



MANULIFE SECURITIES INCORPORATED

State of the Union 2008

Cheap gas, Cheap money, Cheap stocks, Cheap cars, Cheap goods, Cheap houses and Cheap tricks!

This is our mantra for 2009.

As we say sayonara and good riddance to 2008 we are left to pick through the rubbish to find what is left of the economy that, much like the month of March, came in like a lion and left like a mortally wounded lamb. Our mantra represents the positives we are able to salvage from the carnage.

"At this point no one knows what the full financial consequence of this crisis will be, but suffice to say that it is not over yet and it is not going to be pretty" From our 2007 State of the Union Letter. How prescient.

It is without question that 2008 will go down as the year capitalism died or at least took more head shots than Sylvester Stallone's Rocky. Say hello to more government intervention, higher taxes, more regulation, more rules and lower incomes.

In what can only be described as extraordinary, we saw the most powerful nation in the world fall to its collective knees and drag the entire world down with it. The most powerful industry in the world, the auto industry, has suffered irreparable damage as the "Big" Three look like dinosaurs on the verge of extinction but for the grace of Congress. Toyota, the most profitable, well managed car company on the planet, posted loses in the billions of dollars on almost 2 million fewer cars sold. Even in the face of oil dropping from its high of \$147US/bbl in June to \$40ish by the end of the year, car sales slumped in October, again November and further still in December. Cheap cars and Cheap gas.

Credit markets seized up like a Chrysler transmission after the completely impartial, unbiased former Goldman Sachs CEO and current US Secretary Treasurer, Hank Paulsen let his long time business rivals, Lehman Brothers,

go under on Sept 15 and the US government assumed control of insurance giant AIG. The following day Primary Reserve Fund, the oldest and largest money market fund in the US "broke the buck" on the default of Lehman's Commercial Paper and the crunch was on. Talk about unintended consequences! Cheap Tricks.

US financial companies were indiscriminately begging for money and the source of funds was pretty much inconsequential; Congress, sovereign equity funds, Warren Buffet, Japan. So LIBOR jumps, like, 500 basis points in about 5 seconds and the world's credit market grinds to halt so fast you think you've just slammed your brand new Hummer into the wall of your local bank at 100 km/ hour. At least your Hummer has airbags, sadly the world economy has no such buffers, that is unless you consider the slashing of interest rates and the 7.8 trillion dollars...yup trillion, the state has piled into the world's banking system since September, airbags. Cheap money. Not so Cheap tricks.

Further, just to make sure no one came through the year unscathed, the commodities markets which include gold, wheat, corn, oil, natural gas, copper and just about any other manufacturing input you can name, all were rolling along at or near historical highs when, much like Chris' golf game, the wheels came off and the ensuing crash was not pretty. Gold goes from nudging \$1000 to \$700 (-30%), oil from \$147 to \$33 (-80%) copper \$4+ to \$1.30 (-70%) and the list goes on. Cheap goods.

So how did the stock markets react in the face of this "Perfect Storm" . HAH! They got pounded to within an inch of their collective being, that's how they reacted. Deleveraging is the fancy term the industry uses to describe the panic selling that has occurred over the course of the last three months. And, if deleveraging means completely losing any semblance of one's mental faculties, ignoring any rational explanation or price evaluation and turning into a lemming and launching yourself off the cliff to a certain death, then that is the correct term to use.

The world's stock markets dropped on average 45% (45% ...UNBELIEVABLE!) between July and December 2008. That is one serious blow to one's savings and the second such blow for some particularly aggressive investors who would have taken a similar hit in 2002 as the full effects of the tech wreck were tabulated. Cheap stocks.

Shockingly, on the relative eve of their retirement, most Baby Boomers are likely finding that they have accumulated less money than they have put away after this most recent decimation to their savings. In other words, many boomers will have been saving for the better part of 30-35 years, a

long term investment horizon by anyone's standards, to find that they have less money now than they put away. To make matters worse (aren't we a ray of sunshine this year?) with real estate prices on a toboggan ride, some people (and we are not referring to first time homebuyers here, we're talking about people who bought their homes 10 and 12 years ago) are discovering that their houses are worth less than they have put into them (when you factor in interest paid, taxes, renos etc.). Cheap houses.

To wake up and find out that your retirement savings have generated negative rates of return is one thing given the vagaries of stock markets, but to find that your home has not generated any positive rate of return either is, at the very least, a bit disconcerting. Now, the fact is, savings are savings, and you need to live on something whether it has generated a rate of return or not, but there are some seriously disillusioned people out there these days.

Hence our mantra.... Cheap gas, Cheap money, Cheap stocks, Cheap cars, Cheap goods, Cheap houses and Cheap Tricks.

While the economy was the BIG news it was not the only news in what was a very newsworthy year. Some other headlines (paraphrased from The Economist):

In a historic US election, events in the markets helped propel Barack Obama to a big win in America's presidential election, making him the first black President in a country with a sorry history of discrimination.

Earlier, Mr Obama fought an epic battle with Hillary Clinton in the Democratic primaries. Mrs Clinton was given the job of Secretary of State in the new Obama administration, which starts work on January 20th. One of the new president's top priorities will be to implement a stimulus package, the passage of which should be made easier by increased Democratic majorities in Congress.

Fidel Castro stepped down as Cuba's president, handing over the job to his younger brother, Raúl, whose plans to reform the island's communist economy were slowed by two devastating hurricanes.

A resurgent Russia invaded Georgia in August after Georgian forces entered the breakaway region of South Ossetia. It was Russia's first big military incursion beyond its borders since it invaded Afghanistan in 1979. Moscow pulled its troops back, eventually, but recognized the independence of South Ossetia and Abkhazia.

Dmitry Medvedev, a former Vladimir Putin 'yes man' won Russia's presidential election in March, to become a much more powerful Putin 'yes man'. His first presidential act was to name Putin his prime minister.

India endured another year of frequent terrorist incidents, including a spate of bombings in one day in Jaipur. But even the experts were taken by surprise at the audacity of a co-ordinated attack by gunmen on Mumbai.

The violence was less severe in Iraq than in previous years; American forces handed responsibility back to Iraqi troops for Anbar province, the bloodiest zone in the first years of the insurgency. Iraq's parliament endorsed an agreement that requires American troops to withdraw from Iraq altogether by the end of 2011.

China's big year as host of the summer Olympics didn't go quite according to plan. The games were a spectacular success, but China's suppression of the worst outbreak of violence in Tibet in decades led to protests in cities around the world that took part in a relay of the Olympic torch en route to Beijing.

Three months before the Olympics China suffered its worst natural disaster in 30 years when a massive earthquake rocked the province of Sichuan, killing some 70,000 people and leaving 5m homeless. China launched an all-out rescue effort that was widely praised.

In contrast, Myanmar's ruling junta was roundly condemned for its response to a cyclone that left large swathes of the Irrawaddy delta submerged, causing at least 145,000 deaths. The furtive regime was eventually persuaded to allow a trickle of foreign aid into the deluged region.

At home, in his third attempt, Stephen Harper again failed to win a parliamentary majority for his Conservative government; two months after the election the Prime Minister had to ask Governor General Michaëlle Jean to suspend Parliament to avoid being ousted by an ill conceived coalition of opposition parties led by the Liberal leader Stephan Dion.

Robert Mugabe won a presidential run-off election in Zimbabwe after his opponent, Morgan Tsvangirai, who won the first round, pulled out because of intimidation. A power-sharing deal gave the prime minister's job to Mr Tsvangirai.

Bernard Madoff, or should that be "Madeoff" as in with your money, a Wall Street veteran, was arrested in possibly the biggest fraud in history; his Ponzi scheme may have lost investors \$50 billion.

Pundits began writing George Bush's political obituary as his approval ratings sank to new lows. At a press conference in Baghdad a disgruntled Iraqi journalist threw his shoes (size ten) at the American president, an Arab insult.

The first protons were circulated around the Large Hadron Collider. Designed to help physicists explain the existence of mass, some feared the experiment would create a gigantic black hole. Wall Street's collapse just a few days after the LHC was switched on was deemed a coincidence.

And no State of the Union would be complete without some parting words from outgoing President Bush.....

"I'll be long gone before some smart person ever figures out what happened inside this Oval Office." --George W. Bush, Washington, D.C., May 12, 2008

"Goodbye from the world's biggest polluter." --George W. Bush, in parting words to British Prime Minister Gordon Brown and French President Nicolas Sarkozy at his final G-8 Summit, punching the air and grinning widely as the two leaders looked on in shock, Rusutsu, Japan, July 10, 2008

"First of all, I don't see America having problems." --George W. Bush, interview with Bob Costas at the 2008 Olympics, Beijing, China, Aug. 10, 2008

"I've abandoned free market principles to save the free market system." --George W. Bush, Washington, D.C., Dec. 16, 2008

"This thaw -- took a while to thaw, it's going to take a while to unthaw." --George W. Bush, on liquidity in the markets, Alexandria, La., Oct. 20, 2008

"Wait a minute. What did you just say? You're predicting \$4-a-gallon gas? ... That's interesting. I hadn't heard that." --George W. Bush, Washington, D.C., Feb. 28, 2008

So long George, don't let the door hit you on the way out!!

In the world of sports, 2008 saw some familiar faces continue their reign of victory while at the same time we witnessed some thrilling turnarounds.

Led by great coaching and a host of seasoned veterans, the Detroit Red Wings bested the Pittsburgh Penguins in six games to win the Stanley Cup for the fourth time since 1997. Henrik Zetterberg was awarded the Conn Smythe Trophy as the playoffs most valuable player.

As has become customary the Canadian Junior team beat Sweden 3-2 in overtime in Pardubice, Czech Republic, to win a fourth straight gold medal.

The National Football League's New York Giants started the year with a shocking Super Bowl upset of the undefeated New England Patriots.

In golf, Tiger Woods won four times including the U.S. Open, for his 14th major, before succumbing to season-ending knee surgery, and he finished second on the money list despite playing only six times. Ireland's Padraig Harrington only won twice this year, but they were majors - the British Open and PGA Championship - making him the first European to win successive majors in the same season.

Danica Patrick became the first woman to win an Indy car race when she took the checkered flag at the Indy Japan 300 in April.

Spanish tennis star Rafael Nadal ascended to the number-one world ranking by defeating Roger Federer at Wimbledon in what many are calling the best tennis match ever.

At the Beijing Olympics in August, U.S. swimmer Michael Phelps made history, collecting eight gold medals and breaking the record set by fellow American swimmer Mark Spitz in 1972. Jamaican sprinter Usain Bolt ran to world records in both the 100 and 200 meters.

After finishing with the worst record in baseball in 2007, the Tampa Bay Rays won 97 games in 2008 and won the AL East Division title. Then the Rays dropped the Chicago White Sox and the wild card Red Sox to claim the American League Championship, but lost the World Series to the Philadelphia Phillies in 5 games.

The Boston Celtics last captured the Larry O'Brien Trophy as the NBA's top team in 1986. That all changed in 2008. Can you imagine living in Boston with the Red Sox, the Pats (well maybe not so much this year) the Bruins and the Celts all winning. Talk about the City of Champions!

The Calgary Stampeders won this year's Grey Cup in Montreal, defeating the Alouettes by the score of 22-14.

The Canucks acquired former Maple Leaf Mats Sundin on Dec 18 and expectations for the team rose to even more ridiculous levels than usual.

In Hollywood, the Oscars were awarded to movies that seemed to reflect the collective emotional state of the nation.

"No Country for Old Men," Joel and Ethan Coen's chilling confrontation of a desperate man with a relentless killer, won the Academy Award for best picture.

Daniel Day-Lewis won best actor for his portrayal of a ruthless oil tycoon's rise from the sweat and sludge of wildcatting to wealth, power and madness in "There Will Be Blood."

Marion Cotillard won the Oscar for best actress for her incarnation of the tormented chanteuse Edith Piaf in "La Vie en Rose."

Javier Bardem won the fourth Oscar for "No Country," capturing the best supporting actor for his role as the cattlegun-wielding, pageboy-wearing serial killer.

Tilda Swinton took best supporting actress for playing a nervous wreck of a corporate lawyer who throws morality under the bus in "Michael Clayton."

Those who left us this year include many great Canadians.

Ted Rogers, who built Canada's largest wireless, cable and media company, put his family name on sports arenas, phones and trucks, and in the process changed the way Canadians communicate, age 75.

Thomas Bata, my employer in high school and college, began building his huge shoemaking empire at age 18. When he died, he still carried a business card describing himself as Bata's "chief shoe salesman", age 93.

Luc Bourdon, Vancouver Canuck, played a key role in Canada's gold-winning teams at the 2006 and 2007 world junior hockey championships, age 21.

Bob Ackles, B.C. Lions' long-serving president and chief executive officer and member of the Canadian Football Hall of Fame, age 69.

John Templeton, mutual-fund pioneer, investor and philanthropist who used Canada as a springboard to great wealth, age 95.

Maharishi Mahesh Yogi, taught transcendentalist meditation to the Beatles, age 96.

Roy Scheider, actor "It's showtime!" age 75.

Arthur C. Clarke, writer best known for "2001: A Space Odyssey", age 90.

Charlton Heston, actor and gun advocate, age 84.

Harvey Korman, actor, best known for his role on the Carol Burnett Show, age 81.

George Carlin, comedian best known for his use of off color language, age 71.

Sen. Jesse Helms, politician, 5 term Senator from North Carolina and outspoken conservative, age 86.

Paul Newman, actor, race car driver, philanthropist starred in 50 films, best known for Butch Cassidy and the Sun Dance Kid, age 83.

The world is a lesser place without these people among us.

Also dead, Capitalism, after valiantly battling greed, malfeasance, gross misconduct and amorality, died a quick and very painful death on September 15, 2008.

Our regular readers will recall we hosted a retirement planning seminar last year which was so well received we are going to do it again. Entitled "Can I retire during an Economic downturn- Yes you Can!" we will cover all aspects of retirement income planning including government benefits, RIFs, LIFs annuities and portfolio construction techniques that can help you withstand poor stock markets. This is a must attend for those looking to retire anytime in the next 5 or 6 years but who are wary of their ability to do so because of the recent stock market collapse.

You and a guest are invited to attend on the evening of January 27, 2009 at the Hilton Vancouver at Metrotown. Mark your calendar now and be on the lookout for your invitation in the days ahead. Space is limited so act soon! RSVP to Peter Graham at 604 688-2123 or email at

pgraham@granvillewest.com. Donations to the Greater Vancouver Food Bank Society will be gratefully accepted.

We thank you for your business and we want you to know that we appreciate and value the trust you have placed in us to help reach your goals. Have a safe, healthy and prosperous 2009 from Mark, Peter, Mike and Chris!

Yours truly,

Chris Forman CEBS CFP
Financial Advisor
Manulife Securities Incorporated

Mark Richards BA MBA CFP CIM FCSI
Financial Advisor
Manulife Securities Incorporated

Mike Fraser BA CFP
Certified Financial Planner
Manulife Securities Insurance Inc.
Financial Advisor
Manulife Securities Incorporated

Peter Graham BComm CFP RPA
Advisor, Retirement Plans
Granville West Group

Member CIPF

Member IIROC

Published By: Chris Forman of Manulife Securities Incorporated. 1310-925 West Georgia Street, Vancouver, B.C., V6C 3L2 Phone: 604-687-4587 or 1-800-518-4247, email: chris.forman@manulifesecurities.ca This publication is solely the work of Chris Forman for the private information of his clients. Although the author is a Manulife Securities Advisor, he is not a financial analyst at Manulife Securities Incorporated ("Manulife Securities"). This is not an official publication of Manulife Securities. The views, opinions and recommendations are those of the author alone and they may not necessarily be those of Manulife Securities. This publication is not an offer to sell or a solicitation of an offer to buy any securities. This publication is not meant to provide legal, accounting or account advice. As each situation is different, you should seek advice based on your specific circumstances. Please call to arrange for an appointment. The information contained herein was obtained from sources believed to be reliable; however, no representation or warranty, express or implied, is made by the writer, Manulife Securities or any other person as to its accuracy, completeness or correctness.