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NEVER THINK NEVER

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The financial markets industry has become increasingly complex in recent years. The question is how to find your way through the jungle and, more importantly, come out on top? We met with two Desjardins experts who were willing to share their expertise with us for our newsletter.

The Volatile World of Securities How you can make the most of the situation!

Mr. Peter Gibson, Vice President, Senior Analyst and Head of Portfolio Strategy and Quantitative Research at Desjardins Securities, offers us his outlook for the stock markets in 2007-2008. As chief strategist, he is acknowledged as the industry guru by institutional investors and investment advisors alike.



R-V: Mr. Gibson, could you start by telling us about your role and responsibilities at Desjardins Securities?

PG: I direct a research team that uses the best databases in Canada to analyze forecasts of trends in the securities market; we apply mathematically based models to stock selection and asset allocation, and this enables us to achieve some fantastic success. Part of our mandate is to support our investment advisors with our recommendations and all of our detailed research. Our "International Portfolio" system, which is the envy of other North-American companies, gives us an instant analysis of more than 8,400 businesses in over 50 countries and the ability to create a portfolio in any of those markets in seconds.

anticipate for a few years. Furthermore, it coincides with what the American Federal Reserve System (Fed) was hoping for: a slower, longer and more stable economic cycle.

R-V: How do you think the state of the American economy will impact the Canadian investment market?

PG: For the past two or three years, we have argued that the main objective of the Fed is to ensure that 10-year bond yields remain below 5.2%. Canada profits from these efforts because it creates an environment of long-term rates that promote economic growth and a longer economic expansion cycle. I don't foresee an economic recession in the U.S. in the near future, but there is likely to be a further slowing of US growth. The U.S. securities market could therefore continue to grow at an annual rate of 8% per year, in spite of there being some obstacles along the way in 2007-2008.

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our team has been ranked first in Canada
7 times out of 8 for its investment strategy.
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for quantitative research 16 times
since 1989.

R-V: In the short term, do you believe that market globalization will create opportunities for Canadian investors, or will it threaten them?

PG: We have already profited greatly from the incredible economic growth in China and India, through the energy and metals sector. In the short term, we should first look at what will happen in the United States, which will have a rebound effect on Canada during the coming year. On the one hand, you can imagine the impact on the price of Canadian oil securities if the U.S. undergoes an economic slowdown, since the US consumes the equivalent of 2.5 times the amount of oil consumed by China and India. On the other hand, China and India consume 2.5 times the amount of metals that the Americans use.

R-V: What is your general impression of today's investment market?

PG: The current securities market is generally positive in Canada. We are now close to the middle of a ten-year economic cycle that began in October 2002. Over the past four years, investor returns on securities have been good, and there are still some very good opportunities to be had in 2007-2008. During 2003-06, the market generally trended higher without any dramatic corrections but as an equity cycle matures, these corrections are an important opportunity for investors. This is not the same as a recession related decline in stock prices which we do not

R-V: Do you see a trend in investors' current behaviour?

PG: Right now, investors are more nervous and worried about finding themselves in the fourth-longest economic expansion cycle. Many wonder if we are due for a significant market decline; the potential imminence of

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such a decline leaves them vulnerable to making poor decisions, but I believe there will be many people selling low, which will lead to plenty of great opportunities to buy low. In the current, more moderate, growth environment for US earnings, the S&P 500 has actually become less expensive on a P/E basis in recent years! That is, earnings are growing at a moderate rate and prices are rising, but at an even slower rate.

R-V: Do you believe that Desjardins Securities has everything it needs to offer members a complete and high-quality service?

PG: Absolutely! Desjardins Group is a major player among financial institutions. We can be very proud of the quality of our resources, our research and our professionalism. We work very hard on business development, and in my opinion, our growth potential is unlimited. Over the past few years, our team has been ranked first in Canada 7 times out of 8 for its investment strategy. We have received the same honour for quantitative research 16 times since 1989. In 2003, a survey of institutional investors ranked us first in Canada among the 500 Canadian analysts for the quality of our research.

R-V: Finally, Mr. Gibson, what expert advice would you give our members regarding their investment strategy?

PG: First of all, let's look at what's happening in the market. We are about 60% of the way through the economic expansion and equity cycle. There are already many opportunities to buy low, based on valuation, despite the substantial market appreciation over the past four years. Second, remember that even if the prices are higher than they were four years ago, the value attributed to securities lies in the relation between the price paid for the security and the profits generated. It's important that your decision to buy be based on the income growth of securities and not only on their purchase price. Finally, be emotionally prepared to face market instability, and stick to your investment strategy. However, I do believe that the market will still continue to grow.

Market-Linked Guaranteed Investments

We are constantly innovating and you reap the benefits!

Mr. Éric Landry, Manager, Financial Engineering at the Fédération des caisses Desjardins du Québec, discusses Market-linked Guaranteed Investments. For ten years, Mr. Landry has been actively involved in finding solutions to help investors combine capital protection with efficient and effective risk management and solid return potential.



R-V: Mr. Landry, how do you explain investors' strong enthusiasm for Market-linked Guaranteed Investments?

ÉL: First, low interest rates in the past several years meant that many investors were feeling literally stuck between the limited yield potential of traditional savings products and the risk of seeing their capital fluctuate in value. Furthermore, investors have been aware of the importance of diversification for a long time now. Market-linked Guaranteed Investments offer investors a number of advantages: capital protection, improved yield potential according to their profile, reduced portfolio volatility and better management of investor emotions.

R-V: To be more specific, how can guaranteed investments bring real, tangible added value for investors?

ÉL: The markets react to a large number of economic and political factors. We only need to recall the huge impact on investors' portfolios when the dot-com bubble burst, as well as after the September 2001 attacks. Investors with Market-linked Guaranteed Investments not only minimized the negative impact on their returns but they were also in a better position because they had more to re-invest when the market recovered, which demonstrates the added value of an investment with capital protection.

Because they have access to products whose returns are linked to high-quality assets (shares, bonds, real estate, event-driven bonds, natural resources and derivatives), Desjardins members benefit from exceptional diversification, regardless of their needs or investment horizon.

R-V: What kind of future do you see for these investments?

ÉL: We are constantly seeking new ways to meet investors' needs. We are therefore developing and enhancing our offering all the time. To make our products more flexible we are considering improving certain features, such as a new redemption privileges, tax-friendly payout options and options that help maintain investors' standard of living over a long period of time. Guaranteed capital is popular with a broad range of investors. Capital Protected Structured Products appear to be the creative investment solution of the future for clients who are looking for both yield potential and guaranteed capital.

We hope that our experts' comments have helped demystify the world of financial markets and guaranteed investments for you. Interested in learning more?

Come in and meet with us; our Desjardins experts are there to advise you!

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Money working for people

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