



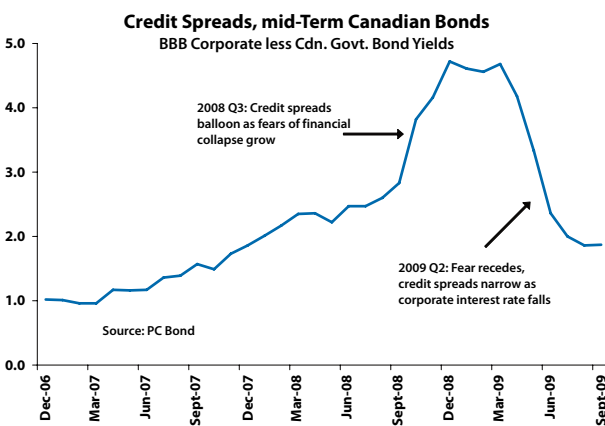
One year after the worldwide near-collapse of the financial sector we are definitely in different times. Several positive trends that began quietly in March and became more apparent in the second quarter continued into the third quarter as well. In particular,

- the financial system continued to recover
- job losses moderated
- the economic downturn attenuated
- financial markets rose

Financial System

Probably the most notable aspect of this recession was the speed with which fear rippled through the financial system one year ago, thereby vastly worsening what to that time had been a modest recession. Thanks to concerted and timely action by central banks and central governments a rerun of the Great Depression was averted and light is now visible at the end of the tunnel - and it's not an oncoming train.

The first poster-child for this turnaround is the financial sector, where the white-knuckled panic of this time last year is now gone. A telling measure of the change in the sector is the difference between the interest rate on corporate bonds and that on government bonds, which we refer to as the "credit spread." When corporate bankruptcy looms large, investors require a much higher interest rate to bear the risk of holding corporate bonds instead of those issued by governments. The chart below shows that the credit spread for Canadian companies, particularly financial companies, increased slowly starting mid-2007 but ballooned to Depression-era levels in late 2008.

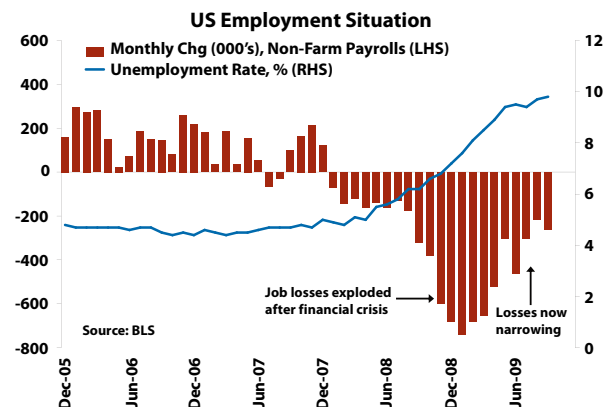


In the last six months this gap fell significantly and it is now at the upper end of its normal range. Its elevated level is a reminder that the economy is still in a recession, but financial sector stresses are no longer making the recession worse. Investors are now more

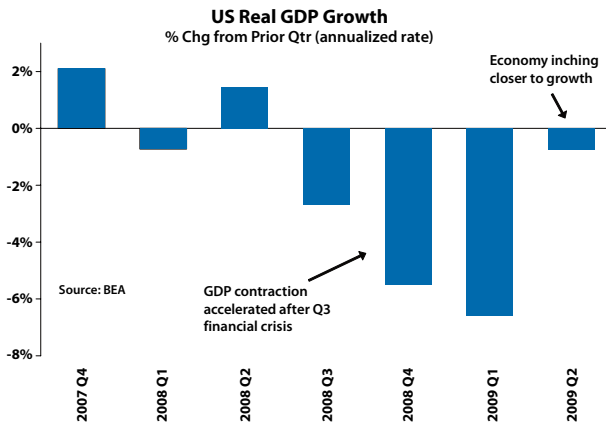
than willing to provide funding to banks, who in turn use it to make loans to creditworthy borrowers. This ongoing stream of credit, channeled through the financial sector, is similar in its effect on the broad economy as oil is to an engine: without oil an engine seizes up quickly and without a healthily functioning financial sector the same happens to the economy.

Economy and Labor Market

The broad importance of the financial sector is no academic matter but literally jumps out from the following chart of the US employment situation. Jobs began to be lost early 2008 but the monthly amount more than tripled in the aftermath of last autumn's financial crisis. The good news is that job losses began to ebb this March and have steadily moderated ever since. Bear in mind that in the prior two recessions unemployment was a lagging indicator, as the job situation did not actually turn positive until a year or more after the economy started growing again. We cannot know in advance whether the same pattern will hold this time around but it is unequivocal that the labor market, like the financial sector, is slowly on the mend.

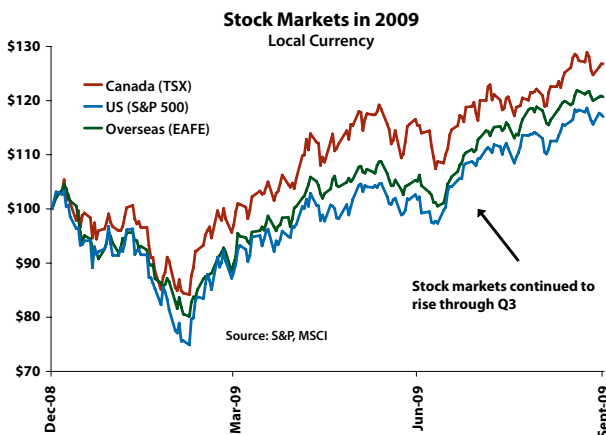


The primary measure of economic activity, GDP, also took it on the chin when the financial sector locked up. The chart on the next page shows the annualized percentage change in GDP from the prior quarter. A very modest slowdown through the first half of 2008 quickly morphed into consecutive declines of 5-6% in the wake of last fall's financial crisis. But in the second quarter of this year the decline was already much smaller in magnitude, and though the figures for the third quarter are not yet available it is entirely possible they will show slight growth of the US economy.



Financial Markets

The chart below shows the path of three major stock markets through 2009, measured in their local currency. All three fell sharply in the first part of the year but have since more than recovered those losses, a trend that continued into and throughout the third quarter. The gains for the US and overseas stock markets are somewhat smaller if measured in Canadian dollars as those currencies have fallen against the Loonie, but are still well in positive territory for the quarter and the year. Despite these widespread gains stock markets remain about a third below their previous peaks of mid-2007.



It was also a very good quarter for corporate bonds. Much of the narrowing credit spreads shown in the first chart were due falling corporate interest rates, which provided a boost to corporate bond prices. This combination of price appreciation and high level of interest-income led to a 5% return in the quarter and 18% for the year. In contrast, the return from federal government bonds was only 1% for the quarter.

Your Portfolio

Many of the changes to the Compass portfolios made in the depths of the financial crisis continue to enhance the funds' returns. One such change was the near-quadrupling of the corporate bond weight in the more conservative portfolios in order to take advantage of the higher interest rates on corporate bonds and the wide credit spread shown in the first chart. Because credit spreads are now much narrower we can no longer expect the stellar 15-18% returns from corporate bonds as we've seen so far this year. But with corporate interest rates still 1.5%-2% higher than those of government bonds, the funds' higher corporate bond weight should continue to prove beneficial.

In the same vein, during last autumn's crisis the equity weight in each Compass portfolio was raised to its maximum. With stock markets outperforming government bonds by 5-25% so far in 2009, this shift in asset allocation has already been and should continue to be quite fruitful.

Conclusion

Prompted by lower-than-expected US payroll numbers, stock markets began the first day of fourth quarter with a 2.5% drop. Although this loss was recovered over the next few days, it served as a timely reminder that equity markets will fluctuate, that the current recession is not entirely over and that the recovery will be slow. But when compared to the one-day changes of 10% at this time last year, it also served as a reminder that the sheer panic which gripped the financial system is receding into the past, that the financial environment today does not remotely resemble that of last year, and that the recovery of the economy and stock markets is already under way.

Sincerely,

Sheldon Dyck

Chief Investment Officer

ATB Investment Management Inc.



THE COMPASS ADVANTAGE

Sophisticated Portfolio Design

Portfolio design from a comprehensive inventory of investment ingredients.

Professional Management

Management expertise with access to the latest market information and research.

Premium Quality

Best in class investments objectively selected with proven records of value-added performance.

Exceptional Value

High quality investment portfolios at low cost equals exceptional value.

Simple to Maintain

Automatic re-balancing and consolidated reporting of a well-diversified portfolio.

Questions?

Talk to an ATB Investor Services professional at any ATB Financial branch or call 1-888-ATB-7121.

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