A message about the market

September 2008 may well be remembered as the point in time when the word "unprecedented" became part of the daily news vocabulary. As one event after another rocked the U.S. financial system and affected markets worldwide, many investors were left wondering, "what happened?" – and more importantly – "what does this mean for my portfolio?"

September 22, 2008

Background and perspective

All you need to do is consider the following series of events and you will realize that the financial landscape has changed significantly over the past few weeks:

- The U.S. government took control of troubled mortgage giants Fannie Mae and Freddie Mac
- Esteemed investment bank Lehman Brothers was forced into bankruptcy
- The U.S. government became insurance giant American International Group's (AIG's) largest shareholder
- Bank of America took over Merrill Lynch, a move that had Wall Street casting a wary eye on other large banks, brokers, and insurance companies for similar consolidations
- Short selling of financial stocks was temporarily banned on concerns that the practice added to the disintegrating value of investment and commercial bank stocks
- "Safe-haven" money market funds came into question as some U.S. firms' funds fell below their customary US$1 per share level (known as "breaking the buck"), leading some funds to liquidate - and investors unsure where to turn
- The U.S. Administration proposed and Congress expressed support for the U.S. Treasury authority to purchase up to $700 billion in troubled mortgage-related assets - the largest and most direct effort to date to resolve the crisis
- Finally, in what can only be described as an astonishing move, the U.S. Federal Reserve Board (the Fed) agreed Sunday to allow investment banks Morgan Stanley and Goldman Sachs to convert to traditional bank holding companies – meaning they now fall under the watch of national bank regulators.

Suffice it to say, U.S. government interventions of this magnitude have not been seen since the Great Depression.

How we got here

Let's put some context around these financial events. The markets have shown serious strain for more than a year, largely the result of years of lax credit practices associated with the housing boom. Mortgage loans of questionable quality were often bundled into complex, hard-to-understand securities and sold to various financial institutions. The complexity and obscure structure of these securities hid an Achilles' heel of our financial system, creating a liquidity crisis of historic severity. Now those securities remain on the owning firms' balance sheets - eating up capital, driving down profits and preventing normal trading among banks and other financial institutions due to the participating firms' stability being questioned. In September, this situation came to a head as some of these institutions began running out of the capital needed to operate their businesses.

The silver lining

Every dark cloud has one, and the one hanging over this market is no exception. In fact, this cloud has two distinct silver linings: the U.S. government's response to both short- and long-term concerns; and a significant market opportunity.

1. The government's quick response.

Washington's swift reaction to recent developments should give investors some measure of comfort. The Fed, the U.S. Department of the Treasury, federal regulatory agencies such as the SEC, and others have acted decisively to address the immediate issues affecting Wall Street and certain financial firms. Measures included a program to purchase "bad assets" from financial institutions, the aforementioned temporary ban on short sales in many financial stocks and the Treasury's expansion of its mortgage-backed debt repurchases. Their actions, together with concerted measures taken by central banks around the globe, have calmed the markets.

With short-term market pressures thus addressed, the U.S. government has begun exploring the root causes of the financial system's pressures. Fundamental and comprehensive changes are clearly needed to ensure the difficulties the market is experiencing do not recur. To that end, the U.S. Congress, the Fed and Treasury officials have begun the process of working collaboratively to make the necessary systemic changes that will appropriately recalibrate our financial infrastructure. These actions should help investors quantify risk on the balance sheets of these troubled financial institutions and appropriately discount them. The longer-term outcome of these efforts is still to be determined, but if one result is a return to more prudent banking practices, so much the better for investors. Through careful analysis and the application of a variety of proven investment disciplines, our portfolio managers are working diligently on your behalf to identify great investment opportunities.

2. The investing opportunity this market has created.

Disquieting though it may be, market volatility is a fact of investing, but remember this: historically, bear markets have always gone back into hibernation eventually. Although we all know past performance is no guarantee of future results, skilled investment managers will search for opportunities during this crisis to turn today's challenging events into tomorrow's advantage for investors.

Money market products

Not even the safest investments, like some money market funds, were spared in this climate of uncertainty.

Our global cash management team has been investing in all kinds of markets for the past quarter-century. With 55 professionals managing more than US$80 billion in assets (as at June 30, 2008), they will continue to stay their course and focus on providing safety, liquidity and yield, in that order, to our money market investors.

Invesco Ltd.

You may find it reassuring to know that Invesco Ltd., our parent company, is a financially strong global asset manager with a stable investment-grade credit rating from all three major credit rating agencies. Invesco is traded publicly on the New York Stock Exchange, and is part of the S&P 500® Index. Invesco maintains a strong capital position, significant access to liquidity facilities and a substantial balance sheet cash position. Our single focus on money management means we don't sell insurance, do underwriting or banking – or use our balance sheet in speculative investments.

As part of Invesco, we offer our clients

- A diversified mix of investment options;
- The expertise of more than 500 investment professionals working in 13 investment centres worldwide; and
- The experience that comes with managing more than US$450 billion in assets for clients in more than 100 countries (as at June 30, 2008).

What hasn't changed

As we wade through the aftermath of this unprecedented series of events, it's critical to remember that, good markets or bad, certain basic investing principles such as proper diversification and investing for the long term, still apply. Short-term fluctuations have always been a reality of the markets. Ensure you have the right investment plan and stay focused on your long-term goals.

Above all, no matter how the headlines read, remain calm and measured - and talk to your advisor. He or she can answer questions, offer reassurance and check your investments to see if any changes should be made to your financial plan.

And take comfort in knowing that Invesco Trimark is focused on doing one thing well, the same thing we've been doing for 27 years: managing money. Regardless of short-term market conditions, each of our funds strictly adheres to the investment objective and strategies spelled out in its prospectus. With rigorous risk management oversight and portfolio managers committed to prudent practices, we have confidence in the effectiveness of our long-term investment disciplines – across all kinds of markets.