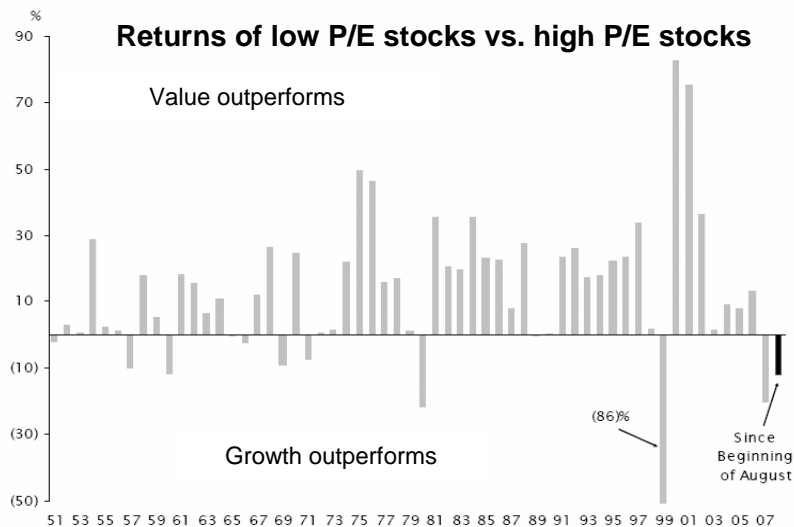


Indeed 2007 has been a volatile year for equity markets around the world. Value funds have been the hardest hit by this year's turbulence. While the S&P/TSX Composite Index held steady at 8.4% (year-to-date November 30, 2007), the median return for our Canadian value fund peer group was -2.8%.

**Conditions have favoured growth stocks**

Why the disparity in returns? Market conditions were favourable for growth-style investing and, in fact, much of the Index's return can be attributed to especially strong performance in two stocks with significant weightings in the Index: Research in Motion (RIM) and PotashCorp of Saskatchewan (POT). Year-to-date, RIM and POT appreciated 129.2% and 113.4% respectively, and together accounted for roughly 3.6% of the Index's 8.4% return. Incidentally, these are two stocks we value investors cannot buy as their current valuations are excessive and do not meet the criteria of a value mandate.

Why have value funds underperformed? Generally, value stocks tend to be more cyclical in nature. With the flattening of the yield curve and softening corporate profit margins, there have been growing concerns of a weakening economy and as a result, the market moved to less economically-sensitive defensive names. We believe concerns over a recession are unfounded and that this is simply a mid-cycle correction, and as rates move lower, the economy will strengthen in 2008. Value stocks will continue to underperform until the market believes the threat of recession has subsided. That's not to say value names – and value funds – will have negative returns, but we can expect them to underperform growth-style investments until the market's perception changes. Furthermore, history has shown that value investing (investing in lower P/E names) tends to outperform growth investing over the long term. You will notice in the chart below, since 1951 value stocks have underperformed in only 11 years and in the years that followed, the return differential between value and growth stocks was in the high double digits. Therefore, it would be ill-advised for investors to flee value funds – value investors have been well rewarded for staying the course.



**Source: Empirical Research Partners Nov. 26/07**

## Large caps vs. small

With this volatility, we're seeing some great value opportunities emerge. Currently, the most attractive valuations are among large caps. Strong outperformance among small cap names attracted a lot of capital and as prices were bid up, large caps have been largely ignored and they are now trading at very attractive valuations (see chart below). We have taken advantage of value opportunities during this correction and you'll notice large caps will dominate the Canadian value funds' top ten names in the coming months.



Source: Empirical Research Partners Oct. 16/07

## Dynamic Canadian Value Funds

Indeed it's been a tough year for value funds – especially after four years of double digit growth. Nonetheless, we are very pleased with how the Dynamic Canadian Value fund line up has fared. We have an impressive long-term track record and the funds continue to post strong performance relative to their peers. Dynamic Value Fund of Canada leads its peer group for 2, 3 and 5-year returns and ranks second year-to-date.

Compound annual returns (ranked by 1 year)								
Fund Name	Stars	3 Mth	6 Mth	YTD	1 Yr	2 Yr	3 Yr	5 Yr
<b>Dynamic Value Fund of Canada</b>	<b>5</b>	<b>0.4</b>	<b>-5.3</b>	<b>4.7</b>	<b>5.9</b>	<b>19.1</b>	<b>20.3</b>	<b>21.4</b>
CI Harbour Fund	5	0.8	-2.6	6.8	8.9	13	16.6	14.4
CI Signature Select Canadian	4	-0.6	-3.9	3.2	5.4	13.9	16.2	16.1
Trimark Select Canadian Growth	3	-2.3	-4.7	0.4	3.0	8.0	9.3	10.4
AGF Canadian Value	2	-0.4	-2.2	1.0	2.2	9.9	11.2	9.6
CI Canadian Investment	4	-0.6	-4.2	1.0	2.0	9.1	13.2	14.5
AIM Canadian First Class	4	0.3	-5.2	-0.5	1.9	9.6	12.4	15.1
Templeton Canadian Stock	1	-8.5	-12.2	-3.0	0.1	4.8	6.3	7.3
Mac Maxxum Canadian Value	2	-4.4	-8.1	-4.4	-1.5	5.0	7.8	8.8
Mac Ivy Canadian	2	-1.3	-2.8	-3.4	-2.2	2.8	4.6	5.6
Mac Cundill Canadian Security Series C	2	-7.5	-13.8	-6.5	-3.7	2.2	4.9	9.1
Trimark Canadian SC	2	-6.9	-13.5	-9.2	-6.6	4.6	6.6	8.9
Trimark Canadian Endeavour	2	-10.2	-15.2	-11.1	-7.8	4.2	4.8	9.8
Brandes Canadian Equity	1	-18.3	-26.9	-25.2	-21.6	-5.4	-4.0	2.1
S&P/TSX Composite		0.8	-1.4	8.4	10.0	15.2	17.4	18.2
Peer group median		-2.8	-6.3	-2.8	0.0	5.5	7.6	8.7
<b>Value added over median Canadian Equity</b>		<b>3.2</b>	<b>1.0</b>	<b>7.5</b>	<b>5.9</b>	<b>13.6</b>	<b>12.8</b>	<b>12.7</b>

Source: Morningstar for period ending November 30, 2007

In closing, I'm very excited about the prospects for the funds in 2008. We believe further lowering of interest rates will be the catalyst that helps to move the economy ahead. With the threat of recession out of the way, renewed investor confidence will signal an end to this mid-cycle correction.

Thank you for your support this year.  
David Taylor

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