Raymond James
Steele Wealth Management Group
First Quarter 2008 – "Stuck in Traffic"

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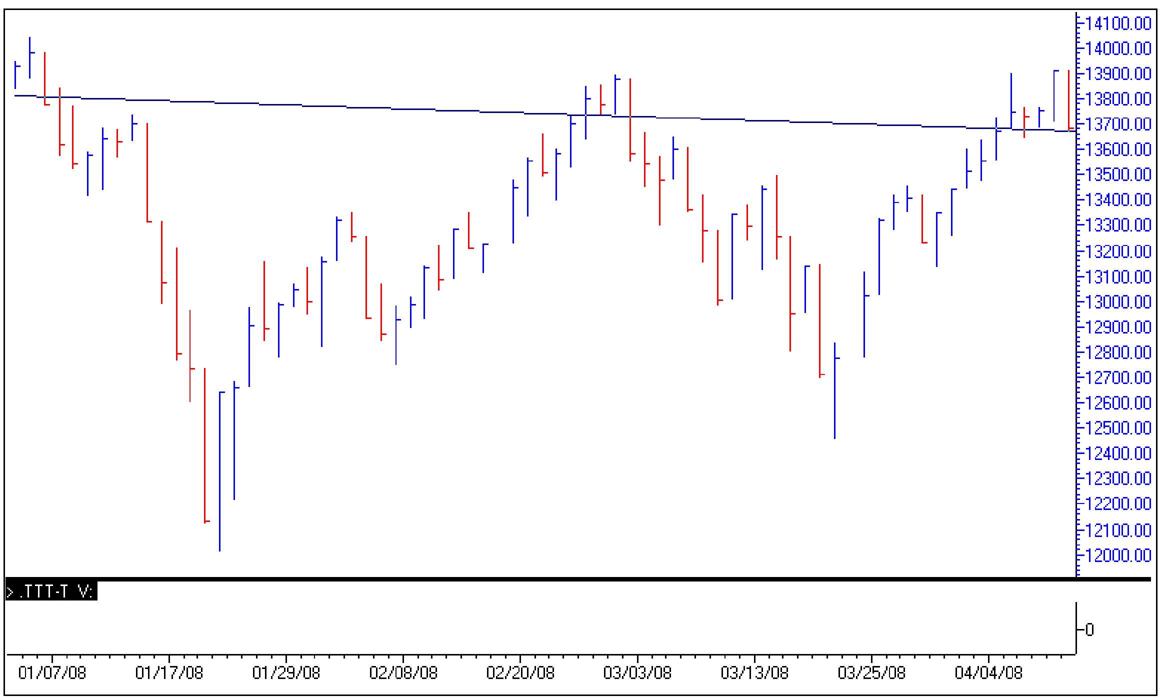
Quarter in Review

The S&P/TSX Composite Index fell 2.8% during the first quarter of 2008. There were multiple days with excessive levels of volatility as investors were adjusting their portfolios with no general consensus guiding their decisions. Commodities continued to lead the way although they have retraced somewhat from their highs. The Materials sector was up 7.3%, supported by strength in most commodities and the Energy sector gained 1.2% on higher oil and gas. Leading the losing sectors were Telecommunications and Consumer Discretionary which slid 12% and 14.3%, respectively; both of which are highly dependent on consumer sentiment in the United States.

A lack of confidence in US financial markets coerced US policy makers to make aggressive rate cuts and even save a failing US investment bank, Bear Stearns, in order to provide liquidity and alleviate credit concerns. The Bank of Canada has also cut rates but not to the extent of the US Federal Reserve (0.75% versus 2%). The US has had a streak of bad economic figures including greater than expected unemployment and inflation, along with others. Canada's economic figures have been more resilient but much of our success rests on the condition of US markets. As for world markets, they have generally been mimicking the returns of US markets.

S&P/TSX Composite: Year-to-Date



Aggressive Growth Portfolio: Fell 6.57% during the quarter.

<u>The best performers in this quarter were:</u>

- Labrador Iron Ore Royalty Trust (Metals&Mining) at +14.98%
- Sierra Wireless (Communications Equipment) at +11.18%
- Fairfax Financial (Insurance/Investment Management) at +10.70%

<u>The worst performers were:</u>

- GMP Capital Trust (Investment Banking) at -32.11%
- TSX Group (Financial Market Services) at -26.46%
- Neo Material Technologies (Magnetic Powders) at -23.90%

<u>During the quarter we bought:</u>

- BioMS Medical: its primary focus is on the development and commercialization of its drug for Multiple Sclerosis; it is expected to see significant revenues from this product in the upcoming quarters
- Arawak Energy: rapidly growing oil and gas company operating in Russia, Azerbaijan, and Kazakhstan; earnings and cash flow growth are impressive and their current level of earnings is not accurately portrayed in the stock price
- Labrador Iron Ore Royalty Trust: earnings for this trust have skyrocketed in sync with commodities prices; we believe commodities prices will stay elevated due to foreign demand
- Petrobank Energy: explosive earnings and cash flow growth; extracts oil using a new, much more efficient technology; if its trial period is a success, it will be able to sell access to its patent
- Churchill Corp: solid infrastructure play with visible growth potential
- Agrium: the most diversified and underpriced Canadian agriculture play
- Hemisphere GPS: a manufacturer of GPS products that is just beginning to hit profitability; stock price should appreciate as the GPS market grows and they grow their market share
- Fairfax Financial: has had great earnings yield for the past 2 years and was extremely undervalued from an earnings point of view when we bought it
- More shares in Research in Motion, Oilexco, and Bow Valley Energy on pullbacks as we continue believe that RIM's Blackberry products will continue to do well and that oil prices will be strong

<u>During the quarter we sold:</u>

- Synenco Energy: we sold it because the stock continued to slide and there were no near term catalysts to support its price, only takeout value
- Equinox Minerals: its upcoming cash flow projections and earnings figures were reduced and we saw that this would stall the stock's rapid price increase
- TSX Group: we sold a portion of it as it was declining due to current market conditions; it profits most when the market is doing well
- Bell Aliant Regional Communications Trust: we feel as if it had peaked at $30 and with variable cash flow figures and slow earnings growth, that it would perform poorly in an economic downturn

G30 Balanced Portfolio: Fell 6% during the quarter.

<u>The best performers in the quarter were:</u>

- Yamana Gold (Metals&Mining) at +16.83%
- Macdonald, Dettwiler, and Associates (Space IT) at +11.35%
- Sherritt International (Metals,Mining&Fertilizers) at +9.26%

<u>The worst performers in the quarter were:</u>

- Canaccord Capital (Investment Dealer) at -31.37%
- Shaw Communications (Telecommunications) at -23.22%
- CCL Industries (Packaging) at -22.46%

<u>During the quarter we bought:</u>

- Nova Chemicals: manufactures plastics; a defensive stock – in a US recession, oil prices should come down, thereby alleviating Nova's costs and if the recession is short-lived, Nova will benefit from higher than expected sales in the US market (win-win scenario)
- Telus: a value – was trading at a 2 year low when we bought it; yields a decent dividend and has strong cash flow; a good stock to hold through uncertain times
- More shares in BCE, Saputo Inc, Sherritt International, and First Quantum on pullbacks as we continue to believe that they have reasonable risk/return ratios and will perform well in a US recession

<u>During the quarter we sold:</u>

- Ensign Energy Services: sold it as oil was expected to peak; the outlook for oil drillers was not good and most oil and gas companies were cutting their capital expenditures for 2008; Ensign also had a poor utilization rate of its equipment
- Trinidad Energy Services: sold it as oil was expected to peak; outlook for drillers was poor
- BFI Canada: relies on acquisitions to grow and BFI's growth will slow in a market with tight credit; sold it but will consider it again at a lower price and in an overall healthier economy
- Bell Aliant Regional Communications Trust: we feel as if it had peaked at $30 and with variable cash flow figures and slow earnings growth, that it would perform poorly in an economic downturn
- Shaw Communications: our holdings in this were very small and its prospects are lower than other telecommunications companies
- Power Financial Corp, IGM Financial, Great West Life: they all have similar interests and we wanted to trim our exposure to financials
- Canaccord Capital: our worst loss of the year; its assets were tied-up in ACBP which was holding its price down and would continue to do so until that problem is solved; near-term revenue and earnings will be poor so there are no near-term catalysts to boost the share price
- Rona: sales in home improvement goods for the upcoming years look poor as consumers will have less to spend and less houses to spend money on (the retail sector in general will be weak)

- Wajax Income Fund: sold it because capital expenditures of its customers are expected to be lower than average so this stock should have a limited upside
- Industrial Alliance Ins & Fin Svc: we were overweight financials and we sold this stock to cut down on our exposure; its growth prospects are weaker than Manulife and it also yields a lower dividend

Going Forward

The actions by the US Federal reserve and Bank of Canada of lowering lending rates was necessary as it provides liquidity to a market that may have failed without it. But, often every action taken to cure one problem causes another problem elsewhere and inflation is that other problem. Inflation in the US will be the concern for the upcoming years as figures already show inflationary pressures building. How do you cure high inflation? The answer is easy, undo what you've recently done – increase the rates. But, if you increase the rates, the economy will contract and we could be in the exact same position we were 6 months ago, 6 months from now.

So what do you do?

As we said in our previous report, we believe the places to be in this uncertainty are still Agribusiness and Infrastructure.

To summarize our previous stance:
Agribusiness will continue to strive as demand from developing nations for fertilizers and higher crop yields are on the rise and are not expected to drop off. Incomes are increasing and as they do, demand for more and better quality food increases.
Infrastructure continues to be a priority for politicians and announcements of additional funding have occurred since we last suggested this sector.

We will also be looking towards more defensive stocks as a US recession is likely. Holding stocks with dependable yields in sectors with historically low volatility will help weather the economic slowdown.

We will continue to keep an eye out for unique situations as we always do.

The first quarter has been shaky and as the quarter ends, market participants are still divided on where we are headed. Now is the time to be very selective about where our cash should go and pick those few winners that arise each year, while holding an overall defensive portfolio.

What does this all mean?

Investments are currently stuck in heavy traffic, but one thing is for certain; traffic clears. Once market confidence is revived, your investments will be ready to get to their destinations.

The bottom line: go out and enjoy the summer while it lasts.

Sincerely,

The Steele Wealth Management Group