



WEBB ASSET MANAGEMENT

Webb Asset Management – Canadian Performance Fund

Insight from the buy side

January 21, 2008

In the spirit of transparency, we'd like to provide you with our thoughts and plan of action.

In short, the market is oversold. The market has seen declines of this magnitude before, but declines of this magnitude over such a short period are extremely rare. The last time the TSX saw an intra-month drop of this magnitude (12.8% as at today's close) was the 20.3% decline in August of '98. The TSX is off 11.4% in the last 5 trading sessions alone. Looking back for a similar week, we came up with: "9/11", 2001, which was a 6.5% decline; April 10, 2000 and Oct 23, 2000, which were 10.3% and 11.0% declines respectively and both largely attributed to Nortel's heavy index weighting; and Oct '87, which was a decline of 22.5% and exacerbated by program trading.

We were buying today. We invested some of our cash reserves on names that continue to screen well on an earnings basis. Namely, agriculture-related stocks, metals and energy stocks were our largest orders. We expect to invest more Tuesday.

We hear from some that stocks remain over-valued. Valuations don't have any predictive power. We've never seen any research or data to suggest that valuations drive stock prices. Valuations simply tell you if a stock is cheap or expensive. We've seen too many "cheap" stocks get cheaper and too many "expensive" stocks go higher. Stocks trade on earnings expectations. We have reams of research and real results to confirm this.

There are plenty of stocks out there with significant earnings acceleration trading at very attractive levels. The outlook for these companies hasn't changed despite problems with sub-prime mortgages, credit default swaps, US housing starts and a credit crisis. Companies like Potash, Major Drilling, Suncor, Kinross, GMP and Major Drilling are down anywhere between 17% and 33%, yet they happen to rank in the top decile for earnings acceleration. Are they expensive? No. For these names, you can buy all but one of them for anywhere from 8 to 14 times next year's earnings (Potash is at 19x forward earnings). The market itself is trading at 14 times 2008 earnings. What an amazing opportunity to invest in the best names Canada has to offer.

Further, with the risk-free rate in free-fall, multiples will expand considerably. The BoC will cut tomorrow and continue to cut for the foreseeable future. The Fed will cut next week and will continue to cut for the foreseeable future. Risk premiums follow the risk-free rate. It's when rates are low and go even lower that multiples expand the most (we can talk about convexity between the risk-free rate and valuations later). The point is, P/E ratios are a very basic discounting mechanism. As rates go

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down, multiples expand (more precisely, the discount rate in a DCF model goes down) and stock prices go up.

Some fear a recession has started. When did historic economic conditions ever drive stock prices? Never. Stock markets discount future events. We are very likely in a recession now, and if we are, it can be expected to last 2-3 quarters according to the pundits. Markets bottom out 6 months before a recession ends so that puts the bottom squarely in this quarter. It could very well be right now.

For those technicians out there, every meaningful technical indicator is indicating an oversold market. RSI, MACD, Bollinger Bands and stochastics are all indicating over sold territory.

So, what to do? We're using this opportunity to buy great companies at great prices. We hope you'll use this opportunity to buy into our Fund. 2007 saw three notable market declines. In each of those declines, we put capital to work in an oversold market. In each case, the Fund realized considerable gains and reached new highs within very short order. The March decline was followed by a 17% Fund gain by April. The July/August decline was followed by a 22% Fund gain by the end of October. The November decline was followed by a 14% Fund gain by the end of December. Volatility is not to be feared. It is to be taken advantage of. Our Fund is not without volatility, but we did post a 21.8% return last year to the market's 9.8%. This most recent decline represents a great opportunity to buy into the Fund in anticipation of a rapid and significant gain. We hope you'll invest in the Fund and take advantage of this opportunity.

For those of you who have been asking us to launch a prospectus-offered mutual fund, we will have some exciting news for you VERY soon.

We'd be happy to hear from you if you have any questions or comments. For more information, please call or visit our web site www.WAMfunds.com.

Regards,

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