BANWELL
FINANCIAL INC.
Integrity Competence Service

Head Office:
2 Lansing Square
Suite 302
Toronto, ON
M2J 4P8 Canada

Phone: 416-494-1099
Fax: 416-494-6675

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On the evening of Friday, August 5th, the credit rating agency Standard and Poor's (S&P) announced that they had cut the long term credit rating of the United States from AAA to AA+, and placed the country on *'negative outlook.'* S&P concluded that recent actions to reduce U.S. annual deficits did not go far enough to put the U.S. on a sustainable debt path.

While this rating downgrade is significant, it was not unexpected. More importantly, the U.S. Federal Reserve has publically stated there will be no change to the capital requirements or the eligibility of U.S. government paper as collateral held against loans. This statement helps ensure that the U.S. treasury and guaranteed securities retain their status as the world's safest and most liquid market *(although Eric Sprott may disagree).*

Recent market volatility has reflected economic data that suggests over the longer term the most probable outcome is that we are in a low growth, low return environment for an extended period of time.

The last month has reminded us of last summer where concerns about recession, sovereign debt risk…dominated the headlines. Against this opaque macro environment one consistent theme has resonated with numerous money management firms we have met with or read:

Governments are the issue, corporations are in good shape. A disconnect exists between the macro-economic environment and corporate performance/earnings!

> ***"I think on the economic front, we have had some weaker data, but this is not unusual. The global economy still seems fairly robust. The U.S. corporate sector is still incredibly strong and robust, and while the labor market hasn't rebounded as strong as we would've like to have seen, it is somewhat***

offset by the strength in the corporate sector. So I think it's still possible for this U.S. recovery to continue and I think the market's negativity on that is a little exaggerated and overstated."

Dr. Michael Hasenstab
Franklin Templeton Global Bond Manager

Money manager activity during periods of volatility…

Fixed income managers continue to be overweight corporate debt and with the recent market pullback, valuations are even more attractive relative to government debt.

The Ivy team continues to monitor developments on a company by company basis, seeing few surprises at the company level. Cash levels have come down with numerous managers as valuations are very compelling, particularly in the U.S.

Leon Frazer is *not phased* by the recent sell-off, and sees no reason to dramatically shift their portfolio's stance and continues to look for dips to add to well-financed companies with growing cash flow and dividends.

Portfolio activity will include upgrading the underlying holdings by selling an existing security for a better opportunity. Equities are favored over fixed income in balanced portfolios with flexible mandates.

We continue recommending corporate bonds that are included in our ***paid to wait strategies.*** This thinking has been confirmed several times recently as even equity/growth managers have commented on the attractiveness of holding high yielding securities particularly during periods of economic uncertainty.

Bullish or bearish… we believe a broadly diversified portfolio of yield producing assets that targets a 6-7% yield is a good place to be! This strategy not only offers an attractive yield, but the downside protection relative to pure equities is excellent.

NOTES

Please call or email our office for the entire interview of Michael Hasenstab.

In the near future for compliance reasons we will be moving to electronic delivery of statements on a quarterly basis. It would be greatly appreciated if we are not already communicating via email, for you to kindly confirm your email address with us. ***Thank you in advance for your assistance.***

As always our lines of communication are always open and we welcome all feedback, commentary and/or questions.

ALL THE BEST FROM THE ENTIRE TEAM AT BFI

“This is a good time to buy, and not to be afraid to average equities down. You cannot time the market.”

Francis Chou
Chou Associates Management Inc.

“We think there could be a fall rally and maybe even a Santa Claus rally towards the end of the year. We believe fundamentally that the market is oversold so we would not be surprised to see market reaction on the upside. The fact is that stocks have been pummeled at this point, and in a number of cases are very cheap.”

Irwin Michael
I.A. Michael Investment Counsel

“We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.”

Warren Buffett

“…suggests attractive opportunity for the intermediate-term investor as these valuation gaps narrow. In our view a look across the valley suggests 30% plus upside. Even if this takes five years to materialize, when you include dividends, the stock market would deliver high single digit returns from today’s level on an annualized basis.”

Stu Kedwell and Doug Raymond
Senior Portfolio Managers, RBC Global

Mackenzie Financial manager’s response to the question, "what are the biggest threats to the Canadian economy?"

- Strength of the Canadian dollar and what that does to the manufacturing sector
- Biggest threat to the Canadian economy is the US economy
- Debt burden of Canadian households
- The impact that deceleration in China would have on resources