MD Financial Forum

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

The MD Financial Forum was introduced by **Dr. David B. Bach, Director of CMA Holdings Inc. (2009)** as an opportunity for MD to engage with members and provide insight into the MD organization and current market conditions. He spoke about the membership focus of MD and underscored the importance of events like this to hear from members. Of some concern to Dr. Bach were the inaccurate accounts of MD that appeared in the media last summer – accounts that he said were untrue and he felt were misleading.

As a physician representative on the CMA Holdings Inc (2009) Board of Directors, he spoke of its governance and composition. Made up of both physician members and lay business people, he explained that the Board is in place to make sure that “MD does what it is supposed to do – be there for its clients.”

Dr. Bach ended his remarks by pointing out that MD is not a profit-driven organization; that its purpose is to help physicians “save money”, not to drive profits for shareholders like publically held financial institutions.

This introduction was followed by remarks from **Brian F. Peters, President and CEO of MD Physician Services Inc.** who spoke of recent changes at MD and his vision for the future of the organization. He explained that MD is unique due to its ownership by a member organization – the CMA – and how that 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 to our members. He stated that MD could not have grown as much as it has in the past 40 years (2009 marks the organization’s 40^{th} anniversary) without earning the trust and business of physicians.

Key points Brian articulated of his vision were:

- We want to make it simple to do business with us.
- We want to continue to build relationships with physicians and get to know clients even better to provide solutions, not just products and services.
- We will offer solutions to meet your practice, personal and financial needs under a single brand – one company – MD Physician Services.
- We want you (physicians) to be so satisfied with our offer that you will refer your colleagues.

He spoke of some of the recent changes at MD:

- The renewed focus on physicians and what adds value for them
- New technology implementation to support both our current and future offerings.
- A new investment framework – Global Portfolio Strategy (GPS) – to help physicians achieve their goals.

He also spoke of what hasn’t changed:

- Our commitment to putting physicians first.
- How GPS is an evolution of our current approach – but the choice remains yours.

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

MD FINANCIAL
CMA COMPANIES

William R. Horton Jr. (Bill), Chief Investment Officer at MD provided insight into current economic and market conditions and the impact they are having on investors. He described the current economic recovery as being one by definition only. Some of the leading economic indicators have been moving up since March of 2009, but the trends of the individual components are not even – based on this, he predicts it will be a bumpy ride. The recession we have been experiencing is what he refers to as a "balance sheet recession"; companies had built up a huge amount of debt over the past 10 years and now they have started reducing debt.

One key aspect of global economic recovery is global GDP growth. The IMF predicts that over the next 5 years, the forecast is for 4.2% GDP growth – with very high growth expectations for countries like China. The four main components to GDP are; consumption, private investment, net exports and government expenditures. In order for the growth to continue, we need the US consumer to be consuming. In general, up to 70% of GDP in the US, and in turn, 20% of global GDP comes from US consumer.

Capacity utilization and recessions coincide, and we won't see a re-emergence from a recession until capacity utilization starts to increase. When capacity utilization – the capacity to produce goods – is operating at full tilt, it runs at 80-83% of capacity - today, we are just above 67%. This means that there is a lot of room for the economy to grow without inflation.

When we look at the global net debt and federal budgets and evaluate them against GDP, we determine that, around the world, debt is high and government expenditures. This money that is flowing into the economy and stimulating economic activity suggests inflation.

What do we need to see happen before we pull out of a balance sheet recession?

The four factors we are watching to determine the trend are:

- U.S. Housing Market - While the Standard & Poor's (S&P) Case-Shiller Composite Home Price Index is trending up, it is still in negative territory. Right now, up to 25% of US consumers have negative equity in their homes. Until this market improves, we won't see recovery.

- U.S. Consumer Demand - Demand is retreating slightly after an increase earlier in the year – 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 1980's.

- U.S. Banking system stability – The number of failed banks has exceeded 100 so far 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 is that the average failed assets at $16 billion far exceeds the average of $1 billion in during the S&L crisis.

- Global Credit Markets – Credit markets continue to normalize with the LIBOR (London Interbank Offer Rate) and OIS (Overnight Indexed SWAP) spread now at 13 bps.

In an overview of capital markets, Bill remarked on the increased investor confidence, as evidenced by the upward trend of the S&P 500 index, the MSCI EAFE Index and the TSX Composite Index. He also noted the improved US Equity Price/Earnings Multiple at 20x earnings and the steepening yield curve. There has been a relatively flat growth rate since March 2009 in both the EAFE and S&P, primarily because of the strength of the Canadian dollar.

The capital market is just a pricing mechanism – what price should we put on assets. The P/E multiple shows that we are slightly overvalued today and there is still room for capital markets to increase.

The commodities markets have shown an upward trend since March of 2009 with oil and gold continuing to surge. The Canadian dollar has been strong against the US dollar for the past four months and is on an upward trend.

The conclusion Bill draws from this analysis of the markets is that there is no dramatic reason change strategic asset allocation today.

Bill explained what these trends mean to an investor at MD. He described how we hire 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 also described how MD focuses in on the time horizon of a portfolio. MD advisors recognize the importance of defining and prioritizing your 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 purpose.

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