

North Atlantic Asset Mgt Ltd. Special Edition Newsletter

September 19, 2008

"Myself and every other American just loaned \$283 to AIG... I would rather have tossed the money in a wishing well " – Eric Fry an analyst with Agora Financial.

INDEX / CURRENCY	Week*	YTD
S&P 500	(0.83%)	(15.55%)
Dow Jones Industrial Average	(3.61%)	(14.79%)
Nasdaq	(0.35%)	(15.24%)
Toronto Stock Exchange	(2.58%)	(15.34%)
Brazil Bovespa	1.14%	(10.50%)
DJ Europe 50	(1.06%)	(28.18%)
UK FTSE 100	(0.93%)	(24.79%)
Japan Nikkei 225	(1.50%)	(18.93%)
Hong Kong Hang Seng	(0.31%)	(30.32%)
Australia S&P/ASX 200	(2.03%)	(28.92%)
Euro	1.10%	(1.3%)
Pound	1.42%	(8.04%)
Yen	(2.58%)	4.04%
CRB Commodity Index	0.83%	(0.47%)

*Week to date is Sept 12th to 11am Friday Sept 19th

Past performance is not an indicator of future returns.

North Atlantic Asset Management Limited is licensed to conduct investment business by the BMA under the Investment Business Act of 2003.

Special Market Update for the Markets on the U.S. Government Rescue Plan

What has been announced since Wednesday?

- Yesterday the U.S. federal government announced a sweeping series of programs to address the financial crisis.
- At the center of the plan is a mechanism that would take bad assets off the balance sheets of financial companies.
- Another is the creation of federal insurance in money market funds.
- Finally the SEC is set to propose a temporary ban on short selling. This is the practice of selling a security that the seller does not own in anticipation that the security will fall in price and the seller will then be able to buy the security at a lower price than what they sold and keep the price difference as the profit. The practice has created downward pressure on the markets.

What happened to market returns?

Markets have rebounded strongly on the news of the new reforms, recouping most of Monday through Wednesday's declines. They rebounded quickly with Thursday's gains being the largest one day gains since 2000. Futures on Friday morning show a bright start for the U.S. markets while Asia and Europe have already opened strong up over six percent.

What needs to happen for the market to get back to normal?

U.S. Federal Reserve and Treasury officials have identified the overreaching problem as being too much leverage in the financial system. During the credit boom of 2002 to early 2007, households and financial institutions took on too much debt (or leverage). They slowly need to reduce their dependence on borrowed money. Three things may need to happen before this cycle can end:

1. Financial institutions need to sell or write down the value of their assets they brought with borrowed money. This is the stage of the process we are currently in with continued announcements of asset write-downs etc.
2. They need to pay off debt.
3. They need to rebuild their capital cushions which have been eroded by stage one. For institutions this means finding investors, for households it means paying down mortgage and credit card debt and increasing savings.

What should we do?

Most clients' initial reaction is to avoid trouble and make sure they don't lose any more money. However we have witnessed this week how quickly markets can rebound. If investors were to have sold everything on Wednesday morning they would have missed out on recouping back approximately half their total loss for the week on Thursday which would have left them further in a loss position. The key is to stay invested. Of paramount importance is to make sure we are in the right risk profile, given the length of time until the funds are needed, as well as our overall savings base and risk tolerance.

Mid-Week Assessment

Wednesday, Sept 17, 2007

September 17, 2008

"Financial strength is the currency of insurance, and the bedrock of competitive advantage" – A Morningstar analyst commenting on AIG.

Special Market Update for the Lehman, Merrill and AIG Situation

What has been announced week to date?

- Lehman Brothers has filed for bankruptcy after the U.S. Federal Reserve (Fed) refused to provide a guarantee regarding its solvency.
- Merrill Lynch is to be taken over by Bank of America for \$50 billion.
- These two banks have not been supported by the government probably because the Fed believes they now have systems in place to handle the fall out amongst counter parties to the banks trades. This was not the case earlier in the year with Bear Sterns.
- The board of AIG approved a government-led rescue plan late Tuesday. The decision to provide a federal backstop for AIG came as the federal government concluded it would be "catastrophic" to allow AIG to fail.
- The precise details of the government's plans were still being formulated. The primary option being hammered out involved the Fed providing AIG with a short-term loan of \$85 billion. In exchange, the government would receive warrants in AIG representing the right to buy as much as 80% of its stock under certain conditions.
- The Fed has not cut interest rates Tuesday as was widely expected. They cited continued risk of inflation.

What happened to our portfolios?

Generally our portfolios held up well in the turmoil versus the indices. Our funds did not have any significant exposure to either Lehman or AIG and movements were based on general market declines.

As is to be expected, more aggressive risk profiles will be most affected. Conservative and moderate profiles will be supported by investments in fixed income and the GIA. Individuals need to be in the risk profile that best suits their tolerance and their time to retirement.

What should we do?

Most peoples' initial reaction is to avoid trouble and make sure they don't loose any more money. However sometimes the best time to get into the markets is when the headlines are the worst. Also it is important to remember that Lehman and AIG are single companies. Our mutual fund managers invest in the improvement of approximately 17,000 companies, all seeking to generate earnings and pay dividends to shareholders over the long run. Do not wilt to the panic and sell equities low to go into bonds which are at all time highs. When dealing with retirement portfolios the time frame of investing is longer than most other plans.

North Atlantic Asset Management Ltd and BF&M are continually monitoring the pension plan investments, reviewing and optimizing the investments to work towards the best performance over the long term as possible.

INDEX / CURRENCY	Week*	1 YEAR
S&P 500	(3.03%)	(17.34%)
Dow Jones Industrial Average	(3.18%)	(16.63%)
Nasdaq	(2.61)%	(16.69%)
Toronto Stock Exchange	(4.09%)	(17.36%)
Brazil Bovespa	(6.53%)	(24.58%)
DJ Europe 50	(7.53%)	(30.05%)
UK FTSE 100	(7.79%)	(30.07%)
Japan Nikkei 225	(3.26%)	(20.09%)
Hong Kong Hang Seng	(5.17%)	(34.00%)
Australia S&P/ASX 200	(5.95%)	(31.52%)
Euro	(0.54%)	(3.03%)
Pound	(0.49%)	(10.06%)
Yen	1.60%	5.19%
CRB Commodity Index	(5.23%)	(4.89%)

*Week to date is Sept 12th to Sept 16th

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