



Dear Dynamic Advisors,

We are writing this commentary on the afternoon of September 11, 2001 at a time when many of our friends, colleagues and some family members are still not accounted for. Our hearts and prayers go out to those families that have been affected. The United States and the civilized world have endured a tragedy of many lives lost. This has been an intentional tragedy that will shake the psyche of market participants and will change the psychology of the world.

It is during these emotionally charged times that financial advisors must step up to the plate and be leaders. This was an attack on capitalism, democracy and the financial markets. We must show the rest of the world what we are made of.

As professional money managers, we have an obligation under the current circumstances to take a two-pronged approach. First, we must set out the known facts and the rational factors that govern the situation. Second, we must tune our antennae to pick up any signals of subconscious psychological missteps. The question of what to do under this unique scenario thus must pass two tests:

- ◆ First, for rationality and accurate information, and then
- ◆ Any hint of psychological misjudgment as a result of that information.

This process of a double check is absolutely necessary in order to shed light and eliminate or reduce those costly mistakes that can be brought about by those who are governed by fear and panic.

WHAT WE KNOW

1. Four aircraft were hijacked. Two of those aircraft destroyed the two highest towers of the World Trade Center. One plane caused significant damage to the Pentagon. There has been an undisclosed but obviously large loss of life.

2. Markets in Europe declined with initial panic by over 5%, with energy and gold securities advancing.
3. U.S. capital markets will remain closed at least until Thursday and possibly longer.
4. The Toronto Stock Exchange unfortunately remained open for over one hour on Tuesday, and declined by 4%.
5. The current psyche of the world has been shattered and the political dynamics of worldwide human relations has been changed, probably forever. We stress that the political scene has changed, not the economic or business scene.

POTENTIAL FOR IRRATIONALITY

It is too easy to suggest a knee-jerk reaction of buying into domestic oil and gas stocks, and gold stocks. We caution against that type of strategy as it carries too much simple “group think” as its logic. There is no short-term shortage of oil and the U.S. dollar will probably be fiercely protected.

Often a “group think” phenomena may cause panic selling in other sectors as investors adopt an “end of the world mentality”. This too would be irrational. Businesses that were valuable before this tragedy will remain valuable as it fades into the background.

There is no other historical event that directly parallels this tragedy, and no hard evidence from which we could draw some insight as to how world markets will react. One day in the past that also shocked the world’s psyche was in November 1963 – the assassination of JFK. The markets fell 2.9%. However from that day to the end of 1964, markets finished the period up over 20%. This chart of known data from Ned Davis Research demonstrates some of the major events in our history and how the markets have reacted.

CRISIS EVENTS, DJIA DECLINES AND SUBSEQUENT PERFORMANCE					
Event	Reaction Dates	Date Range % Gain/Loss	DJIA Percentage Gain Days After Reaction Dates		
			22	63	126
Fall of France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0
Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9
Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0.0	6.6	11.7
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2
JFK Assassination	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1
U.S. Bombs Cambodia	04/29/1970 - 05/26/1970	-14.4	9.9	20.3	20.7
Kent State Shootings	05/04/1970 - 05/14/1970	-4.2	0.4	3.8	13.5
Arab Oil Embargo	10/18/1973 - 12/05/1973	-17.9	9.3	10.2	7.2
Nixon Resigns	08/09/1974 - 08/29/1974	-15.5	-7.9	-5.7	12.5
U.S.S.R. in Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8
Hunt Silver Crisis	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8
U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2
U.S. Bombs Libya	04/15/1986 - 04/21/1986	2.6	-4.3	-4.1	-1.0
Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0
Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0
Gulf War Ultimatum	12/24/1990 - 01/16/1991	-4.3	17.0	19.8	18.7
Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3
ERM U.K. Currency Crisis	09/14/1992 - 10/16/1992	-6.0	0.6	3.2	9.2
World Trade Center Bombing	02/26/1993 - 02/27/1993	-0.5	2.4	5.1	8.5
Russia Mexico Orange County	10/11/1994 - 12/20/1994	-2.8	2.7	8.4	20.7
Oklahoma City Bombing	04/19/1995 - 04/20/1995	0.6	3.9	9.7	12.9
Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0
U.S. Embassy Bombings Africa	08/07/1998 - 08/10/1998	-0.3	-11.2	4.7	6.5
Russian LTCM Crisis	08/18/1998 - 10/08/1998	-11.3	15.1	24.7	33.7
Mean		-7.1	3.8	6.8	12.5
Median		-4.6	3.9	6.7	12.1
Days = Market Days					

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Source Ned Davis Research

If this is any indication of what is to come, it effectively demonstrates that markets have rebuilt before and we expect that it will this time as well.

WHAT CAN WE SURMISE?

1. The civilized world will coalesce as “good guys”, and the “bad guys” are in for a difficult time. The United States reaction to the attack on Pearl Harbor is an example of the type of retribution that the most powerful nation has taken. We think it is highly likely and very positive for the world to come together in the important fight against terrorism.

2. The central bankers of the world have already announced that they will accommodate increased financial liquidity to accommodate any selling pressure caused by irrational fear. While this should help deal with falling and volatile markets, it will add to inflationary expectations as we move forward.
3. A nation divided will be united again. The lack of confidence in the Bush administration as a result of the closely split election will allow partisan issues to be put aside as Republicans and Democrats unite to rally behind their President.

CONCLUSION

The U.S. style of democratic capitalism remains stalwart and steadfast, and can withstand much more than what has been witnessed on this terrible day. In a short time, the business of the United States and the world will return to normal.

What remains ever more important to recognize is that the valuation of many businesses will be the same tomorrow as they were yesterday. Determining those valuations is where we continue to focus our attention as investment managers. We know that as professional advisors you will also remain focused on providing rational and thoughtful investment advice to investors, especially during these times of uncertainty.

Our thoughts and prayers go out to all those who have been affected by this immense tragedy.

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