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THE BOTTOM LINE

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CONTACT US

CHRIS FORMAN

Financial Advisor

Phone: 604-687-4587

Chris.Forman@manulifesecurities.ca

MARK RICHARDS

Financial Advisor

Phone: 604-484-4559

Mark.Richards@manulifesecurities.ca

MIKE FRASER

Financial Advisor

Phone: 604-484-4558

Mike.Fraser@manulifesecurities.ca

PETER GRAHAM

Advisor, Retirement Plans

Granville West Group/Chris Forman Consulting Ltd.

Phone: 604-484-4577

PGraham@granvillewest.com

MAIN BRANCH

Phone: 604-688-2123

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www.manulifesecurites.ca

"I found this national debt, doubled, wrapped in a big bow waiting for me as I stepped into the Oval Office."

-Barack Obama

The First Quarter...

April 1st and it's snowing in downtown Vancouver. April Fool's indeed! This frigid weather reminds us of how long this winter has been on many fronts.

We finish 2008 with a sigh of relief, a new president, thankfully (has anyone watched Frontline on PBS this month?), more than 15 trillion dollars in world wide bail out money, a message of hope and change .... only to see things get worse. And not by a little bit. The Dow Jones Industrial Average , the S&P 500, the TSX and just about any other index you can think of fell to its lowest level since the tech crash and we all remember how bad those days were! Layoffs, bankruptcies, deflation, and an extraordinary lack of leadership never mind solutions and we're told things will get a lot worse before they get better.

And perhaps this pessimism is justified. We now have so many influences that simply didn't exist in the past:

securitization of mortgages off balance sheet assets (or liabilities as the case may be) equal to 6 or 7 times the world's GDP, incompetent ratings agencies, math geniuses writing risk algorithms to make ugly mortgages a shiny triple-A debt security, hedge funds day traders, and $25 or $30 million dollar bonuses for fleecing the population

There aren't enough government trillions in the world to save Bank of America and Citigroup, alone never mind every other mismanaged, over leveraged, financial institution in the world. One thing that looks certain is that the age of speculating by banks around the world is coming to an end as the outraged populations, who will eventually pay for these bailouts through inflation and higher taxes, are calling for more regulation and oversight of the financial systems.

When it comes to the solution for this problem it seems quite clear that throwing great gobs, unfathomable really, amounts of money at the problem may simply not work quickly, particularly when governments around the western world cannot come to a consensus as to how the money should be allocated. The U.S. government and the Federal Reserve have spent, lent or committed $12.8 trillion to rescue and stimulus attempts so far. That's 14 times the $900-odd billion in circulation; almost equal to the entire 2008 U.S. GDP; and works out to $42,105 for every man, woman and child in America (source: Seeking Alpha.com).

Can you think of a better way to spend $42,000 than to give it to some executive at AIG as a bonus?

Do you think maybe if the US government gave every man, woman and child $42,000 that car sales would increase? Or mortgages would be reduced or credit cards paid off? Maybe house sales improve? How about stock markets?

The First Quarter… (Continued)

But no, the government elects to save GM, AIG, and to fund any pet project that can be passed off as "stimulus" of some sort. But if they lost they would not have to pay it back. I was your risk but their potential reward.

Now, as for the stock markets, you may ask when will we hit the bottom? Actually the better question is going to be how many times we will hit the bottom. It would appear that perhaps the bottom has been hit in both North American stock markets, however the fear is that we will retest those lows a couple of more times before we see some sustainable rally in the stock market valuations. To put another way, we see a number of false starts on Spring before we see the return of warm sunshine and clear blue skies.

By now you are as tired of all this bad news (and frigid temperatures) as we are and we just want to hear some good news.

Well, the Canucks made the playoffs. And did we mention that the cherry blossoms are out down here on the Coast?

Seriously though, on the economic front, we are starting to see some signs of promise amid the gloom.

1. Oil prices have plummeted and remained at low levels relative to their peak last year. The benefit to consumers and business of lower energy costs should not be understated (and in fact, may prove to be a more significant "economic stimulus" than any government-led program.)

2. Canadian banks, though not immune to the financial crisis, appear to have weathered this storm better than most. If they play their cards right, Canada could emerge from this mess as a world leader in banking. Stop laughing, it could happen!

3. Bright lights amid the darkness. It is well documented that many companies, both here in Canada and abroad are in deep trouble and are struggling to survive. But in the past few weeks we heard from a remarkable number of companies that are actually doing just as well or better than the heydays of early 2008.

BOX SCORES

GIC Interest Rates**2009 (%)

	Jan	Feb	Mar
1YR	1.03	0.88	0.39
3YR	1.78	1.78	1.68
5YR	2.08	2.08	2.08

Annualized Rates of Return to March 31, 2009 (%) ***

All Cdn $	1YR	3YR	5YR
TSX	-32.4	–7.8	2.8
S&P 500	-38.1	-13.1	-4.8
TSX DEX	4.9	5.4	5.2
*EAFE	-34.0	-11.9	–2.6

*Europe, Australia & Far East Index

**source: Bank of Canada web site.

***Morningstar

Unintended Consequences...

With interest rates so low, money market funds are producing no or negative rates of return depending on the Investment Management Fee (IMF), one more thing we have never seen before. "Here put your money in this fund that invests in Government of Canada T-Bills and you will only lose .25% in the next year". Now that's a quite sales pitch, isn't it? Just so you know.

Retirement Income Planning Event

We held our annual Retirement Income Planning Event in late January and the response was fantastic. We had over 100 people come to learn more about how we structure an income in retirement and the feedback we received was very encouraging. We wish to thank all of you who came and we encourage the rest of you to contact us if you have any questions or would like a copy of our presentation. We would also be interested in hearing from you if there are other topics you wish to see us present in the future.