



The Quarterly Letter

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The Quarter in Review...

Many factors, especially in April and May, contributed to a generalized stock market downturn. Following a significant upsurge of market indices in 2003 and at the beginning of 2004, very little was required to tip the scale. The resumption of inflation, record high oil prices, the likely increase in interest rates following the sturdiness of the economy, and continued fear over the situation in Iraq and elsewhere could each have given someone cause to liquidate a portion of his/her portfolio. From the end of March to the end of May, the Cana-

dian stock index declined by roughly 10%.

As a matter of fact, the setback was not that bad. The recovery at the end of May and in June allowed the Canadian stock index to retreat by only 0,5% during the quarter (+1.3% for the American S&P500).

We believe that the stock market should behave quite well during the next few quarters, but we will take advantage of this environment to reduce our equity position even further. The increase in interest rates and its impact on



valuation ratios will eventually win out over corporate earnings, so it will be necessary to remain cautious in this respect.

A pleasant summer to all of you.



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 TSE/SPX	USA DJII	Intern. EAFE	USA\$	EURO	YEN
Dec 2003	2.57	3.91	4.66	8221	10454	1289	0.7727	0.6156	82.75
Mar. 2004	2.01	3.35	4.33	8586	10357	1337	0.7648	0.6283	80.80
April 2004	1.92	3.70	4.63	8244	10225	1303	0.7297	0.6091	80.13
May 2004	2.00	3.97	4.77	8417	10188	1302	0.7342	0.5998	81.03
June 2004	2.01	4.10	4.84	8546	10435	1327	0.7440	0.6158	80.64

The Bond Market



Since the beginning of the decline of stock markets in the spring of 2000, the bond markets have distanced themselves sharply. However, 2004 will probably mark the return of the pendulum.

In the United States, the bond market experienced an extremely difficult month of April. The first employment report finally came out on April 2nd surpassing all expectations. The shock waves were felt far and wide. The 10-year interest rate in the United States jumped 26.5 basis points, the biggest daily change since March 8, 1996. Rates went from 3.7% to 4.2% in a few days, erasing a good portion of their gain in 2004.

As if the employment surprise was not enough, the publication of retail sales and inflation figures also struck the bond mar-

ket in April. The 10-year rate jumped 22 additional basis points when inflation data indicated a significant upward movement. The speed at which this was done shook the market. The rise of inflation over 12 months, from its weakest point, was relatively fast.

The correction of the Canadian bond market was less stunning. This difference can be explained by the fact that the Bank of Canada lowered its leading rate by a quarter point last April 13. This is the third reduction of the leading rate this year and doubtless the last one of the current economic cycle. Last June 8th, the Bank of Canada left its leading rate unchanged at 2.0%. In April, the Bank of Canada had moreover indicated that the period of easing monetary conditions was drawing to a close.

In the United States, the economy is running at full speed since the beginning of the year. At their May 4th meeting, the 12 members of the American Federal Reserve (Fed) decided unanimously to keep the American central bank's leading rate unchanged at 1%. In the communiqué indicating its decision, the Fed eliminated the expression that it intended to be 'patient' before tightening credit. On June 30th, to no one's surprise, the Federal Reserve increased the central bank's leading rate by 25 basis points to 1.25%.

In this context, The SMI Universe Canadian index posted a negative return of -2.0% for the quarter. The quarter was even less lucrative for the American market as the J.P. Morgan index recorded a negative return of -3.3%

The pendulum swings back for the bond market

The Currency Market



Last February, Canadian exports recorded their strongest growth in close to 10 years, pushing the trade surplus to a higher level than expected. On the other hand, good news on the trade front did not prevent the Canadian dollar from sliding even further on the exchange market. The Canadian dollar lost 4.6% against the greenback in April. Such a significant depreciation in a one month period has not been seen in the last 20 years. Although the dollar regained half of the lost ground in May, this sudden slide rekindled doubts about its direction.

The fall of the loonie is partially due to the fact that financial markets no longer see the American economy in the same light. The one ingredient that was missing for a sustainable expansion is now present; close to 1 million jobs were created in the United States in the last two months. This dynamism and the acceleration of inflation in the last three months indicate that the American economy no longer needs an expansionist monetary policy, but that is only part of the story. The Australian dollar was affected even more

than the loonie in spite of the enormous interest rate differential - 425 basis points - between Australia and the United States. There is also fear of a world economic slowdown and a crisis in China, which has affected all currencies connected to raw materials, of which the loonie is one.

Since the beginning of the year, the Canadian currency fell by 3.7% against the American dollar.

The loonie lost 4.6% in April

Canadian Stocks



The Canadian stock markets have been quite shaken in the last quarter, but seem to have regained momentum in June. Indeed, the S&P/TSX ends the quarter with a loss of 0.5% in spite of the fluctuations of the last few weeks. In addition, the latter ends the first half of the year on a slightly positive note with an increase of 3.9%, positioning it at the top of major North American indices.

Most economic sectors in the index end this quarter in negative territory. Among these, the great losers are materials (-3.8%), telecommunications (-5.0%), and utilities with a decline of 9.5%. Incidentally, the last two posted the worst returns among the 10 sectors for 2004, -8.4% and -8.2% respectively. On the other hand, consumer discretionary and infor-

mation technology offered the best performance for the quarter, with 4.9% and 4.7%. To date, the most successful sectors in 2004 are information technology (35.6%), followed by energy (8.7%) and finally finance (6.1%).

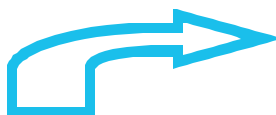
The confidence level of Canadian consumers fell to its lowest level since November 2001, influenced, among other things, by the upcoming elections, continuous geopolitical tensions, the price of oil and the possible increase in interest rates. For its part, the Bank of Canada lowered its interest rate in April to stimulate domestic demand and counter the appreciation of the loonie. However, the Bank has since taken a breather and left the rate unchanged in June.

Indeed, many signs indicate an

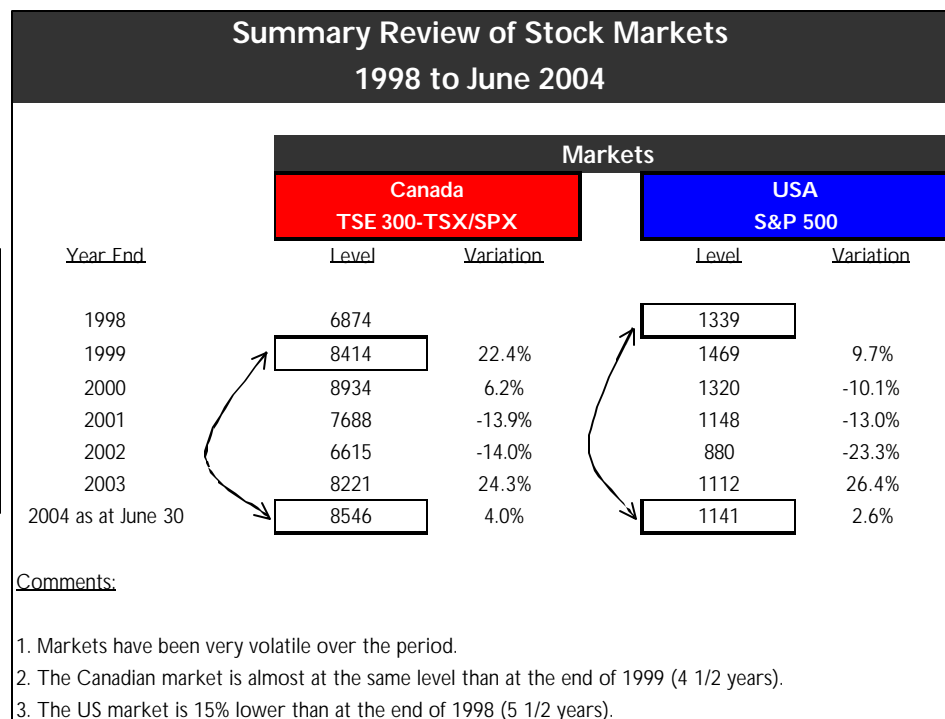
acceleration of economic growth in Canada in the second quarter. Canadian GDP statistics reveal an improvement in market conditions during the current quarter. Also, the good performance of the labour market in April and May surpassed the expectations of experts and allowed a further retreat in the unemployment rate to 7.2%, the lowest level since September 2001. In April, the trade surplus was propelled by Canadian exports growing at over six times the pace of imports, due mostly to a sustained US demand.

Contrary to expectations, the inflation rate in Canada shot up in May fuelled by gasoline price. However, analysts are expecting monetary tightening from the Bank of Canada only in the fall.

In spite of sudden fluctuations in the last few weeks, the TSX has posted a slightly positive return for 2004 and the Canadian economy is showing signs of growth.



Canadian and US stock markets have experienced significant fluctuations since the end of 1998. So, where do we stand today taking everything in consideration? See the chart on the right for a review of the situation.



US Stocks

Contrary to the robust gains at the beginning of 2004, the stock markets have been navigating in choppy waters since the beginning of the quarter, reacting, among other things, to an imminent tightening of US monetary policy. The latest data confirm that the total consumer price index has increased during the quarter, yet they do not indicate a return to inflation, which would force the Federal Reserve to deviate from its commitment to increase leading rates at a "moderate" pace.

After evolving in sawtooth patterns, the S&P 500, the Dow Jones and the NASDAQ end the quarter with respective returns of 1.3%, 0.8% and 2.7%, and 2.6%, -0.2% and 2.2% for

the first half of 2004.

The most recent statistics indicate that the American economy continues to grow at a fast pace and is on track for a fourth consecutive quarter with an annualized growth of at least 4%, a first in 20 years.

While employment was perceived as the weakest link just a few months ago, the recovery in employment is sustained and exceeds even the most optimistic forecasts. Manufacturing activity remains excessively strong and retail sales jumped at the end of the quarter. It should be noted that industrial activity is also very sturdy and has undergone the strongest increase in nearly 6 years.



These statistics, combined with a record high trade deficit this quarter, explain the need to return monetary policy to a more neutral level.

In conclusion, the likely rise in interest rates, the situation in the Middle East and inflationary pressures have rendered markets somewhat cautious this quarter. Furthermore, the upswing in oil price is increasing investor discomfort, but profits continue nevertheless to exceed expectations.

Stock markets are anticipating an increase in interest rates.

International Stock Exchanges

International indices put up a good show this quarter. In Europe, the German and Italian indices have performed particularly well with respective earnings of 5.1% and 3.2%. The United Kingdom and France end the quarter up with 1.8% and 3.0%.

Over the year, major indices are in positive territory, lead by the Japanese NIKKEI index which is up by 1.1%. In contrast, the Hong Kong Hang Seng index has lost some ground and closes the quarter down 2.3%.

In spite of persistent deflation, the growth in Japan is impressive. Consumer spending is

alive and well and has registered its strongest increase over a 12-month period in 7 years. However, this recovery remains dependent on exports, especially trade with neighbouring China. Yet, the Chinese authorities, fearful of an overheating economy, have tightened credit conditions. Thus, China continues to be plagued by over-investment, fed by easily accessible credit.

China is not the only one putting a brake on credit. The Bank of England has raised its leading rate by 25 basis points twice this quarter, once in May then in June. These measures aim, among other things, to

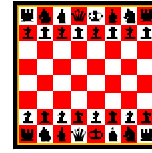
contain inflationary pressures. The latest figures demonstrate moreover that the pace of household spending continues to accelerate.

The latest results also show a moderate improvement of the economy in Euroland. No one doubts that the recovery remains fragile in spite of strong domestic demand, notably in France. Besides, the unemployment rate remained high this quarter in the euro zone, especially in Germany.

The global economy is accelerating.



Review of Portfolio Activities



Our only important transaction during the quarter was the sale of our investment in BCE shares (at \$27.75; current price \$26.25). This sale has had the effect of reducing slightly the weight of the equity position in the portfolios, rendering it more in line with a neutral position rather than an over-weighted one.

Shares of companies that we wish to hold in our portfolio must satisfy certain criteria based on growth at a reasonable price. We estimate that BCE's profit growth outlook is weak and that BCE will behave similarly to other participants in its sector, which is relatively unappealing.

BCE's stock price benefits from a certain level of support because of a generous dividend of about 4% a year. BCE management is stuck between the pursuit of an aggressive dividend policy supporting the stock price, and major investment requirements due to technological changes and cutthroat competition.

We are worried that the likely increase in interest rates over the next few years will depreciate the value of shares in BCE, even if the company was to increase its dividend slightly.

We intend to take advantage of a recovery of the markets over the next few quarters to further reduce the weight of equity

within portfolios. Eventual sales will more likely reduce the weight of some investments than completely liquidate select securities.

A few quarters ago, we adopted a conservative strategy to manage the duration of our fixed income securities. This approach served us well, but we intend to gradually extend the duration of these securities, probably at the end of the year.

A slow quarter with very few portfolio transactions.



Bernard Voyer excels!

Last May 18, over 300 people participated in our latest Sabius Conference. Bernard Voyer, experienced speaker and explorer, delivered a message of perseverance and exceptional achievement. The children, to whom this presentation was especially dedicated, were enchanted and spurred on. A true success story!

An event to repeat in 2005.

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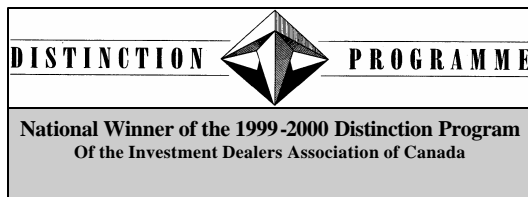
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