

Summer - 2006



2nd Quarter – 2006

Dear Clients

I'd like to welcome you as an investor in the Barlow Capital Partners Income & Growth Portfolio and to voice my appreciation of your confidence in our disciplined approach to asset management. At the end of each quarter we will provide you with a summary report that details the asset mix, individual holdings and performance of your investment with us. As well you can expect to hear from us on a regular basis as I update you on the portfolio's strategies and tactics through the report commentary and letter such as this one.

The second quarter saw the re-emergence of volatility – the TSX swung an amazing 14% from peak to trough. But this gut-wrenching volatility wasn't restricted to Canada. International markets (e.g. EAFE index) saw an even more nerve-wracking descent of almost 25% from their recent highs. It was as though someone turned off the switch that reads "risk." It could best be described as a world-wide flight away from "risky" investments, be it commodities, emerging stock markets, small and micro-cap stocks, etc.

The TSX's move, often referred to in the Press as a "correction," was surprising not because the energy and materials sectors got pummeled, but because the correction was virtually across the board. The Canadian banks even lost 10% of their value!

Should you be concerned about this renewed or rediscovered volatility? In a word – NO! The last three years, not the last quarter, were the aberration. We almost sleepwalked through a truly incredible period of almost uninterrupted prosperity as evidenced by the three-year bull market. The next three years will be more challenging.

Looking ahead the big question is where are interest rates going? I don't know any more than you do. I suspect that if oil prices stay anywhere near \$70/barrel, inflation may come back to haunt us. If that happens, interest rates will have to continue up. And that's not good for the stock market (except perhaps for the oils).

So what are the implications going forward? Caution would be the best word I could think of. The upside of the dramatic move away from “risk” is the opportunity of acquiring really good small cap stocks at bargain prices. One has only to be very patient. We may be in for a rough quarter (Q3 2006) but over a two- or three-year time horizon I expect some truly outstanding gains from the Canadian small cap sector.

One shorter-term concern is the Alberta energy service sector. Alberta is really not an “oil” market (huge exception being the oil sands) but a “gas” market. Natural gas prices are far more relevant to the Alberta economy (in the short run) than oil prices. Gas inventories are at record levels. There is virtually no storage capacity left. Ergo, barring a couple of hurricanes, this fall there could be a dramatic slowdown in Alberta drilling activity in Q3 2006. This event will hurt the TSX in the short run. Longer term, I’m not nearly as bearish. Natural gas prices will have to be a lot higher to justify the numerous LNG projects on the horizon. Natural gas is a North American market, not global, so what happens in North America determines gas prices. The International price of oil is almost irrelevant.

For how all of this pertains to your portfolio please read my comments on page 4 of your Summer Portfolio Report.

Sincerely,

Stephen D. Barlow

June 30, 2006

