

Summary of remarks made at the recent MD Forum for clients in Halifax.

The MD Forum was introduced by Michael Oxner, Regional Manager for Atlantic Canada, as an opportunity for MD to engage with members and provide insight into the MD organization and current market conditions.

This introduction was followed by remarks from **Brian F. Peters, President and CEO of MD Physician Services Inc.**, who spoke about the membership focus of MD and underscored the importance of events like this to create an opportunity to hear from members. He thanked attendees for the opportunity to outline his vision for the future of the organization. He then explained that MD is unique due to its ownership by a member organization, the CMA, and how that relationship permits MD to do things differently than other organizations. He indicated that the businesses we are in have been selected as relevant by CMA members, and exist solely to add value to Canadian physicians in meeting both their financial and practice goals. This ownership structure obliges us to allocate our resources deliberately, and in a way that adds value for our members.

Key points that Brian articulated regarding his vision included the following:

- MD is committed to putting physicians first.
- MD wants to make it simple for clients to conduct business with us.
- MD wants to continue to build relationships with physicians, and get to know clients even better—to provide solutions, not just products and services.
- MD will offer solutions to meet physicians' practice, personal and financial needs under a single brand—one company—MD Physician Services.
- MD is building a more integrated member and client experience.
- MD wants physicians to be so satisfied with our offer that they will refer colleagues.

Brian ended his remarks by noting that MD needs to be trustworthy and objective to continue to earn physicians' business—and that MD will continue to focus on that. MD does not take the support of physicians for granted, and is always listening.

William (Bill) R. Horton Jr., Chief Investment Officer at MD, provided insight into current economic and market conditions and the impact they are having on investors. The question he posed is: Is this a sustainable recovery? The answer: Maybe.

He explained how, at MD, we follow the leading economic indicators to see what's ahead—and while he thinks that we are technically out of the recession, there is still some question regarding the sustainability of recovery, if you look behind the leading indicators, and at their key components.

One key aspect of global economic recovery is global GDP growth. The IMF predicts that, over the next five years, the forecast is for average growth of 4.3%. We are seeing an up-tick in the United States that would indicate that we are technically out of the recession—it is not all rosy, however.

Looking at the underlying components of GDP—consumption, private investment, net exports and government investments—can help us better understand what is really going on in the economy. The current growth is due to an increase in consumption. The United States is the engine of global economic growth—and the U.S. consumer is the engine of the U.S. economy. In general, up to 70% of GDP in the United States and, in turn, 20% of global GDP, comes from U.S. consumers. One could argue that this points to stable, reasonable economic growth—on the one hand. On the other hand, however, we can't have a full recovery without the full engagement of the U.S. consumer—and the evidence does not add up to indicate we have that.

There are two important factors to follow: unemployment in the United States, and capacity utilization.

When the economy is running full tilt—productive capacity—the capacity to produce goods stands at around 82%. It was as low as 65% in July 2009, and is now at 72%. The implication here is that, if we are not at full capacity, then inflation will not be a major issue. We also won't see a full recovery until capacity utilization rates move higher.

Central banks are saying that they don't know if this is a recovery or not. They have been pumping money into the system—but these efforts are not translating into expansion of the broader money supply and new bank loans.

What do we need to see happen, then, before we pull out of the balance sheet recession?

In order for U.S. economy to recover, the U.S. consumer has to bounce back. We are watching for improvements in the U.S. housing market, in banking stability and in normalization of the global credit markets.

- The U.S. housing market – While the Standard & Poor's (S&P) Case-Shiller Composite Home Price Index is trending upward again, it remains in negative territory. The percentage of equity homeowners has dropped to 35% from 60% due to housing price declines—so homeowners have lost their primary source of wealth, and in turn they are not spending. We won't see the U.S. consumer bounce back until, as a group, they “feel” like they're wealthier.

- U.S. consumer demand – Consumer confidence is not particularly high. Demand is retreating slightly after an increase earlier in 2009—but it is still well below the high in January of 2007, according to the University of Michigan U.S. Consumer Sentiment Index. The U.S. unemployment rate is at its highest since the early 1980s—now at 9.7%—so we’re still not out of the woods.
- The U.S. banking system – The number of failed banks exceeded 100 in 2009. While this number is well below the more than 500 institutions that failed during the Savings & Loan Crisis of 1989–90, the significance today is that the average failed assets—\$16 billion—far exceeds the average of \$1 billion seen during the S&L Crisis. Large banks are doing fairly well now; but regional banks have not bounced back—they are not lending money at significant levels. Real economic growth is driven by small business—and if banks aren’t lending them money, then we’re not yet in a sustainable recovery.
- Global credit markets – We are seeing the normalization of credit market activity. The London Interbank Offered Rate (LIBOR) and Overnight Indexed Swap (OIS) spread is now at 6 bps, but we are not out of the woods.

Capital markets

In an overview of capital markets, Bill remarked on the increase of investor confidence, as evidenced by the upward trend of the S&P 500 Index, the MSCI EAFE Index and the TSX Composite Index. He noted that the U.S. equity price/earnings multiple is currently at 21 times earnings (whereas the average since 1900 is 15 times earnings), but questions whether these earnings are sustainable. A steepening yield curve also indicates the capacity of the economy to recover.

The commodities markets have shown an upward trend since March of 2009, with oil and gold continuing to surge. Gold prices—a good indicator for analyzing the flight to quality—are levelling off, so, again, it is not so clear that a sustainable recovery is in evidence. The Canadian dollar has been strong against the U.S. dollar during the past recent months, and it is likely to maintain that level—but Bill cautions that forecasting currency is an extremely complex exercise.

The conclusion that Bill draws from this analysis of the markets is that there simply is not enough evidence to suggest that we are in a full-blown, sustainable recovery.

We are coming out of a balance sheet recession—where companies have shed assets and are holding cash at an unprecedented level—but they are not reinvesting in their own businesses to an extent that would point us toward a sustainable recovery.

There are glimmers of hope. GDP is rising, for example. But all factors combined need to show us more in terms of positive direction toward a sustainable recovery.

Bill went on to explain what these trends mean to an investor at MD.

First, he described how MD hires external managers from among the best in the world to manage physicians' assets and then monitor those assets to ensure they outperform their relative benchmarks—as well as their peers—the majority of the time.

He then described how MD focuses in on the time horizon of a client portfolio. MD advisors recognize the importance of defining and prioritizing each client's investment purposes. You build your portfolio in conjunction with your advisor to meet a need, tied to a specific purpose, with an appropriate time horizon. Bill explained that the Global Portfolio Strategy is a framework—a guideline that statistically meets that overall purpose. And, in uncertain times like these, he indicated that your strategic asset allocation is the safe haven.

The seminar concluded with an extensive **Question & Answer session**.