FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

The saying *what goes up, must come down* holds true when looking at lumber prices recently. In just eight weeks, the price for lumber has fallen 70% from all-time highs, as the party ended for forestry companies. Specifically, the going rate sawmills charged wholesalers -known as the cash price- was US $485 for 1,000 board feet this week for two-by-fours made from western spruce, pine and fir (SPF), compared with US $1630 in May. The deep slide from record-shattering levels saw on average triple-digit prices drops across all framing lumber species.

"The new house is almost ready!"

A disruption to timber supplies from wildfires in Canada and the United States is not forecast to bolster lumber pricing going forward. Instead of wood shortages, the scene has changed to one of ample supply amid softening demand. Until investors see prices recover in lumber markets, the uncertainty is expected to put a damper on the share prices of producers, even with their healthy balance sheets.

Industry analysts estimate that lumber cash prices have dipped to levels below the cost of production for some sawmills in British Colombia, where costs are higher than the United States. Break-even levels are between $500 to $600 for 1000 board feet, while two-by-fours made from western SPF averaged in the low $300s.

People stuck at home started a do-it-yourself bonanza last summer, snapping up construction materials for decks and renovations. Housing starts -especially in the United States, began surging too. With demand far exceeding supply, lumber markets went on a choppy rally for 13 months, before the downward trend in pricing began eight weeks ago. The sharp reversal in economic conditions in the forestry industry is reflected in the sagging share prices of lumber producers. West Fraser Timber Co, Canada's largest lumber producer has seen its stock fall 23% over this time period, while Canfor Corp has fallen 33%.

The woes of lumber is why we are not big fans of commodities in general, which are inherently volatility and in our view not good long term investments. Our preference for managed product solutions with broad mandates to provide long term capital appreciation with lower volatility than equity markets, necessarily rules out commodities from our asset allocations. The investment funds offered through our wealth management partners at **Dimensional**, **EdgePoint**, **Guardian Capital** and **Mackenzie Investments** look for high quality companies with strong competitive positions, defendable barriers to entry, long term growth prospects, strong management and which are trading at reasonable valuations. This is an approach that has delivered solid results through all market cycles, meaning that you don't have to time the markets (as with commodities) to build wealth over the long term.

Be safe, be well!

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