GOODREID'S GAUGE
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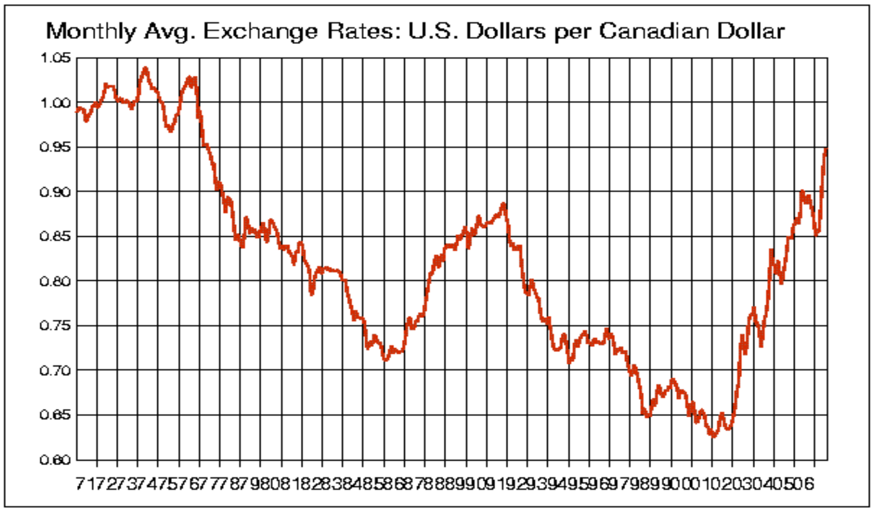
The North American economic cycle continues to show signs of maturing. In Canada, economic strength emanating from the commodity-driven Western provinces is masking the struggles of the Ontario and Quebec based manufacturing sector. The Bank of Canada's 2% inflation target has been breached, leading to an increase in interest rates and support for an already elevated Canadian dollar. The United States is less commodity-sensitive and as such the economy is visibly slowing. Consumer goods inflation is tame but inflation hawks point to asset inflation as a worry. Regardless of the fine-tuning of interest rates by central bankers and the financial markets, the cost of money is inexpensive when compared to the potential returns of productive assets. Public companies are a prime target. Stock prices will be driven higher until a financial equilibrium is reached between the return on capital and the cost of that capital.

The cover of the June 25, 2007 issue of Barron's magazine screamed "TOP OF THE MARKET", based on the premise that the Blackstone Group, the world's pre-eminent private equity firm, had just completed their initial public offering (IPO). In a contrarian thesis, the writer argued that since the recent rise of the equity markets has been partially fueled by private equity funds buying publicly traded companies, then the sale of part of their interests by the very astute Blackstone partners signaled that things could not get any better for private equity firms and that leaner times with fewer deals were just around the corner. Although the premise of selling when the smart guys are selling has some merit, we would argue that an IPO by Blackstone at this point signals their desire to raise capital, which they could then employ in any number of attractive opportunities among the market's undervalued companies (as evidenced by their recent acquisition of Hilton Hotels). We would be concerned about a market top if unsophisticated buyers wanted to capitalize on a private equity frenzy and there had been a flood of private equity IPOs with some very low quality entities among them.



The Canadian dollar hit rock bottom in early 2003 and has been rising steadily since, primarily on the back of a strong commodity cycle. In March the CDN$ broke below the 85 cent level and as we write is pushing toward parity with the US$, at a level of 95 cents.

What has changed since March? Some commodity prices are up, such as oil, copper and wheat, while other commodity prices are down, such as natural gas, aluminum and beef and the overall CRB Index has been trading in a very narrow range for these past four months.

What has not changed since March is the Bank of Canada's concern about meeting their 2% inflation target. Most central bankers in authority today began their careers and learned their trade during the highly inflationary 1970's and 80's. Their obsession with the evils of inflation can at times cause them to err on the overkill side in the battle with inflation. The latest, well-publicized increase in the Bank of Canada rate was preceded by the most recent currency surge. While this surge has negatively impacted the CDN$ value of our US holdings, we must maintain a balanced outlook and recognize that today's 30 year high in the CDN$ brings more potential value to foreign holdings, not less.

The increase in interest rates led to mild weakness in bond portfolios. We view the long-term outlook for inflation as benign and are therefore, relatively constructive with regard to bonds.

Two companies held in many of the portfolios reflect the dynamic nature of our technologically charged world. Apple Inc. and Google Inc. are today amongst the most recognized brands in the world. Both companies are innovating rapidly (eg. the iPhone) and have translated their innovations into surging revenues and profits. If one is impressed by Apple's 3-year revenue growth rate of 46% per year, then they are astounded by Google's 93% annual revenue growth. Each company produces a return on equity in excess of 20%. These two companies epitomize the changing nature and expansion of the global economy. Manufacturing jobs in North America may be lost to workers on the other side of the world (most parts of the iPhone are not built in North America), however, the knowledge workers who create, design and market the innovative new products and services of such companies are domestically based and in very high demand. At the same time, foreign workers manufacturing Apple parts are seeing their personal incomes explode to where they are a mouse click away from ordering an iPod after searching through the Google website. All economies (local and global) will still go through normal cycles of expansion and contraction, but we must be mindful that the overall expansion of the global economy that is propelled by the use of technology is a powerful force.

The current environment offers opportunity for solid, real-return gains in both the equity and fixed income areas. We are comfortable that world economies are sound and that financial assets are attractively priced.

The forward-looking comments expressed in this letter are the opinions and views of Goodreid’s management and are not intended to be a prediction of the future.