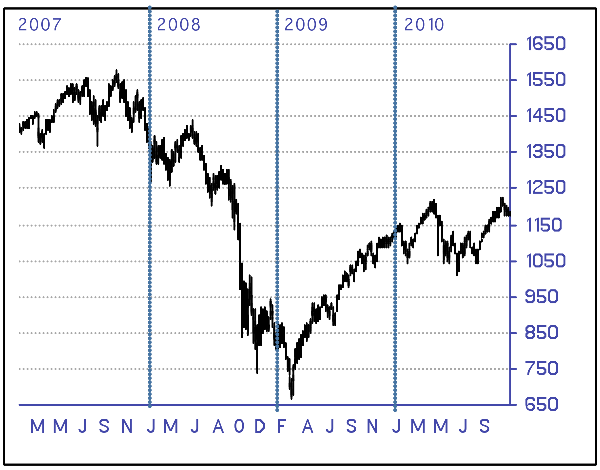
NOVEMBER 2010 | REPORT

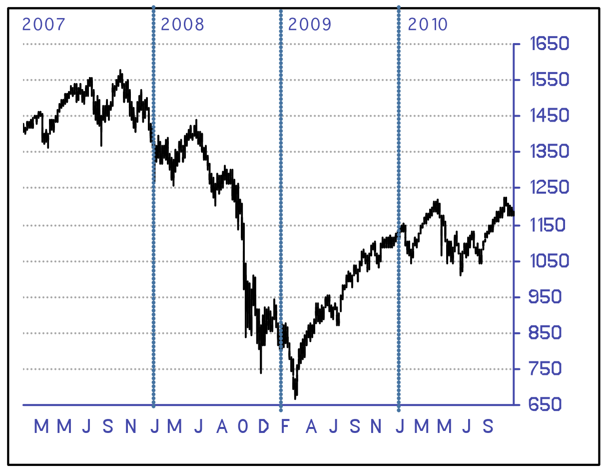
Equity markets were mixed in November with Canadian stocks continuing their strong performance. The S&P/TSX Composite Total Return Index rose 2.4% for the month and now stands 16.3% above the levels of one year ago. U.S. stocks, represented by the S&P 500, were flat on the month while most European markets were down from 5% - 10%.

Fixed income markets in Canada were weak with the PC Bond Index dropping 1.1% on the month.

S&P/TSX COMPOSITE INDEX



STANDARD & POOR'S 500 INDEX



Source: Yahoo Finance

The financial pages in the last month have been filled with discussion about the launch of the Federal Reserve Board QE2 program. QE1, which stands for Quantitative Easing 1, was the name used to describe the U.S. Central Bank's actions during the credit crisis of 2007 - 2008. The Fed's objective at that time was to provide support to U.S., and foreign banks operating in the U.S., by lending cash to them at a time when the market for short-term funding had virtually dried up. The Fed was fulfilling its role of supplying liquidity to the financial system at a time of crisis. This allowed otherwise healthy financial companies, and some large industrial corporations, to stay afloat in a financial hurricane.

QE2 has a different objective. In the U.S., the crisis stage is passed but the economy is emerging from the recession at a sub-par growth rate. The Fed's solution is to buy bonds in an effort to keep both short- and medium-term (5 – 10 year) interest rates at low levels. It hopes that this will encourage corporate borrowing and investment which will boost the growth rate of the economy.

The Fed did a good job of announcing its intentions well ahead of its implementation of QE2, so that much of the decline in interest rates anticipated by investors was already built into the market well before the Fed entered the market. This could account for the poor performance of the bond market in both the U.S. and Canada in November.

Of greater immediate concern was Ireland's need to get financial assistance from its European Union partner countries, as bond investors forced the country's borrowing costs to their highest level since the financial crisis of 2007 – 2008. There is now speculation that Portugal and possibly Spain will require EU financial aid. The creation of the one currency Euro-Zone has brought benefits but, at a time of economic weakness, it also has its disadvantages. By giving up their individual currencies, European countries have also given up their ability to depreciate their currencies as a method of restoring competitiveness and kick-starting economic growth. These countries are in a position similar to Canadian provinces. If the Maritime provinces are experiencing a soft economy while resource-based Western Canada is booming, the Maritimes have no ability to depreciate a currency. They must rely on the Federal Government's funnelling funds from the have provinces to the have-nots.

Similarly, Ireland, Portugal, Spain and Greece (the PIGS), short of dropping out of the European Common Market and reverting back to their own currencies, must rely on fiscal measures both internal (cutting spending and raising taxes) and external (loans from richer European countries).

The question in many investors' minds is, like the seasonal flu, will we catch what ails the PIGS? Since we are dealing with the future, it is impossible to be definitive about what might happen but we can make a few observations about how it is currently, and how it may impact in the future, the portfolios we are managing on your behalf.

In some ways, the rising borrowing costs and reduced liquidity hitting the PIGS bears similarities to the liquidity crisis we experienced in 2007 – 2008, but there are important differences. The 2007 – 2008 crisis affected virtually all countries and companies, with no differentiation in financial health. Currently the crisis is focused on countries in poor financial health. The problem countries have balance sheet problems, too much debt compared with the earning capability to support that debt. This is a financial virus that can infect the financially unhealthy but is unlikely to spread to the financially healthy.

For example, in November, Canadian equities rose 2.4%, U.S. equities were flat while European equities fell by nearly 7%.

An important point to make is that the balance sheet issues are affecting primarily governments and financial institutions. The corporate sectors in North America and Europe are generally in good shape, balance sheet-wise. So, for European corporations, excluding banks, we see the major issue as one of operating their domestic businesses in slow growth economic zones as governments grapple with their debt issues.

In our non-North American investments we do have some exposure to European financial stocks, but we see the risks to the equity portion of a balanced portfolio as being quite small and not life-threatening. Any price declines should be recovered in the coming months.

In our fixed income portfolios the European debt problems had no observable impact on portfolio values last month.

One difference between the 2007 – 2008 crisis and the present is that the earlier crisis was coincident with a severe economic contraction around the world. Currently the world is in a recovery mode. An improving economy may not solve the PIGS financial problems, over the long term, but each quarter of growth will improve their fiscal health.

Our investment strategy at Howson Tattersall of both broad diversification and emphasis on strong balance sheet strength prepares our clients' portfolios before an unpredictable event occurs, either positive or negative. We cannot protect portfolios completely from negative events, otherwise we would be cutting off all of the upside, but we can minimize the impact of negative events on the total portfolio values. We believe you have seen the results of this strategy in the increasing values in your portfolios in the face of recent unpleasant headlines in the business press.

This will be our last report to you before the New Year. All of the staff at Howson Tattersall, including both the investment team as well as the client services team, wish you and your family a happy holiday season and a healthy 2011.

If you have any questions about either our investment strategy or your portfolio specifically, please contact Brian Smith at your convenience.

Sincerely,

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