



## PERIODS OF MARKET TURBULENCE

	Today	Yesterday 1998-1999	Yesterday 1997-1998	Yesterday 1994-1995	Yesterday 1989-1992
<b>Catalyst for Fear</b>	<ul style="list-style-type: none"> <li>Accounting Issues</li> <li>Tech Bubble Bursting</li> </ul>	<ul style="list-style-type: none"> <li>Tech Bubble</li> <li>Neglected "Old Economy" Stocks</li> </ul>	<ul style="list-style-type: none"> <li>Asian Crisis</li> </ul>	<ul style="list-style-type: none"> <li>Impact of Euro on Western Europe</li> </ul>	<ul style="list-style-type: none"> <li>Unrest in Tiananmen Square</li> </ul>
<b>Areas of Opportunities</b>	<ul style="list-style-type: none"> <li>Telecommunications</li> <li>Pharmaceuticals</li> </ul>	<ul style="list-style-type: none"> <li>Tobacco</li> <li>Aerospace &amp; Defense</li> <li>Insurance</li> </ul>	<ul style="list-style-type: none"> <li>Asian Companies</li> </ul>	<ul style="list-style-type: none"> <li>Italy</li> <li>Spain</li> </ul>	<ul style="list-style-type: none"> <li>Hong Kong</li> </ul>
<b>Company Specific Opportunities</b>	<ul style="list-style-type: none"> <li>Verizon</li> <li>Telefonica S.A.</li> <li>Nortel Networks</li> </ul>	<ul style="list-style-type: none"> <li>Philip Morris</li> <li>Lockheed Martin</li> <li>AllState</li> </ul>	<ul style="list-style-type: none"> <li>Dev. Bank of Singapore</li> <li>Hutchison Whampoa</li> <li>Kyocera</li> </ul>	<ul style="list-style-type: none"> <li>Telefonica S.A.</li> <li>Repsol YPF</li> <li>Instituto Mobiliare Italiano</li> </ul>	<ul style="list-style-type: none"> <li>China Light &amp; Power</li> <li>Jardine Matheson</li> <li>Hutchison Whampoa</li> </ul>

## MARKETS IN CRISIS

Historical Period	Dow Jones Industrial Average 1 year later	Dow Jones Industrial Average 2 years later
1948 - 1949 Berlin Blockade	-3.3%	13.2%
1950 - 1953 Korean War	28.8%	39.3%
1962 - Stock Market Break	32.3%	55.1%
1962 - Cuban Missile Crisis (October)	33.8%	57.3%
1963 - Kennedy Assassination (November)	25.0%	33.0%
1964 - Gulf of Tonkin (August)	7.2%	3.1%
1969 - 1970 Stock Market Break	43.6%	53.9%
1973 - 1974 Stock Market Break	42.2%	66.5%
1979 - 1980 Oil Crisis	27.9%	5.9%
1987 - Stock Market Crash	22.9%	54.3%
1990 - Persian Gulf War	23.6%	31.3%
<b>Average Appreciation</b>	<b>25.8%</b>	<b>37.5%</b>

Source: *Contrarian Investment Strategies: The Next Generation* by David Dreman, 1998, Simon and Schuster Performance of the Dow Jones Industrial Average through 11 major post-war crises.

The foregoing reflects the thoughts and opinions of Brandes Investment Partners. Strategies discussed are subject to change at any time by the investment manager in its discretion due to market conditions or opportunities. Securities mentioned herein are not to be construed as a recommendation to buy or sell and are not to be guaranteed to be in all portfolios.

**Brandes Investment Partners & Co.**

"Buying a **neglected** and therefore **undervalued** issue for profit generally proves a protracted and patience-trying experience...The **principle** is sound, its successful application is **not** impossible, but it is distinctly not an easy **art** to master."

- Benjamin Graham, *The Intelligent Investor*

## TAKING ADVANTAGE OF TODAY'S MARKET

Investing in uncertain markets and very much 'out-of-favor' companies is consistent with the historical process at Brandes. It is also in keeping with the basic tenets put forth, over 50 years ago, by Benjamin Graham in *The Intelligent Investor*. The following points may help further clarify our recent actions:

- **Historical Precedent**

During Brandes' history, there have been a number of occasions where we have realigned portfolios to take advantage of extreme pessimism in the market. While all of these occasions are unique, they share the common characteristic of being unpopular portfolio actions at the time that ultimately resulted in substantial value-added benefits for the portfolios, as a whole in subsequent periods.

- **Consideration from a Portfolio Context**

We recognize that certain companies carry above average risk. However, we are able to purchase such companies at prices that create the potential for above average returns. It is this risk/return trade-off that we consider in the decision of both whether to add the company to the portfolios and at what allocation. In the end, while individual companies may grab the headlines, it is the overall portfolio returns that generate wealth.

- **Grounded in the Tenets of Benjamin Graham**

In *The Intelligent Investor*, Graham outlines a number of potential areas of investment for the 'Enterprising Investor'. One such area for investment is the Special Situation, or Workout. Because of situations surrounding them, some of the stocks that we have recently added to our portfolios may constitute Special Situations. While much of the news surrounding these stocks is very negative in nature, we continue to believe (as Graham did) that at the right price, there is a place for them in a well diversified, value based portfolio.

While predicting the future is impossible, we turn to history for perspective and wisdom. Historically, there are numerous examples of overreactions to various crises. In each of these examples, we see a pattern of recovery one to two years after the crisis low. Such patterns of overreaction and subsequent recovery are also evident with individual stocks.

Market volatility such as we have experienced over the past few months is never easy to live through. Just as in the past, the general public considers many of our portfolio moves to be very unpopular. We remain steadfast in our conviction that such moves are appropriate in a well diversified portfolio context and remain grounded in the tenets of value investing put forth by Benjamin Graham.

Brandes Investment Partners & Co. is an affiliate of Brandes Investment Partners, LLC, which is sub advisor to the Brandes Funds.

All performance is historical and cannot guarantee future results. Indexes are unmanaged and cannot be directly invested into. Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus carefully before investing. Copies are available from your dealer. Mutual funds are not guaranteed, their values change frequently and past performance is no guarantee of future results.

Units of the Fund are available through registered dealers only and not available through Brandes Investment Partners & Co.

BRANDES INVESTMENT PARTNERS & CO.  
100 KING STREET WEST | P.O. BOX 42 | TORONTO, ON | M5X 1A9  
TEL 416.306.5700 | 888.861.9998 | FAX 416.306.5750 | 888.861.9991  
[www.brandesinvestments.ca](http://www.brandesinvestments.ca)