



The Quarterly Letter



The Quarter in Review...



Published since 1992

Despite a difficult first quarter, 2003 has been the best year in terms of performance since the beginning of the current millennium. The "year 2000 bug" has not been technological, as many had feared, but rather financial and has lasted almost three years.

Since the "end" of the war in Iraq, our typical client has experienced nine consecutive months of positive performance, ending the year with a return of 13.3%, a sixth consecutive year with a ranking in the 1st quartile. As is normally the case, our Canadian stocks have performed very well, as much as with our total equity component.

A rather convincing return of the world economy, very low interest rates, a decrease in terrorism (or an increase in our ability to bear it!) and market indexes that had fallen to approximately 50% of their summits have all contributed to the significant rebound in the last three quarters. We encourage you to read the review of our performance in 2003 as well as that of the last 14 years on pages 6 to 9.

Nevertheless, several uncertainties remain, a situation which warrants a prudent optimism. The equity portion of balanced portfolios is near the top of the allowable range and we shall resist the temptation to increase it even

further.

It was a stimulating year for us and we are more than satisfied with our decision to change "banner".

The Dalpé-Millette Group wishes you the best in 2004 and thanks you for your confidence.



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. 2002	2.66	3.96	4.79	6615	8342	953	0.6351	0.6051	75.48
Sept. 2003	2.60	3.78	4.56	7421	9230	1103	0.7391	0.9375	81.91
Oct. 2003	2.64	4.08	4.85	7772	9801	1171	0.7603	0.6536	82.68
Nov. 2003	2.66	4.12	4.84	7859	9782	1196	0.7707	0.6430	84.52
Dec. 2003	2.57	3.91	4.66	8221	10454	1289	0.7727	0.6156	82.75

The Bond Market



During the last few years, bond markets were favourable to investors. While the latter had to face the collapse of stock markets, they were able to protect their assets and to yield a handsome profit thanks to bonds.

Economic and financial conditions of the last few years brought central banks around the world to lower interest rates considerably. This situation was almost perfect for the performance of bonds. As indicated by the Scotia McLeod Universe Index, which measures the performance of Canadian bonds as a whole, the return of the bond market was 10.24% in 2000, 8.08% in 2001 and 8.73% in 2002. The American bond market has posted respective returns of 13.9, 6.5, and 12.2% for the same periods.

However, 2003 was particularly volatile for the bond market. Indeed, during the months of May and June, Alan Greenspan, President of the American Federal Reserve, brought up the threat of deflation, which caused a rapid decline of rates. Ten-year treasury yields reached an historical low of 3.11%. Then in July, there was an about-face. Economic statistics contradicted the pessimistic forecasts and the comments from Allan Greenspan suddenly became less alarmist. Panic crept in and 10-year rates went back to 4.50% within a few weeks.

In Canada, the bond market evolved like a seesaw. From the beginning of the year, the Bank of Canada issued a warning with respect to the rise in the rate of

inflation and began increasing its leading rate; the return on long-term bonds then climbed to 5.65% in March. However, in April, the Bank again increased the leading rate in spite of a slower economy and lower inflation. This pulled long-term bonds down to 4.74% last June 13.

With all this volatility, the Canadian bond market still surpassed the American market. It posted a return of 0.9% in the last quarter and of 6.7% for 2003. The American market posted a return of -0.5% and 2.4% for the same period.

The likely increase in interest rates during the next few years does not look promising for the bond market and incites one to be cautious in choosing terms.

Having dominated stock markets in 2001 and 2002, the bond market has fallen far behind in 2003.

The Currency Market



During 2003, the Canadian dollar gained more ground than it had lost in 10 years. The Canadian currency literally exploded in 2003. In 12 months, the loonie gained 22.1% against the greenback. One year ago, the Canadian dollar was barely worth 63 cents US; it crossed the barrier of 77 cents US last November 13, for the first time in 10 years. As with any commodity that is exchanged freely, the value of the Canadian dollar is dependent on market supply and demand. So, how does one explain the sudden strong demand for our currency?

The downward movement of the USD against other currencies cannot explain by itself the appreciation of our currency, although it continues to feed it. It is also necessary to take into considera-

tion economic and financial fundamentals, which have improved greatly. The list of factors that support the Canadian currency is long. Canada is currently the only country of the G7 simultaneously presenting a budgetary surplus and a current account surplus, contrary to the United States, which is confronted with important deficits on both these fronts. This position renders our currency very alluring since there is no risk-related premium attached to the Canadian dollar, a situation that consequently attracts investors. Furthermore, the current synchronized world recovery favours the loonie because of the increase in the price of raw materials. Let us also underline the effect that a 175 basis point spread between Canadian and American short-term interest rates

can have; the current variance represents almost twice the rate offered in the United-States.

The euro has also benefited from the decline of the greenback. The slide of the US dollar allowed the euro to achieve a new record in 2003 at \$1.2436 US on December 18. Since the beginning of the year, the European single currency has appreciated by 20% against the American dollar. The greenback's decline continues, fed by concerns about the American budgetary and commercial deficits. In addition, higher interest rates in Europe tend to attract more investment in the continent than in the United-States, a situation that induces a higher demand for the euro and lowers the demand for the American dollar.

In 2003, the Canadian dollar gained more ground than it had lost in the last 10 years

Canadian Stocks



In Canada, the S&P/TSX composite index winds up the last quarter of 2003 with a rise of 10.8% and ends the year with a leap of 24.3%. Moreover, the movement is generalized since all sectors reported a positive performance this year. With a gain of 26.0% in 2003, the materials sector sweeps the honours followed by the financial (+24.4%) and energy (+23.6%) sectors. The good performance of bank securities is worth noting.

The same sectors remain at the top of the list for the fourth quarter and post an increase of 22.2%, 9.9% and 15.0% respectively. The health care sector is the only negative note reporting a decline of 15.0%.

In spite of this performance in 2003, let us remember that the Canadian index is approximately

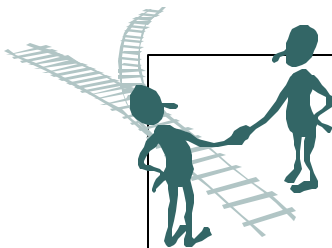
at the same level as it was four years ago.

Following a negative first quarter, highlighting fears about the war in Iraq, the leading Toronto index soared. The Canadian stock exchange, sustained by the strong price of raw materials and the appreciation of the loonie, carved out a select place amongst the industrialized nations in 2003.

Although the Canadian economy is ending the year with a spurt, its performance in 2003 was not as spectacular as that of our southern neighbour. Since the beginning of the year, the Canadian economy was tried by a series of one-time events, such as the war in Iraq, the SARS scare, mad cow disease, the power blackout in Ontario, forest fires in Western Canada and the appreciation of the dollar.

The soaring rise of the loonie has had impacts on our economy notably in the manufacturing sector, resulting in a decline in exports. It is worth noting that our exports to the United-States represent approximately 80% of our international trade. The trade surplus fell late in the year due to a marked reduction in exports rather than an increase in imports. On the other hand, according to the most recent data, the employment market continues to be full of surprises and job creation widely exceeds forecasts, while labour productivity experiences its most significant increase in over a year.

Excellent performance of the Canadian stock market in 2003 with a return of 24.3% for the S&P/TSX



The Dalpé-Milette Group is happy to meet up with **Michel Doucet** again. Michel was associated with National Bank Financial until the beginning of December. He was our main ally at NBF with respect to the management of fixed-income securities; he will continue his excellent work with Desjardins Securities from now on.

Some will remember the *Point de base* articles as well as papers that dealt with our fixed-income security transactions, which we published occasionally in our Info Sabius while we were at NBF; Michel was the author. Michel was also a primary resource responsible for the management of the fixed-income securities basket.

Michel is an economist and has been working in the fixed-income security sector for over ten years. We are proud to be able to rely on his invaluable collaboration.

US Stocks



Following three consecutive years of negative returns, the American stock exchanges took off in 2003. The rebound was spectacular for the technology sector, which allowed NASDAQ to appreciate by 50.0%, including 12.1% during the last quarter. The S&P 500 and the Dow Jones reported increases of 11.6% and 12.7% in the last quarter and end the year with respective returns of 26.4% and 25.3%.

The depreciation of the American dollar has however considerably reduced the return on US denominated assets for a Canadian investor. For example, the rise of 26.4% in the S&P 500 this year corresponds to a meagre 3.5% when translated into Canadian currency.

After a difficult first quarter, marked by the uncertainty that persisted before the war, markets began their ascent in the spring when the Americans started the war in Iraq. The recovery accelerated thereafter with the improvement in economic activity and the growth of more than 20% in profits. Moreover, the quality of these profits improved since declared net earnings drew closer to operating earnings in the course of the year. The increase in productivity in the United States, which was 3 times that of Canada in the third quarter, amazed and stimulated profit margins.

No doubt, the American economic recovery is impressive and is maintaining an unequalled

pace, not seen for almost 20 years. During the third quarter, the growth in GDP attained 8.2% on an annualized basis. Business investment has contributed to this in a considerable way for the first time in over three years, backing up the consumer who has supported the economy in the last few years. The manufacturing sector ends the year on a strong note. In November, the ISM index, the barometer of activity in this sector, attained its highest level in 20 years. The progress observed on the employment front in the second half of the year also looks promising.

In spite of the war in Iraq, 2003 was marked by an upswing of economic activity in Uncle Sam's homeland.

International Stock Exchanges



Prospects have improved significantly in foreign countries this year, influenced by the strong return of the American economy. Overall, world stock markets are following the North-American trend and have registered increases in the fourth quarter. Germany, France, Italy and the United Kingdom end the quarter higher with respective returns of 21.8%, 13.5%, 7.9% and 9.4%.

The news was good on the other side of the planet, the NIKKEI 225 index appreciating by 4.5% in the quarter. After declines of over 20% in 2001 and 2002, the Japanese index ends the quarter with an increase of 24.5%. The Japanese market got back on its feet (GDP grew at an annualized rhythm of 3.9% in the spring) after having hit a twenty-year

bottom last March. This Japanese recovery is supported notably by an improvement in domestic economic data and by the renewed climate of confidence from the business sector. However, deflation persists and structural problems remain unresolved.

Growth is solidly engaged in China and the country has pursued its development at a frantic pace this year. Exports, the recurring theme of the Chinese expansion, benefited from the downturn of the American dollar. The Hong Kong Hang Seng closes the last quarter with an increase of 12.0% and posts a performance of 34.9% for the year.

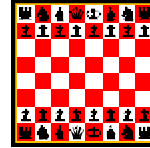
The progress of the Euro zone pillars remains moderate in spite

of an improvement since the third quarter. A good number of indicators point in the direction of a more sustained growth. In Germany, the business confidence index reached a three-year peak in November. However, the appreciation of the Euro against the USD renders the recovery more difficult. The European Dow Jones Stoxx 50 gained 10.5% in 2003.

In summary, the global recovery is synchronized, but the rally is more painstaking in the Euro zone.

The world economy recovers in 2003 carried along by an impressive American economy.

Review of Portfolio Activities



Our only important transaction during the quarter was the sale of our investment in Transat AT convertible debentures bought in the spring of 2002. It was done under the premise that the leisure/air transport industry was in crisis (economy, terrorism/Sept. 2001, etc.) and that the situation would improve. Furthermore, we were impressed by the strong measures taken by Transat AT management to remedy the situation. Finally, the convertible debenture came with capital protection much greater than the underlying stock and carried an interest coupon of 9% a year, adequately paying for our

patience. Of course, the situation included some risks, but they were, in our opinion, adequately compensated. Even though our investment is an income security, we considered it the same as equity.

Our hypothesis turned out to be correct and the debenture was sold at \$126 per \$100, following the company's good results and signs of an economic recovery. Our investment generated an appreciation of over 26% plus approximately 15% in interest (9% annually over a 20 month period), a total of 41% in approximately 1½ years, versus approximately 2% for the

Canadian TSX over the same period. Our investment was not a long-term investment, but a timely purchase in a turn-around situation, explaining why we sold it.

Our next moves will probably be an even more significant reduction of our position in US equity securities, favouring an equivalent rise in Asia, which we perceive to be a very interesting area in the next few years. We will keep you informed through our Info Sabius.

We have sold our investment in Transat AT convertible debentures.

Current Portfolio Structure



At the end of last February, while despair seemed to have won over the most hardened, we expressed the opinion that stock markets were going to experience a significant upsurge soon.

Time fortunately proved us right. Without having increased significantly our investment in equities, the latter now represent a relatively high percentage of our portfolio, having gained approximately 25% in three quarters. The weight of the equity position is near the upper allowable limit and we will not exceed this. Consequently, any additional purchase should be financed by the

sale of equivalent securities.

Our recent Info Sabius issues have clearly indicated our optimism as to the performance of stock markets, which we consider well positioned amid a growing economy and very low interest rates. It is obvious that our enthusiasm will be reviewed when we shall feel this balance threatened; this could happen as early as the summer of 2004. Sales of our investment in the NASDAQ 100 index a while ago stems from this reflex.

Aside from the allocation between fixed income and equity, our focus is also di-

rected on the geographic distribution of our share holdings. We definitively favour Europe and especially Asia to the detriment of the United States. If prospects for economic growth are combined with the valuations of securities and the currency effect, it seems to us that the American stock market is relatively less attractive at the moment. We even plan to increase our participation in Asia soon.

We will resist the temptation to increase the weight of equities within the portfolios.



Feature article: year 2003 in review

Compared with the performance of the best managers in the country, portfolios entrusted to our management have enjoyed a very competitive year in 2003. The performance of the equity portion in the portfolios mainly explains the excellent performance in 2003, not only in relative terms (as of 2000), but also in absolute terms (finally!). Remember, the primary investment objectives of our typical client are the security and long-term growth of his/her capital.

Do not hesitate to communicate with us to obtain a return on investment analysis for your portfolio in 2003.

Our typical client obtained a return of 13.3% in 2003, as illustrated in the following table. This performance was achieved with a portfolio structure composed on the average of 45% in fixed income securities and 55% in equity. The fixed income security portion gave a return of 3.3% while the equity security portion gave a return of 21.5%.

An analysis of the performance of our typical client shows the following:

(i) our typical client holds a balanced and rather conservative portfolio. This explains the 50% or so in fixed income securities held by this client. The

Canadian bond market had performed relatively well from 2000 to 2002 explaining most of the return of balanced portfolios. Low and stable interest rates explain the lower performance in 2003, one of 3.3%, which also includes very short-term investments.

We slightly increased the weight of equities within the portfolios too hastily in 2002, reducing our return by approximately 2% over the year. We amply caught up in 2003 when this overweight position served us very well indeed.

Fixed-income securities have been the paupers in 2003 whereas they had been responsible for most of the return on balanced portfolios from 2000 to 2002.

Performance analysis for our typical client in 2003

Portfolio Structure	Average weight in 2003	Return by asset class	Weighted return
<u>Fixed income securities</u>			
1. Canada	45%	3.3%	1.5%
2. In foreign currency	0%	N/A	0.0%
	45%		1.5%
<u>Equity securities</u>			
3. Canada	39%	26.4%	10.3%
4. USA	5%	8.7%	0.4%
5. International	11%	9.7%	1.1%
	55%		11.8%
			13.3%

Feature article: year 2003 in review (continued)

(ii) aside from the important decision of fixed income/equity security weighting, the choice of asset allocation between countries or groups of countries within an equity holding often has a very significant impact on the performance of any one year. Although some correlation exists between the medium and long-term behaviour of the principal world stock markets, significant variations can occur over brief periods. This was the case in 2000, though not in 2001 nor in 2002, and surely in 2003. The drop of the American dollar against all of the world currencies, including the Canadian dollar, has more or less erased (except for NASDAQ), the significant rebound of American stock prices. For example, despite an increase of 26.4% in the S&P 500 in 2003, the return once measured in Canadian dollars was only 3.5%.

Europe and Asia have reported interesting increases that, for their part, have not all been wiped out by currency movements. This has justified our geographic distribution whereby European and Asian markets represented on the average more than twice the weighting in the United States, which in itself is not usual. We believe that this strategy could last at least a few more years.

The decision in 2003 to favour Canada (which represented about 71% of our equity holdings) explains our relatively good performance in 2003, Canada having posted one of the best stock market performances in the world when meas-

ured in Canadian dollars;

(iii) the performance of the equity component, at 21.5%, explains essentially our rank in the forefront of the first quartile of equity managers, the latter having posted a performance of 13.0%E in 2003 (median: 9.5% E). The choice of index vehicles for most of the international portion (especially in the USA and Europe) allowed us to post a return equal to the index (by default), which again this year, most managers did not achieve. Rumours of the death of indexed management was premature!; and

(iv) after a rare average year in 2002, the performance of our Canadian equities returned with a vengeance in 2003, reporting a yield of 26.4%, a little more than the Canadian market index. However, our performance was obtained with a more conservative portfolio than the index, itself benefiting more from the technology and resource sectors. Our desire to be cautious in 2002 by keeping more defensive companies with predictable behaviour cost us in 2002 (as opposed to the Canadian market index, which is highly weighted in natural resources), but did not harm us in 2003.

Securities in the financial sector (our three banks plus our shares of Power Corp) represent almost 32% of our Canadian stocks; we are quite comfortable with these investments, which offer us an excellent risk/return profile. Collectively, this group has allowed a return of approximately 32% in 2003.

The stock market price of Ali-

mentation Couche-Tard exploded once more in 2003, gaining approximately 78%. We cannot keep count of all the calls that we have received from our clients in the last 3 to 4 years asking us when we will finally sell our favourite stock. Not soon! Our "old" customers have continuously held shares in Couche-Tard since 1993. Its market price has multiplied by 100 since - not bad for convenience store operators!

We are pleased with our acquisitions of CN and Alcan in 2002, which added leverage to our portfolios for the economic recovery. They have generated a return of approximately 27% in 2003. The strength of the Canadian dollar harmed Domtar, but we remain optimistic towards this excellent company.

At the same date last year we wrote: "All in all, it would have been difficult to do better in 2002 without shaking up the principles that have dictated our decisions for the past 13 years. Our challenge, in exceptional years (good and bad) is to maintain a steady course, to justly reconcile the short and long-term, and to differentiate between fundamentals and fads, the latter always being short-lived and eventually dangerous." 2003 has shown the wisdom of our vision. It is the thoroughness in the application of this proven recipe that our clients particularly appreciate about our management. We intend to continue to earn this trust.

The increase in value of the Canadian dollar in 2003, especially against the USD, has almost entirely erased any return on foreign investments.

Feature article: year 2003 in review (continued)

An investor who would have had the insight to choose, in each of the past fourteen years, the best 25% of managers for the upcoming year (an almost impossible task) would have obtained a compound annual return of 8.3% (median: 5.5%). During this same period, our typical client achieved a compound annual return of 9.2%.

The table below shows these results for 14, 10, 6, 3, and 1 year periods ending December 31, 2003.

In short, our typical client achieved a competitive performance with a generally less risky or volatile portfolio (as indicated by its behaviour from 2000 to 2002). We believe that this was made possible thanks to the dynamism

of our management and to the selection of Canadian stocks that generally outperform the overall market. For the past ten years for which we have been calculating these statistics, our Canadian stocks have yielded a compound annual return of 14.1% versus 6.6% for the TSX/SPX; a ratio of 2.1 to 1; this performance record places us amongst the best 5% of Canadian stock managers. Over six years, our Canadian securities have yielded 12.5% compared to 3.5% for the TSX/SPX, a ratio of 3.6 to 1.

Our statistics over six years speak for themselves. This period includes the ascent to heaven from 1999-2000, the descent into hell from 2001 to

2002 and the resurrection of 2003. Our typical client obtained almost twice the compounded annual return of the best managers (1st quartile) for each individual year. Considering that the best managers of 1999-2000 were not the best in 2001 and 2002, this was far from easy to achieve.

Our typical client has not known a negative performance for the periods of one, two and three years ending December 31, 2003, not a easy task considering the environment.

\$100,000 invested in 1990 by our typical customer was worth \$343,000 at the end of 2003 (i.e. 14 years later), a net compound annual return of 9.2%..

Compound annual return

	1990-2003 14 years	1994-2003 10 years	1998-2003 6 years	2001-2003 3 years	2003 1 year
1st quartile	8.3%	6.6%	3.2%	-1.2%	10.0%E
Median	5.5%	3.8%	0.0%	-4.0%	8.0%E
Our typical client	9.2%	7.8%	5.8%	1.1%	13.3%
Rank	1st Quartile	1st Quartile	1st Quartile	1st Quartile	1st Quartile



Portfolio Management Quiz

During 2003, we have quizzed you to measure your understanding of the analysis of your investment portfolio return and to understand your appreciation of our role as investment advisor. Below you will find the last four questions.

8. Which one of the following managers (with similar portfolios) has performed better in the last five years?

	-----Performance Rank (*)-----				
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Manager A	Q2	Q2	Q2	Q2	Q2
Manager B	Q1	Q4	Q4	Q3	Q1
Manager C	Q1	Q1	Q3	Q4	Q1

(*) Q1: 1st quartile; Q2: 2nd quartile; Q3: 3rd quartile; Q4: 4th quartile

Answer:

Managers A and C have obtained a quartile average of 2; this result was however obtained with less volatility for manager A, benefiting him or her a little. Manager B has obtained a 2.6 average over five years, a far from brilliant performance.

9. Over the last 10 years, what percentage of balance portfolio managers obtained a performance of 1st quartile for at least one year out of two?

Answer:

Only 4% of managers obtained a rank in the 1st quartile one year out of two during the last 10 years. 58% obtained a rank in the 1st quartile zero to two times in the same period. Consequently, a consistently competitive performance year after year is very rare .

10. Who is responsible for defining my portfolio profile?

Answer:

I am. The investment advisor is responsible to spell out for the client the probable consequences of adopting one portfolio profile rather than another. However, the choice of the profile is essentially the responsibility of the client. The profile must take into consideration investment horizon, investment objectives and the desired risk/volatility level.

11. Who will have the most significant impact on my well-being upon retirement: my investment advisor or I?

Answer:

The cost of living, saving habits during the working years and the age of retirement will by far be the major factors in achieving a comfortable retirement. Portfolio performance has a secondary role. The variance between an adequate portfolio management and an excellent one can represent possibly 2% a year on average over a long period of time. You need 50 years of 2% to compensate for a \$100 which has not been saved! If portfolio management has had a significant impact on the financial wealth of an investor in the long term, it is probably a negative one - because the management has been incompetent and has accumulated significant

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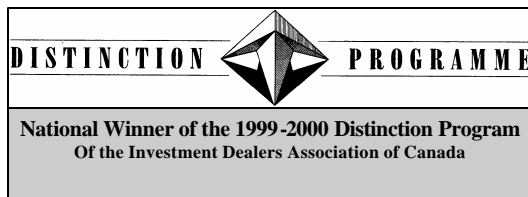
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The Dalpé-Milette Group



The Dalpé-Milette Group's mission is to be the primary financial advisor for its clients. Within the framework of a courteous, attentive, professional and personalized service, the service offering is based on an experienced team, endowed with high calibre analytical skills as well as the necessary tools to provide its clients with exceptional financial services. A well-balanced, dynamic and systematic approach in addition to competitive management fees exempt of any potential conflict of interest characterize its portfolio management activities.

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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