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Portfolios

QUARTERLY PORTFOLIO REVIEW

For the period ending September 30, 2010

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If you have any questions or would like to review your portfolio, please contact us at your earliest convenience.

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QUARTER IN REVIEW

North American markets had a great third quarter, finishing the three-month period at their highest points in almost two years. The TSX, the Dow, and the S&P500 all rallied to bring the year-to-date figures into positive territory for all indices after the May/June correction. Europe fared even better with many established and emerging markets climbing from the bottom despite choppy periods. Not all markets were up however, as China was one of the few that fell in the quarter. It pulled back 6% after soaring over 60% for the first half of the year as their government vocalized its efforts to maintain control over their economic growth.

July started with a rally that brought the TSX back up from the correction in June but then traded sideways in a period of consolidation until the end of August. The summer season saw lower volumes which contributed to the volatility. As September rolled around, volume picked up and the market rallied yet again, surpassing the highs of April giving the Dow and the S&P their best quarterly gain since 1998 and their best Q3 return since 1939.

While this quarter has experienced great returns, the TSX is still down 19% from its 2008 high of 15,154 and the S&P500 is still 28% lower than its 2007 high of 1576. That said, the September high of 12,406 had not previously been seen since September 2008 at the beginning of the credit crisis and it is an important milestone in the recovery.

The rally came as economic data showed continued signs of stabilization. Governments discussed using more stimulus injections to speed up growth to higher levels and this helped eliminate the fear of a double dip recession. A number of corporations beat earnings expectations (albeit, reduced expectations), with cost cutting a key reason for those results. Investor concerns over debt, unemployment and home prices are improving and the markets are benefiting from it. Global GDP growth has slowed but the growth forecasts of the leading countries' still remain close to original expectations, with Canada maintaining its above average pace. While our US neighbour and trading partner is being a drag to some extent on our growth with their reduced consumer demand.

Mergers and acquisitions made headlines this quarter with BHP Billiton's hostile bid for Potash Corp receiving the most coverage (and benefiting our

TSX Composite Index & S&P500 - 3rd Quarter Performance



Source: <http://moneycentral.msn.com>

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Canadian Equity portfolios). Corporate balance sheets and cash levels are in great shape and whether its dividend increases or re-investment into growth strategies CEO's are looking for ways to generate increased returns for shareholders with that excess cash.

With markets closing out the third quarter with solid gains, the Bank of Canada and many of its world-wide counterparts are now re-mapping their stimulus plans in order to get back to more normal levels. Interest rates are climbing here at home but monetary policies are being reviewed around the globe to see if support needs to be continued. Even though the central bank trimmed its outlook on the global recovery, interest rates in Canada were raised by a quarter point yet again on July 20th to bring the rate to 0.75% as the "underlying dynamics" for inflation still remain. Both core inflation as well as headline inflation are expected to remain near the banks 2% target through to the end of 2012. The back-to-back increases in interest rates by the Bank of Canada along with the slowing economic growth will give some wiggle room on future rate hikes should the bank wish to be more cautious going forward. Our loonie finished at \$0.9712, gaining 3.3% for the quarter.

Gold continued to climb and made its eighth consecutive quarterly gain, hitting new record highs throughout September. In fact, it hit a new high 11 times in 13 days to post a 5.1% gain for the quarter, finishing at \$1,309.60. Silver was lifted to a new 30 year high of \$22.12 an ounce on September 30th, helped by the strength in gold, although the metal has outperformed its precious metal sibling.

OUTLOOK & PORTFOLIO STRATEGY

As we enter the final quarter of 2010, earnings and job data will still be the focus as there is still slow economic growth and some further stimulus may be needed to speed it up a little. Precious metals are likely to be a leading sector due to their ability to benefit from both positive and not-so-positive economic conditions. Should the recovery start to lose traction, the central banks will start up the printing presses again and investors will flock to gold and silver. Our analysis has also shown that historically, over the past decade, gold stocks have realized better returns in the second half of the year compared to the first half. And we believe that it will be important to maintain exposure to this sector throughout the next few months but also actively manage the volatility.

77% of the TSX is made up of three sectors, Financials (29%), Energy (26%), and Materials (22%) while the remaining 23% is spread among seven other sectors. There are portfolio managers who will copy the index and hold weights similar to the TSX but those three largest sectors are not always the best performers and as active managers, we look to position ourselves in the areas of strength.

In this regard, we have diversified among a few leading sectors, with our largest overall weightings in gold & silver sub-sector of the materials sector. Throughout our three mandates, we took profits on the iShares Gold Index ETF at the end of August and re-invested the proceeds into specific gold stocks when they briefly pulled back in early September. We increased our

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international exposure by adding the S&P500 ETF, the German index ETF and the Turkish index ETF. Copper stock Quadra was a new addition as was Methanex in the Canadian Equity portfolio and we took some profits on Potash, which saw a 53% gain. Throughout our mandates, we added new positions including CIBC, Royal Bank, Telus, Crescent Point Energy, Groupe Aeroplan, Connacher Oil & Gas, Dundee REIT, Westjet, Sherritt, Canadian Natural Resources and Cineplex Galaxy. We sold Lululemon and Canadian Oil Sands and profits were taken on Canfor Pulp, Shaw and Emera.

Looking ahead to the end of 2010 and the beginning of 2011, there is considerably less widespread economic concern, not only in Canada but also globally. The global economic recovery continues and the chance of a double dip recession, which we never believed would occur, is now considered by most to be increasingly less likely. It is now becoming clear that we are in the expansionary phase of the economic cycle and that the economy should continue on a growth path for the near future.

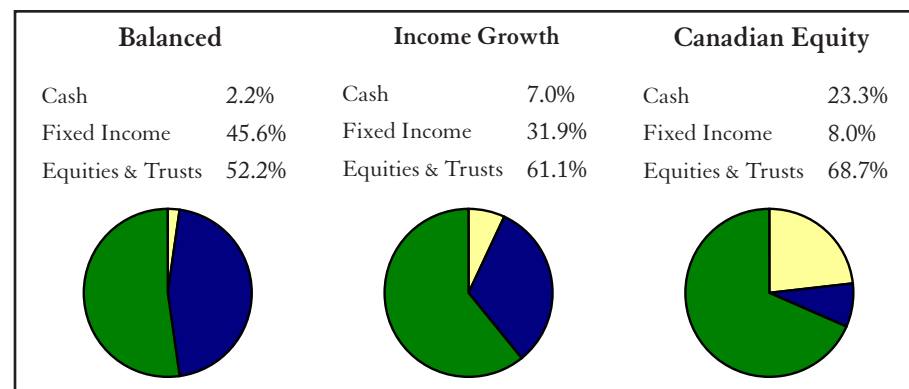
Although the persistent volatility in the markets has been a concern for many investors this year, it is actually quite typical for this period of the economic cycle. The markets are still recovering from the trauma of the 2008-2009 financial crisis and the volatility we are still experiencing is a reflection of investors' weariness as we claw our way out of the recession. Though the relative calm of the summer may prove to have been an anomaly, it is interesting that the wild volatility that we have seen during and since the Credit Crisis has cooled down a great deal. To illustrate, the S&P 500 Volatility Index fell to

the low 20% range, a level of calm we have not seen since before the Crisis (it had peaked at 89%). It has been a while since we've seen single-day multi-hundred point drops in the major market indexes, reducing stress and fear. Slowly, markets appear to be continuing their mending and the lack of major market sell-offs is another sign (the S&P slowly grew 10.7% over the quarter, having been up in each of July, August, and September). Keep in mind that if volatility does return, opportunities are sure to unfold, not just in Canada and the US, but internationally as well.

Please let us know if you require any additional information.

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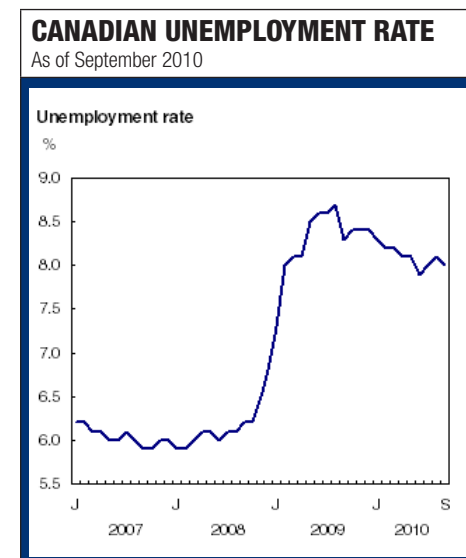
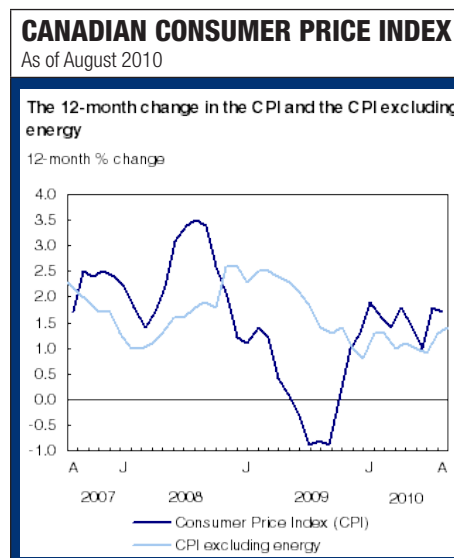


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Quarterly Market Information

S&P TSX SECTOR TOTAL RETURNS (%)					As of September 30, 2010
Sector	1 MTH	YTD	1 YR	5 YR*	
Health Care	2.76%	32.55%	32.81%	-2.68%	
Utilities	3.51%	8.18%	21.78%	0.55%	
Materials	4.17%	20.49%	31.46%	18.79%	
Industrials	1.26%	8.76%	19.93%	4.29%	
Telecom	3.20%	14.50%	21.61%	1.93%	
Energy	3.96%	-2.38%	3.41%	-5.89%	
Consumer Discretionary	0.68%	15.33%	22.85%	-1.55%	
Consumer Staples	0.23%	3.85%	12.29%	-1.67%	
Financials	1.70%	1.25%	2.31%	0.62%	
Info Technology	3.80%	-3.14%	5.69%	0.36%	

Source: Bloomberg LP
*Annualized Returns



KEY MACRO ECONOMIC FACTORS (Q3)						As of September 30, 2010
	06/30/10	09/30/10		06/30/10	09/30/10	
GDP Growth Rate	2.70%	2.1%*	Gold	\$1,242.00	\$1,309.30	
Unemployment	7.90%	8.00%	Crude Oil	\$75.63	\$79.97	
Overnight Rate	0.50%	1.00%	Nat. Gas	\$4.62	\$3.87	
Prime Rate	2.50%	3.00%	Silver	\$18.62	\$21.88	
Inflation	1.40%	1.70%	Copper	\$2.95	\$3.65	
CAD-USA	\$0.94	\$0.97	CAD-EUR	\$0.77	\$0.71	

Sources: Bloomberg LP, Statistics Canada, Bank of Canada
*Projected value, official figures not yet released

