

## OUTLOOK 2004

In last years outlook we stated our belief that corporate governance would improve this year. Unfortunately we were mistaken. Corporate atrocities have continued to emerge unabated. Transgressions in the mutual fund industry were also revealed as New York's Attorney General found that several major mutual fund management companies were allowing select individuals to conduct trades after normal business hours and thus steal from other unit-holders. What is worse is that once caught, the penalties seem to have simply become "part of doing business." At the end of this whole fiasco the number of people who have gone to jail can be counted on one hand.

The Federal Reserve Board and its' Chairman Alan Greenspan are also part of this "great American game." In a blatant attempt to ensure that the "punch bowl" is always full, the Federal Reserve is keeping interest rates at the lowest levels in 55 years while the economy is growing at the fastest levels in 25 years. WHY? The Fed is scared of the fact that if this "debt creation party" ever stops the US financial system has the potential to implode. Despite generational lows in interest rates, the American Bankers Association calculates that credit card delinquencies hit a new record in the third quarter of 2003. The total debt load in the US is now twice as big as the economy.....numbers that are not even reached by emerging nations. To sustain the party the US economy must now import \$1.5 Billion dollars of money EACH AND EVERY DAY. Renowned strategist for Morgan Stanley, Mr. Steven Roach wrote, "The greater the imbalances, the more combustible the flashpoint — suggesting to me that the day of reckoning could be sooner rather than later. Such an endgame would be all the more treacherous for an increasingly asset-based, wealth-dependent US economy."

During the past year we have started the process of becoming more defensive. In fixed income we shortened the "duration" of our portfolio and added "real return bonds" which self adjust to any increase in inflation (which we believe will start to pick up in the near future). We have established option positions that will cradle any fall in certain stocks and gold equities have become a staple in your portfolio. The one surprise was the massive move in the Canadian dollar. Even with this adjustment, we know that investment returns are better in the US than in Canada. Our investment philosophy will continue to be focused on the long term, while riding out short-term fluctuations.

We believe the "party" will come to an end some time in the latter part of this year. The two years following a US election usually are hangover years. We expect this time to be no different because Bush is spending about a trillion dollars of public money to be re-elected. It would not surprise us to see the stock markets fall significantly during this period. We are prepared for it.

We wish you the very best in 2004 and have included the New Year message from the CEO Family of Funds.

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