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President & CEO

MARKET OUTLOOK

Market Will Reward the Well-Prepared

To everything there is a season, including financial markets. For more than a year, falling stock markets have had a definite wintry feel to them.

Amid declining stock prices and persistent market volatility, investors can find it increasingly difficult to avoid the chill of a bear market. In the recent downturn, many investors froze, feeling they were locked in place by mounting portfolio losses, doom-and-gloom media reports and an abject lack of optimism.

Yet, standing pat during uncertain markets is the last thing that investors should be doing. History has shown that the market ultimately rewards investors who prepare early for the return of more favourable investment cycles.

EARLY INDICATIONS THAT BEAR MARKET ENDING

Don Ogden, Raymond James Research Liaison, thinks that we could be close to a major market bottom, if indeed we haven't already reached such a bottom. While current year-over-year earnings comparisons continue to look ugly, expectations for an upturn in corporate profitability towards the end of this year are building. Consequently, he is advising clients to start shifting their psychology to a more bullish stance.

"Some market strategists think that the bear market is in the process of bottoming," says Ogden. "The bearish attitude that had rolled over from technology stocks has left its mark

on other sectors. For example, the TSE Financial Services Index fell about 15% from its February high to its April low, and some individual bank stocks fell more than that. This helped to exacerbate the negative feelings already held by investors."

"One of the characteristics of the tail end of a bear market is extreme pessimism that usually results in inactivity on the part of individual investors," comments Ogden.

That inactivity takes two forms: first, a reluctance to sell losing positions to protect from further downside, and second, a reluctance to spend cash in a subsequent up-leg of the market.

A GOOD TIME TO CLEAN HOUSE

For investors suffering from bear market malaise, Ogden recommends a number of steps to prepare for the next market upturn.

"The first place to start is always with individual objectives and cleaning out portfolios of stocks that don't meet those objectives," Ogden advises.

Current market conditions, combined with some of the excesses of a year ago, may have left some investment portfolios out of balance with objectives and long-term investing strategies. A review of investment objectives can provide a more appropriate, and perhaps more comfortable, asset mix better aligned with personal risk tolerance and market conditions.

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Combining the Best of Two Worlds

Many Canadians consider their RRSP to be their best tax shelter. Over the past few years though, another effective long-term financial planning tool has emerged that also offers excellent tax-sheltering benefits.

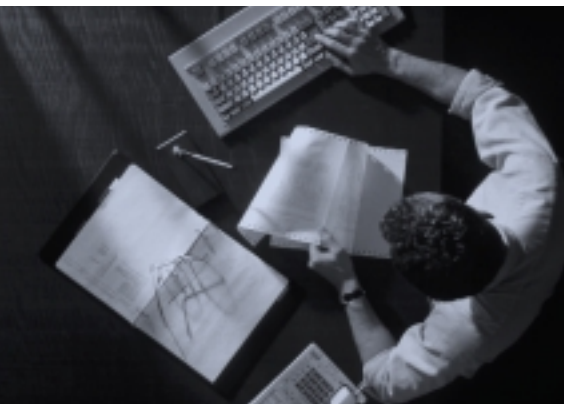
Universal Life insurance has become increasingly popular because the policy is structured to combine the best of two vital financial planning components: life insurance and tax-sheltered investment savings. Universal Life offers both these components in one simple, convenient package with substantial tax advantages.

WHAT IS UNIVERSAL LIFE?

A Universal Life policy combines life insurance with an investment savings component.

A portion of each deposit is used to pay for the life insurance component, while the balance is invested in a tax-sheltered investment fund.

Upon death, proceeds from the savings portion of the policy as well as the death benefit transfer tax-free to your beneficiaries.



A FLEXIBLE, TAX-SHELTERED INVESTMENT PROGRAM

Similar to an RRSP, investment savings compound tax-free while in a Universal Life policy. That makes it particularly attractive to high-income earners who have already maximized their RRSP contributions.

In addition, a wide range of eligible investments can be selected to provide flexibility and control over the management of the savings portion. No foreign content restrictions apply to these investments, as is the case with RRSPs.

CREATING TAX-FREE RETIREMENT INCOME

The investment savings component of a Universal Life policy can also be used to generate tax-free cash during retirement. Structured properly, the policy's investment savings can be used to secure a series of loans; typically up to 90% of the fund value. Since the loans are not considered taxable income, the cash is free of tax.

These loans and accrued interest are repaid upon death, while the balance of the policy and its death benefit pass to the named beneficiary tax-free.

AN EXCELLENT ESTATE PLANNING TOOL

The first priority with life insurance is to provide protection. Universal Life provides lifetime coverage. The policy remains in place until death, eliminating any worry that failing health could make you uninsurable.

As a result, Universal Life is an excellent estate planning tool. The policy can be used to offset capital gains taxes, or taxes on RRSPs/RRIFs.

The savings portion of a Universal Life policy also means policyholders can build a substantial benefit, often larger than they might otherwise afford with other kinds of insurance.

The flexibility of the plan means that you can confidently:

- > build a tax-free inheritance for your family, heirs and charities
- > provide funds to cover estimated estate fees and taxes
- > protect your small or family-owned business.

An RRSP may be a great tax shelter, but it's not the only one.

Real Estate Sector Poised to Outperform

After a period of consolidation, the real estate sector looks ready to rebound in 2001. But unlike the speculative bubbles of the past, the industry's sound fundamentals mean that it is exceptionally well positioned to benefit from renewed economic growth.

According to Harry Rannala, Raymond James' real estate analyst, high occupancy rates and rental income growth should allow the real estate sector to outperform the overall TSE Composite Index this year.



In his comprehensive outlook for the sector titled *2001 Canadian Real Estate Industry: Ready to Outperform*, Rannala points to a major discount in stock market pricing compared to individual property values. He bases his positive outlook for the commercial real estate sector on a combination of factors, including:

- > Long-term interest rates have trended lower
- > Income property investment yields are higher than the cost of financing, and should continue to improve
- > Rental rate and occupancy levels are well balanced
- > Property values are at levels that do not reflect speculation
- > The evolution of the merchandising industry has already resulted in major consolidation within the shopping centre industry.

In selecting anticipated top performers, Rannala has used a number of criteria, including:

- > Exceptional management ability and experience
- > High quality income property portfolios
- > Higher growth potential real estate classes
- > Sound financial position.

Real estate can be an important avenue to explore as part of a well-diversified portfolio.

sector highlights

BROOKFIELD PROPERTIES CORP. (BPO-T, BPO-N)

Brookfield is Rannala's top real estate pick due to its high quality portfolio, conservative financial position and potential to generate above-average rental income and cash flow growth. These factors indicate that the firm is well positioned to weather a slowdown in the North American economy. Management continues to take proactive measures to create value for shareholders.

BOARDWALK EQUITIES INC. (BEI-T, BEI-N)

In the mid-1990s, Boardwalk assembled a portfolio of rental properties in Alberta and Saskatchewan when prices were depressed. It is now regionally positioned to benefit from the strong Alberta economy. Management has increased the rental portfolio to 25,000 units, and is embarking on a program to provide value-added information and entertainment services to clients.

OXFORD PROPERTIES GROUP (OXG)

Oxford has a high quality portfolio with a heavy weighting towards high quality downtown office buildings. With a strengthened financial position, it has proactive, expansion-minded management that has positioned the company to pursue growth through acquisitions.

H & R REIT (HR.UN)

H & R focuses mainly on the office sector, holding a high quality portfolio with national tenants. Its experienced management has considerable acquisition and development expertise and is capable of producing income growth.

MORGUARD REIT (MRT.UN)

Morguard's realigned high quality portfolio of regional shopping centers and office properties provides income stability to the company. Planned redevelopment and new acquisitions will provide incremental growth. Strong unitholder sponsorship will provide capital for portfolio expansion.

CREIT (REF.UN)

With an experienced, conservative management team and a diversified portfolio, CREIT provides income stability for unitholders. Management continues to upgrade its portfolio quality and pursue joint venture investments.

RESREIT (REE.UN)

RESREIT's portfolio of residential rental properties provides considerable income stability with growth potential. An ongoing acquisition program adds the potential for even greater growth.

CAP REIT (CAR.UN)

CAP REIT's geographically diversified portfolio of residential rental properties offers a stable income stream. The REIT's ability to enhance the value of its portfolio through its capital expenditure program provides distributable income growth.



On behalf of my colleagues at Raymond James Ltd., I'm pleased to introduce our new edition of *the Diversified Investor*. With market insights and commentary from our own industry-renowned team of investment specialists, this quarterly newsletter offers you investment updates and ideas for further discussion with your Investment Advisor.

The first quarter of this year has been a very exciting time for all of us at Raymond James. In addition to our recent transition and name change, our firm has been rated as a leader by the Investment Executive industry journal for the independent, entrepreneurial environment that ensures your Investment Advisor enjoys the complete freedom and support to provide you with the personalized service you deserve.

We are very proud of our Investment Advisors and the professionalism that has earned them the loyalty and support of their clients. As part of an expanded North American network, we look forward to bringing you many new and exciting investment ideas in the years to come.

Best regards,

Ken Shields
President and CEO
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BE PREPARED FOR OPPORTUNITIES

The next step Ogden recommends is selling stocks that have a very low likelihood of turnaround.

"What you don't want to be doing is sitting there during the initial rise of a new bull market holding onto yesterday's stories waiting for them to come back," he advises.

While emphasizing the importance of having cash available, Ogden cautions that before deciding what to sell, investors need to carefully scrutinize the merits of each security and to resist selling winning stocks.

FOCUS ON LONGER TIME HORIZONS

The final step in preparing for a market turnaround is to draw up a short list of companies that have the potential to move ahead when the market rebounds. When that happens, Ogden says investors will be rewarded for having ready cash.

Even though the short-term fundamental outlook remains clouded, Ogden is encouraging investors to focus on a horizon six to twelve months in the future.

"Investors can't time their buying decisions to precisely coincide with a market bottom," Ogden says. "However, it is important to remember that the stock market typically discounts events six to nine months in the future, so it makes sense to carry out selective purchases now."

What will trigger a turnaround? Predicting what's going to happen and when is extremely difficult. Ogden points to two catalysts that could signal a potential change in the markets: aggressive interest rate cuts and the prospect of improving corporate earnings.

Cautious investors may want to stagger new purchases over a period of time to help offset the risk that stock prices resume their slide. This way investors could average into a decline.

Recognizing that the seasons will change once again, Ogden encourages investors to "be prepared" by accumulating cash for new purchases and focusing on actions consistent with the individual's long-term portfolio strategy.