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The Quarterly Letter

The Quarter in Review...

We were expecting a very volatile year in 2008. The expression *be careful what you wish for?* describes our state of mind quite well.

Stock markets worldwide were in for a rough ride this quarter, experiencing a few ups but mostly steep falls. The Morgan Stanley World Index ends the last three months down 11.6%. The Canadian stock exchange, helped by its heavy weighting in natural resources companies, has fared better with -3.5%.

Despite a significant reduction in interest rates in the U.S. and concrete efforts from the world's monetary authorities to inject liquidity into the financial system, fear remains. One has to realize that the damage

was considerable and that deep wounds do not heal overnight.

We are very happy that our portfolio contains no commercial paper, no real estate investment, no direct investment in the United States and no Canadian bank that has been significantly impacted by the current crisis. However, we are suffering from the collateral effects of the confidence crisis and the economic slowdown caused by these problems.

We remain confident that we are a few quarters away from a significant upturn and that the stock market correction offers an excellent opportunity to acquire securities that will stand out over the next few years. While we are following events closely and are affected,



as are our clients, by the intensity of daily fluctuations, we are even more concerned with positioning our portfolios for the next period of prosperity.

Do not hesitate to read regularly our daily Info Sabius on the subject or to call us if you have any questions.



Le groupe Dalpé-Millette



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Selected Statistics

Month	Interest Rates			Stock Exchanges			Currencies		
	Canada Short-Term	Canada Mid-Term	Canada Long-Term	CAN TSX/SPX	USA DJII	Intern. EAFE	USA\$	EURO	YEN
Dec. 2007	3.82	3.87	3.99	13833	13265	2253	1.0190	0.6926	114.53
Jan. 2008	3.38	3.50	3.88	13155	12650	2044	1.0030	0.6787	107.34
Feb. 2008	3.04	3.14	3.64	13582	12266	2070	1.0220	0.6757	108.52
Mar. 2008	1.87	2.91	3.44	13350	12262	2038	0.9783	0.6196	97.14

The Bond Market



Worried by the economic slide south of the border and its impact here, the Bank of Canada cut its overnight rate by 50 basis points to 3.5% at its most recent meeting on March 4th.

The rate reduction, which is Mark Carney's first move as governor since his accession to office, is the most significant one since November 2001, when the American economy was in recession following the bursting of the IT bubble and the September 11 attacks. This time, the culprits are the sluggishness of the real estate market, the contamination of other sectors and the increasing timidity of banks with respect to loans.

The last two decisions on

December 4th and January 22nd resulted in reductions of 25 basis points. Since December, the Bank has cut 100 basis points from its overnight rate.

In its communiqué, the Central Bank states "There are clear signs that the US economy is likely to experience a deeper and more prolonged slowdown than had been projected in January.?"

In the United States, the American Federal Reserve (Fed) decided to cut its target rate to 2.25% at its last meeting on March 18, a reduction of 75 basis points. Just six months ago, the rate was 5.25%. The repeated reductions by the Fed since August have two objectives. The first

is to untangle the credit crisis in the short term. The second is to mitigate the economic slowdown over the medium term, which itself depends on the success of the first objective.

Bonds, more than ever, have played their role as guardians of value. In Canada, the yield on 10-year bonds fell to 3.65% from 4.7% since July. For their part, the yield on 30-year bonds dropped to 4.06% from 4.64%.

In this context, the J.P. Morgan Bond Index in the U.S. posted a return of 4.53% for the quarter, while the Scotia McLeod Universe Index posted a return of 2.95% over the same period.

Mark Carney, the new governor of the Bank of Canada, cuts the overnight rate by 50 basis points.

The Currency Market



The greenback started the year on a low note. It should be noted that the latest statistics point to a deterioration of the U.S. economic setting.

The monetary and economic authorities seem unable to curb the drop of the U.S. dollar. Over one year, the greenback lost 18% against the euro. This collapse of the U.S. dollar has recently accelerated with a loss of about 10% over one month. On March 20th, the euro shattered a new record against the greenback trading around \$1.5688 US. The greenback is suffering from

the economic slowdown in the U.S. and the policy of interest rate reductions implemented by the Fed over the last several months. Leading interest rates are now higher in the euro zone than in the United States, thus rendering the euro more interesting for investors.

For the first time in 12 years, the dollar is trading below 100 yen. Another symbolic low, the Swiss franc is now worth more than the U.S. dollar for the first time in history. In fact, in February, the *US Dollar Index*, which is a basket of six major currencies including

the Canadian dollar, fell to its lowest level since its inception in 1973.

Fears of a global slowdown in economic growth combined with the drop in the price of basic materials have not spared the loonie. The day following its worst daily drop in 50 years, the loonie lost 1.36 cents U.S. on March 20th, closing at \$0.9771 U.S. This represents its lowest level since the end of January.

The greenback is suffering from the U.S. economic slowdown.

Canadian Stocks



Volatility is back and the word 'recession' is on everybody's lips. Since Uncle Sam's economy is giving cause for concern, North American stock markets are faced with their worst beginning of the year in decades. The Canadian market lost 3.5% since the beginning of the year, a setback that erased almost all of the gains from 2007. Needless to say that with the exception of the Basic Materials sector, which is still defying the laws of gravity despite the latest index correction, all of the TSX sectors have ended the quarter in negative territory.

Leading the list of the worst sectors is the Consumer Discretionary sector has also undergone a correction since the beginning of 2008 and posted a return inferior to almost every sector within the composite index at -15.0%. The Consumer Discretionary sector is generally considered a cyclical sector that should be avoided during periods of economic slowdown. The automotive sub-sector in North America is bracing itself for a difficult year due to a higher than expected contraction in consumer spending, and a number of companies revising their profit per share outlook downward, all factors playing against the sector.

The Information Technology sector despite the fact that it had ended 2007 with a roar. Over the last few months, the sector has been severely tested by the increasing probability that the U.S. economy is heading towards recession. A good part of the sector's revenues comes from corporations, which will probably reduce their costs over the next few months if their profits shrink. The sector ends the quarter with an unenviable result of -12.9%.

It is not surprising to find the Financials sector amongst the worst performing sectors of the TSX. The sector, with a year-to-date return of -9.4% in 2008, was

given a rough ride in the last two quarters, a casualty of the recession in the U.S. housing market, which had a significant impact on mortgage-backed debt. These problems linked to mortgages have not yet been contained and remain a headache for financial institutions.

Another sector getting a lot of attention lately was the Basic Materials sector, which ranked first amongst the S&P/TSX sectors during the quarter, but not without some effort. The Gold sub-sector ranked at the top despite a strong correction at the end of the quarter. The Basic Materials sector valiantly resisted the fall in the S&P/TSX index, mainly due to the strong returns of gold mining shares, which represent over 40% of the Basic Materials index. The sector ends the quarter with a respectable return of 7.2%.

The Energy sector has not been able to take advantage of new recent highs in the price of crude oil. The momentum of the sector remains modest with a return of 0.4%. The sector suffered significant volatility provoked by economic and geopolitical problems. The U.S. economy continues to slow down and a recession would lead to lower demand for energy, which would put pressure on the sector over the next quarter.

The Canadian economy, following three quarters of very strong growth, seems to have clearly decelerated in the fourth quarter,

due to the decline of exports. Luckily, increased disposable income has kept domestic demand alive.

Indeed, the country's unemployment rate remains at 5.8%, its lowest level over the last 33 years and, consequently, the employment rate is at an historic high of 63.9%. This strong increase in employment, in a context that increasingly resembles full employment, is inevitably fuelling wage growth. Consumer spending is thus benefiting from significant underlying support, which when coupled with the beneficial effects of falling leading interest rates, is sustaining the vitality of domestic demand.

Even if the U.S. slowdown does impact Canada, the country is well positioned to avoid an economic contraction. The saying goes that 'when the U.S. sneezes, Canada catches a cold'. This time, however, the vitality of the Canadian economy could refute it.

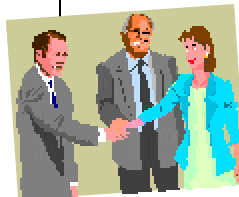
Volatility is back, but the S&P/TSX comes through in better shape than its world counterparts!

More Movement Within the Dalpé-Milette Group!

Mrs. Francesca Pannunzio joins our team.

Francesca holds a degree in Business Administration from HEC Montreal, with a specialization in Finance. In addition to her qualifications and superior technical training, she has eight years of relevant experience in our industry.

She will be responsible for customer services. Her arrival coincides with the departure of Annie Dagenais who will give birth to her second child next June. Annie will leave at the end of May for a one year maternity leave.



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US Stocks



Days come and days go, but no two days are alike on the markets these days. American stock markets have experienced significant fluctuations during the last quarter. Following a drop in January, they stabilized in February and end the first quarter of 2008 in negative territory.

Following several see-saw trading sessions, the American exchange's diversified index, the S&P 500, fell by 9.9%, the Dow Jones index of the 30 most important securities declined by 7.6%, while the Nasdaq plummeted 14.1%.

The trigger for the current credit crisis lies in some shoddy credit practises and in the lack of transparency. Our southern neighbours intend to proceed with a thorough clean up by tightening regulations. We have already witnessed many initiatives by the Fed to tackle this crisis and to restore investor confidence these last few months (hefty reduction of the leading

rate, refinancing plan, additional tool of 200 billion dollars).

In mid-March, the price of black gold reached a new record, around \$110. Combined with the real estate crisis, this could sap the American consumers' moral. Negative data on industrial production reinforce the fears of a recession. However, it should be noted that a recession is technically defined by a period of at least six months of decline of the real GDP?.

Job losses are multiplying. An additional sign that consumer spending is at half-mast among our neighbours to the south, retail sales (representing two thirds of economic growth) have declined by 0.6% in February. In addition,, housing starts were at their lowest in 17 years in February, but are more resilient than expected. The University of Michigan Consumer Sentiment Index measuring consumer attitudes and expectations towards the U.S. economy has receded in March. A fifth con-

secutive downturn of the leading indicator was also announced at the end of the quarter.

Some positive statistics remain; prices for raw materials are still vigorous, sustained by the weakness of the greenback. Retail prices have shown an unexpected stability in February. Furthermore, according to recent compilations, only 13% of corporations posted disappointing results inferior to expectations in the fourth quarter. However, this percentage could increase this quarter.

All in all, financial turbulence, the weakness of the labour market and the decline in housing prices are affecting the mood of the American consumer. Growth in the first quarter of 2008 will be weak. It remains to be seen how far the measures adopted by the government and the monetary authorities will go to soften the current blows.

A Yo-yo stock market this quarter, dominated by fears about the credit crisis.

International Stock Exchanges



European markets were no exception and experienced significant declines. The indices of Germany, France and Italy end the first quarter of 2008 down 19.0%, 16.2% and 17.3% respectively.

Inflation is at its highest level in years in the euro zone at 3.2% year over year in February. In addition, consumer prices and salaries have increased more than expected. However, German investor confidence was surprisingly up for a second consecutive month in March and exports have stood firm until now in the euro zone.

In the United Kingdom, the British index ends the first three

months with a decline of 11.7%, while the Hong Kong Hang Seng index ends the same period down 17.9%. In Tokyo, the world's second financial center, the Nikkei 225 lost 18.2%. Export weakness at the beginning of the year has increased the risk of a recession in Japan.

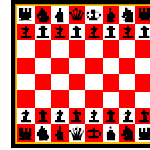
Inflation and soaring raw material prices worry Chinese investors. According to recent statistics, Chinese industrial production posted its lowest growth in over a year and its trade surplus is down for the first time in almost a year. However, money supply growth has slowed down, reassuring the Chinese authorities.

As mentioned by the Managing Director of the IMF (International Monetary Fund) following the meeting of the G7 countries in February, the world economy has entered into a difficult phase. The good news is that more countries have intervened to inject liquidity into the system. Furthermore, despite the slowdown experienced by industrialized countries, emerging economies are surprising everyone with their continued expansion.

In the last few months, world financial markets have faced significant turbulence due to the American real estate crisis and the uncertainty with respect to the extent of the financial sector crisis in United States.

International stock exchanges post losses as significant as in the United States.

Review of Portfolio Activities



The last quarter has been the source of much concern. This required a lot of reading, analysis, introspection and vision. We had to evaluate the potential short term impact of the damage versus mid and long term potential gains.

The volatility and the widespread decline of the stocks markets have allowed us to slightly modify our portfolios to, in our opinion, position them better for the next years.

Major themes that support our portfolio management strategy are:

- (1) stock markets are at worst 5 to 10 % from their bottom;
- (2) stock markets are definitely less expensive than income securities and the next economic upturn will allow a significant recovery of stock market prices;
- (3) the financial and economic situation favouring Canada, especially attributable to the importance of its natural resources sector (oil, base metals and agriculture), which has been noticeable for a few years now, will be even more obvious in the next few years. This will continue to contribute to a strong and increasing Canadian dollar;
- (4) the economic growth of emerging markets, mainly China and India, will continue to surpass by far that of the United States and Western Europe. This will be reflected in the performance of the best companies of these countries and of their currency;
- (5) the natural resource, agriculture and infrastructure sectors will dominate economic activity for at least 10 years; and
- (6) gradually, an increasing portion of portfolios worldwide will be invested in themes 3, 4 and 5, thereby raising their evaluation ratios.

During the last quarter, our portfolio transactions were directed to better align our securities to this vision.

We liquidated our holding in Alimentation Couche-Tard (which was part of the furnitures? since 1992) at \$16.99 on February 1st - the stock price on March 31st being \$16.09.

We began investing in the agricultural sector through the purchase of Potash Sask Corp on February 1st at \$141.20 - the stock price on March 31st being \$159.50 and we are

preparing to invest in Market Vector-Agribusiness ETF (listed on the AMEX; symbol MOO.A), which replicates the performance of the DAX Global Agribusiness Index.

We increased our participation in HudBay Mining. We have modified our holdings in the energy sector by increasing our investment in Canadian Oil Sands Trust where long lasting reserves and the major impact on profitability of the rising price of a barrel of oil inspire confidence, and have planned an upcoming investment in Market Vector-Nuclear Energy ETF (listed on the AMEX; symbol NLR.A), which replicates the performance of the DAX Global Nuclear Energy Index. Despite the fears that this energy form provokes, we think that it is currently well positioned to help satisfy increasing energy requirements, the scarcity of conventional sources and concerns about global warming.

The stock market downturn allows us to position our portfolios in sectors and securities that should, in our opinion, distinguish themselves during the next upturn.

Memo: The Stock Market: Context Versus Valuation

*(text wrote on
March 20, 2008)*

The stock market is currently experiencing a very turbulent period. The decline in share prices since the summer of 2007 has been significant. Volatility is at a record high.

The numerous conversations with our clients in the past few months have highlighted that many find it difficult to reconcile the current environment and the depreciated price of shares. The objective of this short memo is to show the relationship between the two.

To simplify the explanation, we will take a specific case, shares in the Royal Bank, instead of generalizing for the market as a whole, even though the same logic applies in the two cases.

A year ago, the economic environment was quite better than it is actually. No one was even talking about the real estate crisis, commercial paper or the liquidity crisis. Royal Bank shares were trading at \$57.20.

Today, the market is in turmoil and we are constantly bombarded by negative economic news. Royal Bank shares are now worth \$45.50. In a year, these shares have dropped 20.3%, a significant decline.

In fact, the decline is even worse than it seems. The value of stock market securities are strongly influenced by the level of long term interest rates. In Canada, long-term rates (Canada 10-year bond rates) fell from 4.05% to 3.45% since last year. All other things being equal, however, the Royal Bank should be currently worth, due to the decline of interest rates, around \$67 (we will spare you the details of this calculation). Consequently, we can conclude that the Royal Bank stock has experienced a devaluation of 32% in a year.

Of course, all things are not equal. The current economic and financial situation is much worse than the one that prevailed a year ago. But the real question remains, has this situation deteriorated so badly so as to justify a decline of

32% in the value of the Royal Bank? Remember that the value of a share on the market is supposed to reflect the future outlook (for life) of the profitability of a company.

To this question, we confidently answer no. This means that an investment in the shares of the Royal Bank today seems more promising for the next few years than a year ago. The situation has deteriorated, but the security has declined even more, making it a better investment today. Confidence in an investment in the Royal Bank should be higher today than a year ago despite (in fact, ?due to?) the current turbulence.

The same logic applies today for most of the other Canadian banks, base metal securities and securities of emerging countries, in fact, for most of the stock market.

Royal bank shares are worth as at March 31,2008: \$47.95.

In our opinion, the current economic and financial environment does not justify the severe correction in the price of several stocks on the market.

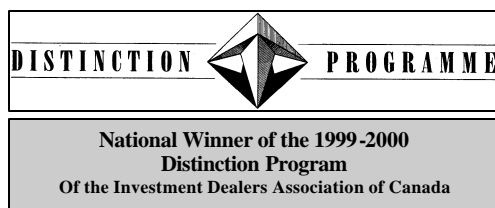
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Info Sabius



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