ELYSIUM
WEALTH MANAGEMENT

OUTLOOK 2003

In many ways we could simply take the bleak Outlook 2002 letter and change the date. The all pervasive fear of war with Iraq and now North Korea continues to dominate. The valuations of the markets are not cheap; 50 times earnings if you use S&P "core" earnings; 17 times if you use Wall Street's rather rosy forecasts. Bull markets have never been known to start from such lofty levels.

The consumer, in our opinion, is where the real problems lie. The consumer is the only thing still holding up the U.S. economy. There are now several factors that we believe will slow this perpetual spending machine. Real estate is starting to show signs of a pricing bubble. We expect mortgage refinancing to be cut in half. Job growth is slowing. Five trillion of net worth has been erased after 3 declining years for the stock market. Record foreclosures and bankruptcies are being witnessed. Low down payments of 3% make the US real estate market the most leveraged investment that consumers hold. Any slow down in consumer spending will undoubtedly be felt by the financial markets. Slow holiday sales in the past month may well have been a precursor of things to come.

On the positive, corporate governance is improving, the U.S. government is kicking in huge amounts of money as a stimulus to the economy, interest rates are still at 40 year historic lows, and many people are simply tired of the market going down and thus "hoping" the market upwards. Our conclusion is that 2003 is another year to exercise extreme caution. We do not expect a new bull market to start any time soon, and will be using market rallies to lighten profitable positions or to use options to increase our income or to protect our capital.

On a very bright note, our investment strategies are becoming more and more market independent or market neutral. The CEO Fund returned over 19% versus a market decline of over 23%. Historically, wealth managers try to make money in good years, manage risk in bad years and are happy when they beat the market. The very best managers try to achieve positive returns in good times and bad times. That is the path Elysium is on. The complete CEO Family of Funds is designed for absolute returns. Since inception, the CEO Fund is in the top 1% of investment returns in Canada on a 1, 2 and 3-year basis. On a large database of alternative investments in the US, the CEO Fund ranks in the top decile. We believe we are slowly achieving our goal of being the best investment manager in Canada.

All of us at Elysium would like to take this opportunity to wish you and your families a healthy and prosperous New Year.

Ian Kalinowsky, CFA
President