

GWP Quarterly

April 1, 2011

Panic, Panic, Panic!

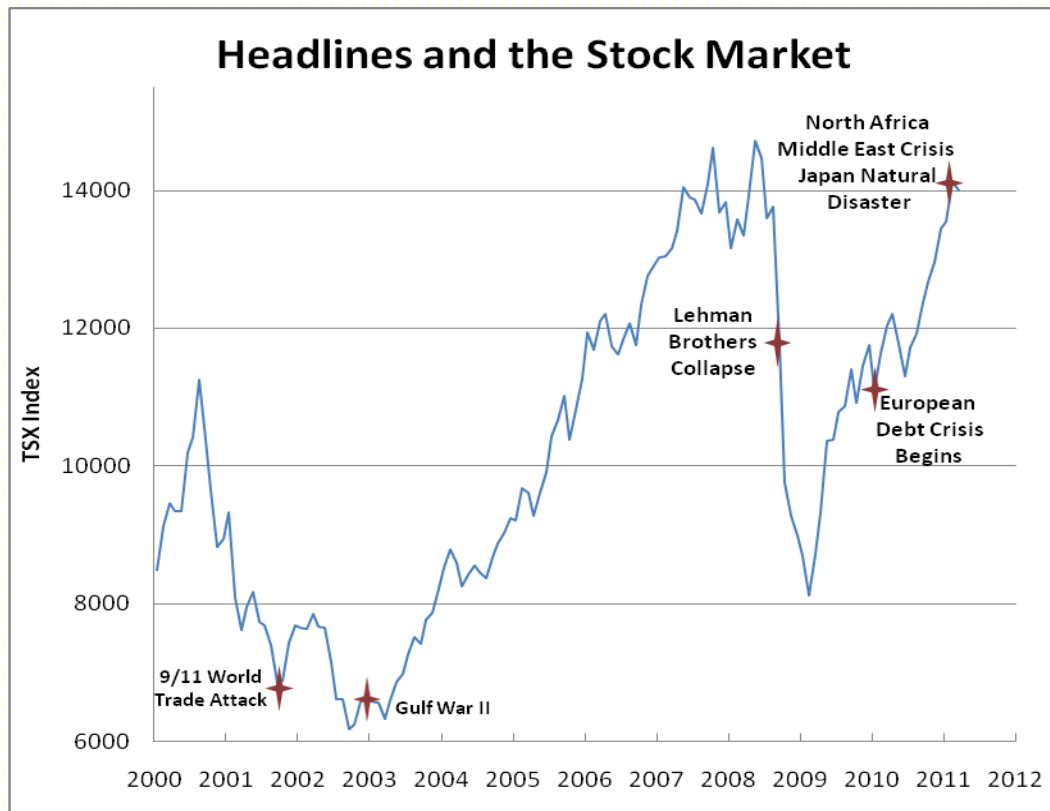


Suite 1800
10025 102A Avenue
City Centre Place
Edmonton, Alberta
T5J 2Z2
P: 780.421.4750
F: 780.421.0305

The last decade has produced enough once-in-a-lifetime events to make them seem common place. **Who could have predicted** the 9/11 terrorist attacks in 2001, the collapse of the real estate market, the European debt crisis and the most recent turmoil in the Middle East and catastrophe in Japan?

However, what is predictable is the response of investors. Rather than objectively analyzing these events they react to the sensational headlines and **panic**. Each occurrence has been followed by a knee-jerk reaction to sell stocks and move money into less volatile assets, in most cases bonds or treasury bills. The market has rallied after each event and in some cases within a few days. Investors are their own worst enemy, only investing in stocks when they feel comfortable, usually at new highs and running from the market in times of uncertainty.

The graph shows the movement in the stock market since 2000. Note that the market **always recovers** from any major shocks and is now trading almost back to its 2008 levels.



Panic decisions never work. All investors who jump out of the market at fear-induced bottoms ultimately regret cashing out when the market moves to new highs.

Our team has nearly 100 years of experience and has lived through numerous bull and bear markets. We know that over the long term stock market returns are far superior to any other asset class. Any major market decline offers us the opportunity to pick up stocks at bargain levels.

Oil has now become a major world focus with West Texas Crude trading near \$105 per barrel.

The rebellion in Libya, combined with other protests in North Africa and the Middle East, has rattled energy markets and raised concerns that oil supplies will tighten as violence spreads. In Libya, fighting between the rebels and government has halted most of the country's 1.6 million barrel a day crude production. The international military intervention launched against Moammar Gadhafi has ensured that at least one million barrels per day of production will be lost for a significant period.

While oil supplies are being restricted demand continues to increase. China, the world's second biggest crude consumer behind the U.S., saw oil demand increase 10.1 percent in February from a year earlier. This was the second highest level on record. The Saudis have said they would increase production to meet any shortfalls, but there is some debate as to whether they have enough excess capacity.

Currently fears are not centered on oil shortages but the possibility of inflationary pressures brought on by rising oil and gasoline prices, and the ultimate effect on consumers and the economy as higher fuel prices limit spending in other areas. In the U.S., national average price per gallon is \$3.548 (91 cents per litre). Prices have gone up by about 38 cents in the last month and are at the highest ever for this time of the year. This translates to Americans paying roughly \$142.5 million more per day to fill up. The last time gasoline prices spiked to \$4.00 per gallon drivers did begin conserving fuel.

Central banks around the world have addressed the inflation issue and feel that it is not going to spike out of control anytime soon. The common theme is that they will continue to keep interest rates low until the current world economic recovery looks less fragile.

Shares of oil companies have risen but not as dramatically as the commodity. If oil prices remain at or near the \$100 per barrel level, growth in oil company earnings is expected. The problems in many of the world's oil-rich countries will be ultimately beneficial to Alberta. Our neighbors to the south may demand more of our "dirty oil" from the oil sands if they want a secure oil supply.

We continue to hear negative speculation about world economic growth but the hard analysis produces a more positive outlook as evidenced by growth projections for some key economies for 2011 and 2012.

	2011	2012
United States	3.20%	3.30%
Canada	2.60%	2.80%
China	9.00%	8.70%
Hong Kong	4.80%	4.30%
Singapore	4.10%	5.00%
South Korea	4.60%	4.10%

Source: The Economist

Talk of a double-dip recession has all but disappeared and we are looking at positive economic growth for the next few years.

Moderate economic growth, manageable inflation, low interest rates and rising corporate earnings are always good for the stock market. As such we expect stock markets around the world to move substantially higher over the next few years.

GWP Wealth Management Inc.