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The Quarterly Letter



The Quarter in Review...

This is our first Quarterly Letter with Desjardins Securities. Aside from the change in logo and a few different words here and there, our letter should have a familiar look.

Since our arrival at Desjardins Securities, we have noticed two things:

1. The vast majority of our customers are satisfied with our overall service offering. Over 90% of our customers agreed to pursue our relation because they understood that, in spite of a very difficult market environment since the spring of 2000, our man-

agement has been quite competitive and our service consistent and empathic. From the bottom of our heart, we thank our faithful customers; and

2. The reasons that motivated our departure from our ex-employer and our arrival at Desjardins Securities have become more obvious than even we had imagined. The behaviour of the National Bank Financial since our departure and the attitude of Desjardins Securities confirm more than ever that the time for change had come.



We hope that the hubbub of the last months did not prevent you from noticing the significant progress in the portfolios since the end of March. The last quarter represented the best portfolio performance in a long time. The details follow.



The Dalpé-Millette Group

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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
Mar. 2003	3.31	4.56	5.16	6343	7992	869	0.6812	0.6237	80.39
April 2003	3.19	4.23	4.94	6586	8480	950	0.6978	0.6259	83.07
May 2003	3.17	3.64	4.41	6860	8850	1004	0.7311	0.6220	87.43
June 2003	3.09	3.61	4.45	6983	8985	1026	0.7404	0.6495	88.85

The Bond Market



Bond markets have regained the favour of investors this quarter. Canadian bonds have appreciated significantly in the last two months, after having reached bottom last March 21. The price increase in bonds generated an enviable performance for bondholders, especially those that had invested in long-term securities. Indeed, after three months of almost zero yield at the beginning of the year, the upsurge of the last few months allowed the Scotia McLeod Universe index (representing the overall Canadian bond market) to generate a return of 5.2% for the quarter. The results also demonstrate that investors with long-term bonds were the great winners. For the same period, the long-term bond index posted a return

of 7.1% compared to 5.1% for medium-term bonds and 3.0% for short-term ones.

For the same period, the American bond market also recorded a good performance. The J.P. Morgan index rose 2.9% for the quarter. Since the Federal Reserve brought investors' attention to the risks of deflation, such a run-up in bond prices had not been seen since October 1998.

The reasons supporting the rise in the Canadian and the American bond markets are however different. While the American market is taking advantage of the abundance of liquidity and of the fear of deflation, the Canadian market is benefiting from the fact that many foreign

funds are interested in Canadian bonds. The incentive to buy Canadian bonds can be explained by the fact that the interest rate spread between Canada and the United States renders the Canadian market very attractive and the strength of the loonie increases the security of the investment as well as the capacity for additional earnings.

The increases in both the bond and stock markets, which should behave in a reciprocal manner, generate scepticism; the economy will either progress or decline, but not both simultaneously.

Once again, bond markets find favour with investors.

The Currency Market



Since the beginning of 2003, the loonie has gained 14.7% against the American greenback. This easily eclipses the former record annual increase of 9% set in 1998.

Barely one year ago, a debate was nevertheless raging in economic circles - why not negotiate the adoption of a single currency with the United States before the poor loonie loses all its feathers? Some people were questioning why we didn't dare abandon the loonie to adopt the American dollar as, for example, the Ecuadorians did. The loonie had been losing weight for 10 years. On January 18, 2002, it hit a new historic low at \$0.6201 American.

The main factor behind the rise in the Canadian dollar over the past year has unmistakably been the day by day broadening of the interest rate spread between Canada and the United States, which has ensured an inflow of international capital supporting the demand for the Canadian dollar. The spread between the interest rates has been widening since the Bank of Canada began to raise its rates on April 16, 2002. It has increased rates on five occasions while the Federal Reserve has only proceeded with a decrease of 0.75% during the same period; the difference in rates is the most considerable since 1995. In fact, the loonie is taking advantage, like every other currency in the industrial-

ized world, of the dark clouds drifting over the American economy. The loonie gained 8.4% in the quarter. The euro also took advantage of the slide in the greenback, which has been weakened by economic and geopolitical pressures. The euro reached its highest historical level against the greenback last May 30, closing at 1.1909. The euro appreciated by 9.0% since the beginning of year and by 5.6% in the quarter.

Movement between the Canadian dollar and the euro was less significant, the loonie changing from 0.6646 to 0.6495 euros in the last year.

The loonie hits its highest level in seven years.

Canadian Stocks



The barometer of the Canadian Stock Exchange, the S&P/TSX, ends this 2nd quarter with a refreshing jump of 10.1%. With the first half of the year completed, the benchmark index posts a return of 5.6% for 2003. The upward trend has never been this obvious in 3 years.

All sub-indexes end the quarter up. The IT sector exploded by 20.8% this quarter, bringing the gain to 23.0% since the beginning of the year. Among the most successful sectors: telecommunication services, consumer discretionary, health care and the industrials, which

climbed respectively by 18.5%, 14.9%, 14.8% and 15.8%.

Although the overall situation remains positive, the cruising speed of the Canadian economy slowed down in the last months. The economy was faced with uncertainties, such as the recovery of the American economy, the consequences of SARS and mad cow disease.

The labour market in the country is facing a setback this quarter after strong growth in 2002 and in the first quarter of 2003. The housing market is also slowing down its beat but the

level of dwelling starts remains high. Nevertheless, the confidence level of Canadian households remains higher than that posted by their American counterparts.

Strategists retain a cautious optimism for the second half of 2003 and believe that company profits will exceed expectations, a stalwart for the current rebound.

The S&P/TSX appreciates by 10.1% this quarter. The market is optimistic for the second half of 2003.

US Stocks

All three main American indexes have posted appreciable and much appreciated gains for the 2nd quarter of 2003. The Dow Jones and S&P 500 have shown respective increases of 12.4% and of 14.9% while the Nasdaq has exploded by 21.0%, an upsurge of over 50% for the latter since October. The S&P 500 has, for its part, exceeded the 1,000 point mark in mid-June. To date, the Dow Jones has posted a positive return of 7.7%, the S&P 10.8% and the Nasdaq 21.5%.

Such a rebound delights markets but also arouses the fears of a pause or of a deflation amongst several observers, in particular for technology securities. This stock market surge over the last three months is based on more optimistic economic signals.

Several indexes reflecting the economic activity of the second quarter in the United States are encouraging and demonstrate a revival of confidence from consumers and business. In addition, we are witnessing an in-

crease in the activity of the manufacturing and industrial sectors as well as better than anticipated results at the employment level.

The massive liquidity injected by monetary and political authorities, as well as the rise in corporate earnings combined with rates maintained at extremely low levels, seem to have the expected effect and should allow the American economy to accelerate in the second half of 2003.



Phenomenal rise in American stock prices since the bottom hit in March.

International Stock Exchanges

Following the example of American stock exchanges, overseas exchanges experienced a significant appreciation during this quarter.

After stagnant growth at the beginning of 2003 in all the major regions of the world, outlooks are beginning to improve. The SARS epidemic affecting South-East Asia in particular seems controlled, the fears of the war are dissipating, monetary policy remains stimulating and business confidence is on the rise.

The European Central Bank adopted a more supple approach by lowering its leading rate to its lowest level in the last 50 years, hoping to stimulate the economy which remains lethargic and to maintain price stability.

New measures will be adopted in Japan to fight the deflation that has settled in since 1995. Japan's central bank will begin to buy corporate bonds in the hope of boosting loans granted to small firms, of stimulating the economy and of triggering

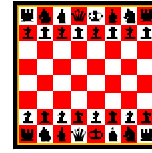
some inflation. In spite of the precarious situation in the country, the NIKKEI 225 index has posted a gain of 13.9% this quarter with a progression of 8.2% since the beginning of year.

International reference indexes have followed suite and end on the rise this second quarter. Germany, France, Italy and the United Kingdom have posted respective returns of 32.9%, 17.8%, 14.2% and 11.6%.



The new position of the European Central Bank combined with the FED policy should revitalize growth worldwide.

Review of Portfolio Activities



Our relocation in May was not convenient to make changes to our portfolios. We did not want to affect adversely the transfer process that followed.

In fact, our main portfolio activity since the beginning of 2003 was to avoid the panic that could have resulted from the very difficult market environment of 2002 and the 1st quarter of 2003. At the end of February, we wrote a significant text (Info Sabius) bringing to the fore our conviction of a return in strength of the stock markets. This phenomenon was not delayed and allowed the portfolios to show very attrac-

tive returns since the end of March.

This being said, the recent vigour of the stock markets, the unexpected decline in interest rates in this context and the unconvincing signals of a return in strength of the economy are forcing us to revise slightly our asset distribution. The increased relative weight of the equity portion of the portfolios following the rise in stock markets has reached a level a little higher than we would like and it is likely that we will soon sell some securities or reduce the weight of equity.

Our level of comfort will certainly climb when the growth in corporate profits, which in the last year has been the result almost exclusively of a decline in costs, will also be supported by a progression in revenues. The inertia of the employment market and the sturdy rise in the Canadian dollar do not help Canada. It would not be surprising to see the Bank of Canada decrease interest rates to return the Canadian dollar to a more stimulating level for Canadian exporters and to stimulate further the national economy, which has misfired in the last quarter (SARS being partly responsible).

Following the significant progression in the value of the equity portion within the portfolios, we are considering a slight reduction in equity weight soon

Portfolio Management Quiz



During 2003, we will quiz you to measure your understanding of the analysis of your investment portfolio return and to understand your appreciation of our role as investment advisor.

Question 3

Which of following two scenarios provides the most significant actual enrichment?

	<u>Annual return</u>	<u>Annual inflation rate</u>
Scenario A	14%	9%
Scenario B	8%	2%

Answer:

Actual enrichment measures increase in purchasing power. Purchasing power is calculated by subtracting the inflation that prevailed during the period from the gross return. Consequently, scenario B ensures a greater enrichment (8% less 2% = 6%) than scenario A (14% less 9% = 5%).

Question 4

Assuming a tax rate of 40 % on investment income, what is the actual after-tax return for the previous two scenarios?

Answer:

Scenario A $14 \% * (1-40 \%) = 8,4 \% \text{ less } 9 \% = -0,6 \%$

Scenario B $8 \% * (1-40 \%) = 4,8 \% \text{ less } 2 \% = 2,8 \%$

Consequently, scenario B allowed an actual after-tax enrichment while scenario A indicates a loss of purchasing power.

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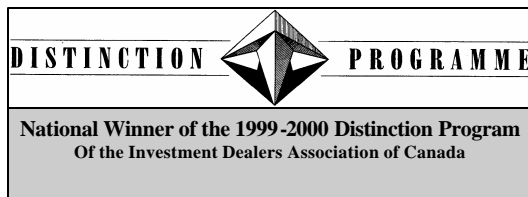
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The Dalpé-Milette Group



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Info Sabius



For our clients who wish to obtain more information about financial markets as well as the views and thoughts which direct our portfolio management decisions, our Info Sabius meets these requirements. It is sent on a daily basis either by fax or by e-mail to our clients who wish to be kept abreast of their portfolios and the many issues which affect them. Please do not hesitate to contact us should you be interested in receiving it.



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