



The Quarterly Letter

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The Quarter in Review...

The 3^d quarter of 2004 has followed the trend observed throughout the year, i.e. marking time. The Canadian stock market posted a gain of 1.4% during the 3^d quarter (-2.3% for the American S&P 500), bringing the total increase in Canada to only 5.4% so far in 2004 (0.2% in the United States). During this time, the bond market is doing better with 2.8% this quarter.

In spite of an anaemic environment, our portfolios generated considerable gains this quarter, particularly in July and September. Consequently, we have more than made up for the slight lag in

our performance for 2004 vis-à-vis the 1st quartile of other Canadian managers. The main contributors to this success are our positioning with respect to the management of fixed-income securities (with very short-term durations), our bank securities and our investment in Alimentation Couche-Tard.

The economic environment and the behaviour of the markets during the last few months motivated us to review some of our strategies and to fine-tune our portfolios. We invite you to consult the *Review of portfolio activities* column on page 5 as well



as our daily Info Sabius.

We remain cautious, but rather optimistic, for the upcoming quarters, as well as very confident in the positioning of our portfolio.



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
Dec 2003	2.57	3.91	4.66	8221	10454	1289	0.7727	0.6156	82.75
June 2004	2.01	4.10	4.84	8546	10435	1327	0.7440	0.6158	80.64
July 2004	2.07	4.00	4.76	8458	10139	1284	0.7523	0.6258	83.66
Aug. 2004	2.17	3.98	4.61	8377	10173	1286	0.7584	0.6293	83.38
Sept. 2004	2.45	4.03	4.62	8668	10080	1318	0.7876	0.6391	87.37



The Bond Market

The Bank of Canada decided to begin its monetary tightening with an increase of 25 basis points in its key interest rates, rising the latter to 2.25 % last September 8. It must be noted that this increase was largely anticipated by market players and that it follows two consecutive increases in US federal fund rates. That said, Canadian monetary authorities did not want to disappoint financial markets by diverging too far from US monetary policy. The last time that the central bank had raised its rates was in April 2003.

Canada is one of the rare countries to stage a vigorous comeback recently. A positive showing in exports, in corporate investments and in the labour market incited the Bank of Canada to raise the money rate. The Canadian economy is now on a roll and is dissociating itself favourably from major industrial countries, following its disappointing

performances in 2002 and 2003.

In the United States, American monetary authorities pursued their monetary tightening policy this quarter, with two consecutive increases of a quarter-point in August and September; the principal rate is now at 1.75%.

While, quite recently, financial markets were celebrating the arrival of a durable economic recovery, marked by the end of "jobless" growth, recent employment data is again quite worrisome. However, the Fed remains confident with growth prospects of the American economy.

Although inflation is generally disastrous for bond prices, the unprecedented rise in oil prices has not worried bond managers. Indeed, while oil prices reached new summits, prices for long-term bonds appreciated. Between July 26 and August 20, the price for Canadian long-term bonds

went from \$105.60 to \$108.50 and this in spite of the rise in oil prices. This can be explained by the fact that the relation between oil prices and inflation has changed dramatically. The intensification of global competition means that companies can no longer pass on oil price increases to consumers. So, instead of causing a jump in inflation, increases in the price of oil have become a tax, reducing corporate profits. The recent inverse relationship between oil prices and the return on bonds can be explained by the fact that bonds offer a hedge against inflation in times of geopolitical instability.

In this context, the bond markets have nevertheless procured positive returns for the quarter. The SMI Universe bond index posted a return of 2.8% for the quarter. The American market has been even more lucrative; the J.P. Morgan index posted a return of 3.5% for the same period.

Monetary authorities raise rates.

The Currency Market

The USD/CAD exchange rate has caused much ink to flow in 2003. Having appreciated by over 20% over a twelve month period against the American dollar, the loonie then edged down by 9% at the beginning of 2004. But as several economists had foreseen, the fall of the loonie was only temporary. Getting its second wind, the loonie has now regained the lost ground.

The rise of the Canadian dollar rests on several factors. The latest statistics reveal that the Canadian economy is benefiting from the best conditions in over 30 years with respect to its international trade. In addition, while Canada

continues to accumulate budgetary surpluses and still posts significant trade surpluses, the United States is sinking in enormous budget deficits and continues to aggravate its trade deficit, the latter recording new record levels. These two elements weigh against the value of the USD on the foreign exchange market to the advantage of the Canadian dollar. Besides, Canada is one of the world's net oil exporters and record prices are a very significant positive element. Metals are another significant portion of Canadian exports and demand is very strong; the higher the price for goods, the higher the immediate demand for the Canadian dollar.

As if the above-mentioned factors were not enough, the wind is also shifting with regards to North American monetary policies. While the decline in the Bank of Canada rate was partially responsible for the decrease in the value of the loonie at the beginning of year, the bank is now favouring a tightening of rates. This decision maintains Canadian rates above those in the United States. The loonie gained 5.9% in the quarter.

The loonie recuperates lost ground.



Canadian Stocks



The leading Toronto index ends the third quarter practically at the same level it had begun in July. The market zigzagged, taking one step front and then one step back. Consequently, after the first two months of decline, the S&P/TSX finds itself in slightly positive territory, posting a return of 1.4% at the end of the quarter. In spite of this weak return, the TSX posted the best performance of all North American indices, not only for the quarter but also for 2004, with a return to date of 5.4%.

Results are rather mixed by sector since half of the sub-indices are trading on the rise at the end of September. In spite of a good start at the beginning of year, the technology sector fell by 21.5%, posting the worst result of the 10 sub-indices this quarter. It

remains however in positive territory for the current year with an appreciable return of 6.6%. The health sector, for its part, has declined by 14.2%, followed closely by the industrial sector which has fallen by 6.0%, not only placing them among the worst performers of the quarter, but also of the year. The telecommunications (3.7%), material (8.6%) and energy (10.8%) sectors all ended the quarter on a positive note. The latter is also the best performers in 2004.

The Canadian economy is robust despite the vigour of the Canadian dollar. The value of exports continued to grow thanks in part to the price of raw materials, which is still holding firm. For the first six months of the year, the Canadian economy sailed ahead at an annual rate of almost 3.2%, keeping pace with the Ameri-

can economy. In the second quarter, our GDP however moved ahead, coming in at 4.3% against 2.8% for Uncle Sam. At the end of quarter, the trade surplus, manufacturing shipments and the number of building permits issued have all reached new peaks. Hence, economic growth is close to reaching its production capacity limit.

In spite of the encouraging signs of an economic recovery, the labour market remained cautious. The national unemployment rate remained stable at 7.2%. But consumer confidence came through, most of the uncertainties present at the beginning of year (federal elections, possible interest rate increases and oil prices that now seem to be returning to normal) having been resolved.

The S&P/TSX posted the best performance among North American indices for the quarter.

US Stocks

Following a generally difficult beginning for stock exchanges as a whole, the third quarter of 2004 ends on the upturn. Indices have rallied after having hit annual lows in mid-August, but they still terminate the third quarter with returns of -2.3% for the S&P 500 and of -3.4% for the Dow Jones. The NASDAQ cedes 7.4% this quarter and 5.3% for the year.

The S&P 500 and the Dow Jones have been drifting since the beginning of the year with respective returns of 0.2% and of -3.6%. In spite of this ap-

parent drift, strategists agree that the fundamental health of the market remains solid and the valuation of the latter is back to reasonable levels.

The murky conditions of the last few months (upcoming elections, oil and economic slowdown) have created an excessive amount of anxiety, which was then discounted on the market.

Indeed, American indicators report a slowdown in the economy since the beginning of the summer. A record high trade deficit, weak external

trade and, for the first time since February, falling consumer confidence are all present.

On the other hand, capital spending is continuing to recover and the GDP is growing nicely in spite of a slight slowdown. The most recent earnings data, although weaker than in the beginning of year, are 25% higher than their levels a year ago. However, from an historical point of view, we are experiencing the weakest employment recovery in over 50 years.



American economic growth hits a ceiling.

International Stock Exchanges

Foreign stock exchanges are all posting negative returns this quarter, with the exception of the British FTSE 100 index (+2.4%) and of the Hang Seng (+6.8%). Moreover, the Hong Kong index is at the top of the list with a return of 4.3% to date in 2004.

After getting off to a good start at the beginning of the year with earnings of 9.7% in the first quarter, the Japanese stock exchange was the biggest loser with a decline of 8.7% during the 3^d quarter. The country's GDP growth has been revised downward. Nevertheless, the NIKKEI 225 posts an increase of 1.4%

in 2004.

The evolution of the European stock exchanges was similar to American indices this quarter with a decline of 3.9% in Germany, 0.9% in Italy and 2.5% in France. The Italian and France indices remain however in positive territory to date in 2004, with respective gains of 4.7% and 2.3%.

The moderate progress of the economy in the euro zone essentially reflects a slowdown in consumer spending if recent statistics are compared with those at the beginning of the year. Nevertheless, following a difficult year in

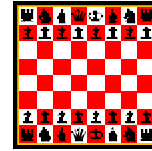
2003, an improvement in the economy is palpable. The main factor is the foreign trade sector with a significant increase in exports. The situation in Germany remains unchanged. The employment situation is progressing with great difficulty and investments are in free-fall.

In conclusion, the rate of growth of the world economy is moderating and profits are less striking.



World stock exchanges follow the trend and edge down this quarter.

Review of Portfolio Activities



Our thinking on the markets has evolved somewhat this quarter resulting in the execution of certain portfolio transactions.

Firstly, we are of the opinion that the rise in interest rates over the last few quarters will be coming to an end soon. The high level of debt and the vigour shown by the economy do not justify significantly higher interest rates. The interest-rate curve, with its steep positive slope (i.e. long-term rates much higher than short-term ones), offers us the possibility to extend our average duration and "cash in" the profits from the

very cautious positioning of our income securities since the end of 2003. In this respect, we have purchased notes from the TD Bank, which should prove to be very advantageous unless interest rates increase substantially, a situation that we do not foresee. The guaranteed interest coupon, at 6.75% for the 1st year, offers adequate protection in our opinion. In the same spirit, we have invested a portion of our liquid assets in a 10-year stripped coupon from the Government of Canada.

Further to the announcement of excellent quarterly results from Alimentation Couche-Tard, we

have reduced our stake in this security at the end of August. It remains one of our favourite securities preserving a weight similar to the one it had two years ago. However, the significant purchase of Circle K in the United States and the publication of the financial impacts of the purchase for two complete quarters, combined with the rise of almost 170% of the stock price since the beginning of 2003, seem to favour a timely reduction in the overweight position of this security in our portfolios.

We are beginning to extend the duration of our income securities. We are lowering our stake in Alimentation Couche-Tard.

A new look for Sabius.com

The Dalpé-Milette Group inaugurates the first phase for the redesign of its sabius.com site.



After months of efforts, the Dalpé-Milette Group unveiled the first phase of the redesign of its sabius.com site a few weeks ago. This site incorporates several new web pages such as the "News Index" available through the Information tab, the "Classics" available through the Portfolio Management tab as well as "What sets us apart" available through the Profile tab.

The English translation of the site will be completed in a few months. The site will henceforth be bilingual like all of our other communications.

Our site will be livelier than before because we now have access to technological tools from Multiple-media.com, a Montreal-based firm, which allow us to edit our site on-line.

Our customers already have access to a portion of the secured section of our site. This includes access to our daily Info Sabius, as well as on-line portfolio statements from Desjardins Securities. In a few months, we will inaugurate a new chapter in our Info Sabius, the monthly audiovisual Info Sabius, which will be also available through this secured section; we will keep you posted.

Finally, we are setting up new web pages that will allow our customers to follow the evolution of our typical customer portfolio at any time, either by individual security or globally. We are currently contacting real-time stock quote providers and should complete our feasibility study within a few months.

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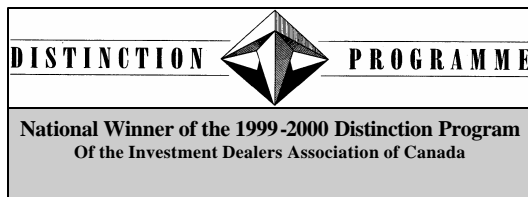
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The Dalpé-Milette Group



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Info Sabius



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