fed) left its key overnight interest rate unchanged at 5.25 percent in June even though inflation is still running above the Fed's comfort zone.

Canadian Equities: Telecoms Ring Up Big Gains

While June ended with the eight-month run of positive performance by the S&P/TSX Composite Index (S&P/TSX) coming to an end, the broad-based S&P/TSX still managed a respectable 9.1 percent gain year-to-date, with all sectors except for health care enjoying positive gains. The telecommunication services sector was the best performer of the S&P/TSX, with several of its constituents being front page news on the M&A front, including BCE. Canadian investors have been affected by news of a modest rise in interest rates, the negative fallout on corporate profits, a slowing U.S. economy and the impact of a stronger loonie versus the greenback on Canadian businesses.

U.S. Equities: Sub-Prime Woes

Major U.S. indices posted positive results in the first half of the year in U.S. dollar terms. Those returns translated into Canadian dollars were somewhat lower, as the Canadian dollar rose against its U.S. counterpart. The S&P 500 Composite Index (S&P 500) fell 2.2 percent and the Dow Jones Industrial Average slipped 0.6 percent, while the Nasdaq 100 Index managed a slim 0.9 percent advance. Energy led the gainers in the S&P 500 on the back of soaring oil prices. Home builders and real estate stocks took a beating as sales and order volumes weakened and sub-prime mortgage woes created.

Cont'd on Page 2



Harry Perler, CFP Anita Perler
Senior Partners

WEB

www.perlerfinancial.com

E MAIL

info@perlerfinancial.com

What's Inside

2007 Halftime Report	1
Report Con't	2
Thank You	2
Insured Annuities	3
Quarterly Draw Winner	3
Rate Commentary	4
Mortgage Rates	4

Cont'd from Page 1

Global Equities: Emerging Markets Drive Gains

For the first six months of 2007, global equities finished in the black in local currency terms. The performance numbers are not nearly as impressive after converting them into Canadian dollars. The MSCI World Total Return Equity Index slipped 0.1 percent in Canadian dollar terms during the first six months of the year, while the MSCI Europe, Australasia, and Far East Index rose 1.4 percent. Although many European markets posted strong gains over the six-month period, they gave up some of those gains toward the end amidst global nervousness and fears of further interest-rate increases after the European Central Bank raised interest rates to curb inflationary pressure. In Japan, stocks of export related companies benefited from a weaker yen, which continued to trade lower against the U.S. dollar – the U.S. being Japan's largest trading partner. Most emerging markets rallied during the first half, helped by strong corporate earnings, steadily expanding economies and a declining U.S. dollar. China was among the best performers despite measures by the Chinese government to curb investor speculation. Continued strong economic expansion and a huge domestic appetite for stocks kept the market climbing. In Latin America, Brazil was a top performer due to rising oil prices.

Second Half Market Outlook

Generally, I expect the second half of the year to perform very similarly to the first. I think the third quarter will be fairly shaky, but expect a strong finish for the year.

Canada: Solid Economic Fundamentals

Despite the Bank of Canada's (BoC) shift to a tightening bias, the outlook for Canadian equities continues to look favourable. "Canada's solid economic fundamentals haven't changed," according to Satish Rai, Vice Chair, TD Asset Management Inc. "Our economy is strong and resilient. We continue to see trade, current account and budget surpluses. Growth in China and India remains a primary contributor to our prosperity, as global demand for commodities is still strong and supply for some commodities remains constrained. We don't see that changing much in the years ahead." While we do face some domestic challenges and the possibility of short-term market weakness and volatility, our portfolio managers are focused on long-term performance and are confident they are well positioned to achieve those goals.

United States: Still Facing Hurdles

The outlook for U.S. equity markets still appears skewed to the upside. Core inflation pressures continue to recede further as

economic growth slows, which tends to have a bipolar effect on equities by providing a tailwind through the lower interest rates it implies, while at the same time placing profit growth at risk. With distribution of corporate free cash flow to investors in the form of share buybacks surging to record highs, earnings per share growth should remain positive even if earnings momentum itself, before adjustment for shares outstanding, turns negative. Also helping to support equities are leveraged buyout transactions, which have stepped up to levels last seen in 1998. However, rising bond yields may pose a challenge to the wave of M&As.

Time to Go Global

The long-term economic outlook for global equities remains positive, particularly for emerging markets, whose base of growth is becoming solidly supported by consumer expansion and increased investment. The emerging market contribution to global economic output is helping to offset the consumer slowdown in the U.S. economy. In addition, emerging markets themselves have become more important contributors to global output. Over the past five years, their share of global economic output has been steadily increasing and is close to surpassing that of the U.S. Risks to the asset class include a global liquidity crunch, the potential slowing of the U.S. economy, falling commodity prices and changes in risk appetite.

Thank You!

A referral from you and your continued business are the highest compliments we could ever receive.

I thank you very much for your confidence in me!

Harry Perler

Ask the Expert: Insured Annuities

Here is an upcoming Ask the Expert article that I thought would be beneficial to share with all my valued clients. If you have any questions regarding the article below, please do not hesitate to contact me!

I will be retiring within the next year so I will need a stable monthly income. I also want to pass something along to my heirs. Is there anything out there for me?

That is something I hear from many people approaching retirement. One option you may want to consider is an insured annuity. An insured annuity is broken into two parts. 'Insured' refers to a life insurance policy, and 'annuity' refers to a prescribed annuity contract. The combination of these products creates the equivalent of a locked-in, fixed return investment vehicle that is attractive to most senior citizens. The objective of an insured annuity is to provide a better rate of return than traditional fixed-rate investment vehicles like a GIC, while preserving the capital invested.

This is how it works. First you invest your surplus non-registered capital in a prescribed annuity contract. This provides you with guaranteed lifetime payments at a preferential tax rate compared to other guaranteed products, such as a GIC. Then, you purchase a life insurance policy with a death benefit equal to the amount you invested in the annuity. The monthly insurance premiums are paid from the income generated by the annuity.

You can benefit from an insured annuity if you are 65 or older in a high tax bracket, you want a guaranteed fixed income, or you want a guaranteed investment that produces higher returns than those generated by traditional guaranteed income instruments. You may also benefit if you have cash assets outside a registered plan wishing to invest in a fixed-income vehicle or you are planning on using the investment returns but want to preserve the original capital amount. Here are some benefits of insured annuities: increased cash flow to you while you are alive, insurance benefits that can be gifted at death, the ability to fully guarantee the insurance and annuity benefits, the potential to reduce tax payable on investment income. Before deciding to purchase an insured annuity, there are some careful considerations. An insured annuity is not as flexible as a GIC. It is also a long-term commitment- it is permanent and

cannot be reversed. Most annuities cannot be cashed or altered after income has started, and payments cannot be adjusted to reflect your changing needs.

Here is an illustration of the insured annuity advantage:

Initial Investment of \$100,000	
Male – good health, age: 75	
Insured Annuity – Use \$100,000 to buy a life annuity	
Annuity Payment	\$13,050
Taxable Portion	\$2,420
Tax at 43% marginal rate	-\$1,090
Life Insurance Premium	-\$6,810
Net Result	\$5,150
IA Equivalent Before-tax Rate	9.3%
Compare to GIC of \$100,000 –	
Earning for 5 years	5.5%
Interest Income	\$5,500
Tax at 43% marginal rate	-\$2,500
After-tax income	\$3,000
Increase in Income over GIC	\$2,150
	72% Increase

An insured annuity is an important component of a larger diversified financial plan. Before you decide to implement this investment strategy, you need to consult with a qualified financial advisor. If you have any questions about insured annuities please do not hesitate to contact me.

July 2007 Draw Winner!

Congratulations to the winners of our
July 2007 Quarterly Draw,
Richard & Susan Ford!

Richard & Susan are the lucky recipients of a \$100
Gift Certificate to enjoy dinner at the Gourmet
Hideaway in Maple Ridge

Our next draw is October 2007
Good luck!

