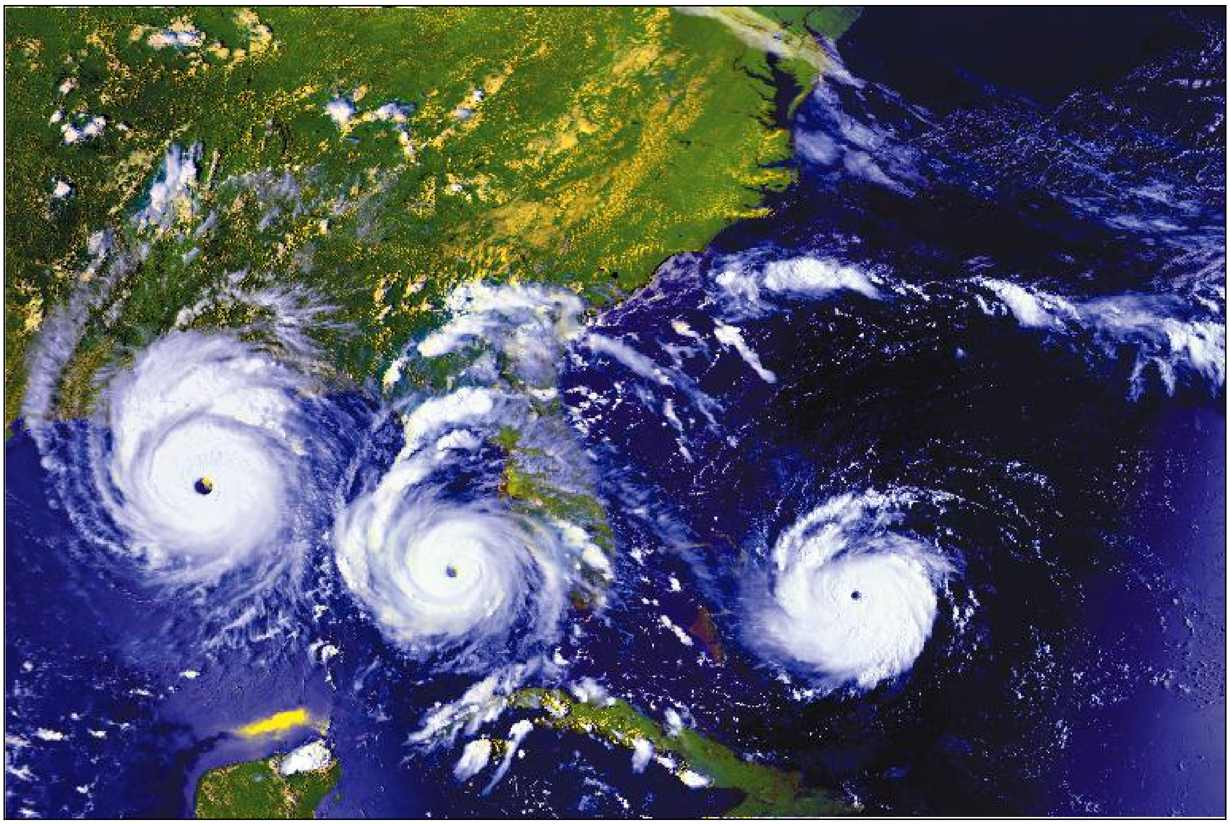
Raymond James
Steele Wealth Management Group
First Quarter 2009 – "The Eye of the Storm?"

Or the first in a series?



The Team:

Brian Steele

Laura Prust

Jeannine Campbell

Kelly Townsend

Matthew Bell

Quarter in Review

The S&P/TSX Composite Index dropped 2.97% during the first quarter of 2009. The quarter saw its share of mixed data.

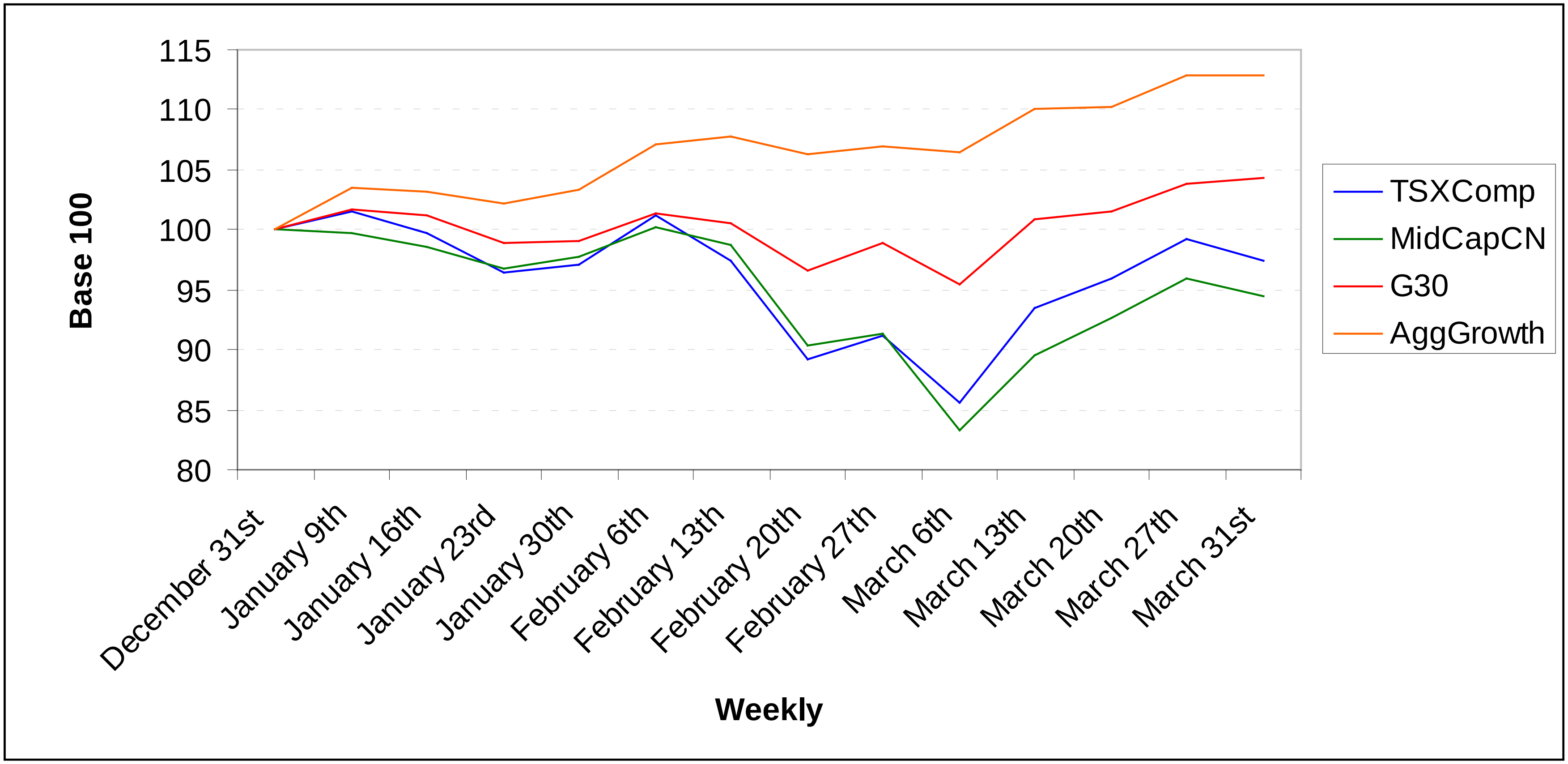
Most economic indicators have halted at or bounced off all-time lows, hinting that the freefall in investor and consumer confidence may be over. The TED spread, which is the spread between the 3-month U.S. treasury and interbank loan yields, has continued downward and seems to have found a range surrounding 1%. While this is still historically high, it shows investors that credit is available to most credit market participants. There was an uptick in durable goods orders in the U.S. for February and in China for March. The reading in China indicates that capital goods purchasing reflects an expansionary economy and industrial metals like copper have rallied hard since. Another sign of hope came as some major U.S. banks stated that they recorded an operating profit in January and February and as a result investors flocked back to the banks.

Many economic indicators remain poor and are worsening. Unemployment rates in Canada and the United States rose from 6.6% and 7.2% to 8% and 8.5%, respectively. Most public companies have announced their intention to perform cuts throughout the year, so job losses are expected to continue at a comparable rate. The Baltic Dry Index, a measure of global shipping health, had actually declined during the market rally, putting doubt against whether trade in commodities is actually occurring or whether the rise in commodity prices is purely a result of speculation. The troubled auto sector continues to put pressure on North American economies as the transformation plans of GM and Chrysler were rejected but both companies were given more time to prove they can remain a going concern; though many market participants believe they will not provide viable recovery plans. All in all, the market needs many more positive revelations before any rally is truly believable. Until then, expect market participants to get excited about any new positive developments in the world economy.

The sectors that struggled the most in the quarter were the Industrials and Utilities sectors, which dropped 13.2% and 13%, respectively. Industrials fell as utilization rates and backlogs shrunk and new orders decelerated. Utilities fell due to a shift in risk as investors moved from safe and reliable equities to more aggressive, commodity-linked equities. The Materials and Information Technology sectors performed the best in the quarter, gaining 7.7% and 6.8%, respectively. Strong moves in commodity prices, notably copper, resulted in gains of over 100% for many mining stocks. The IT sector was led by companies aimed towards growth (RIM, MD&A). The more prominent sectors, Energy and Financials, faired quite well with Energy even during the quarter and Financials down 7.5% during the quarter. Canadian financials continue to outperform financial equities elsewhere as the U.S. financials index was down almost 30% in the quarter.

The market consensus is deflation in the very short-term and inflation in the intermediate- to long-term. Governments around the world have initiated programs of quantitative easing combined with already record low interest rates. Massive stimulus programs are underway in all industrial countries around the world. Global leaders seem poised to do anything and everything to prevent a deflationary spiral from grabbing hold of the world economy. Risk of currency devaluation and protectionism may be the focus of the second quarter as a 49.4% decline in Japanese exports and a touch of deflation in Chinese prices in February may entice leaders to focus on keeping domestic production and employment numbers up. Protectionism would be detrimental to investor and consumer confidence and any progress towards this should warrant extreme caution.

S&P/TSX Composite & Completion Indices vs the G30 & Aggressive Growth Portfolios: 2009 YTD



Aggressive Growth Portfolio: Gained 12.88% during the quarter.

The best performers in this quarter were:

- Quadra Mining (Materials/Copper&Gold) at 116.85%
- First Quantum Minerals (Materials/Copper&Gold) at 112.15%
- Arawak Energy (Oil Production/Exploration) at 92.31%

The worst performers were:

- Oilexco Inc (Oil Production/Exploration) at -59.67%
- Neo Material Technologies (Materials/Rare Earths) at 0%
- Agrium Inc (Fertilizers & Farm Products) at 14.10%

During the quarter we bought:

- Petrobank Energy & Resources: we accumulated a large position when worries about heavy debt loads in the energy sector weighed on oil and gas stocks; Petrobank fell more than most although it has little debt and strong cash flows relative to its peers

During the quarter we sold:

- Suncor Energy: we sold our position after a run up in oil and gas equities; Suncor looked overpriced as it outperformed its peers and looked expensive relative to the price of oil
- Oilexco Inc: we sold our position after they entered bankruptcy protection and the prospect of common shareholders receiving anything material had vanished
- Arawak Energy: Rosco S.A. offered to buy the company for $1 per common share and we tendered to that offer as it beats any value Arawak could have produced on its own
- Bow Valley Energy: Dana Petroleum offered to buy the company for $0.50 per common share and we tendered to that offer as it beats any value Bow Valley could have produced on its own

G30 Balanced Portfolio: Gained 4.25% during the quarter.

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

- Quadra Mining (Materials/Copper&Gold) at 116.85%
- First Quantum Minerals (Materials/Copper&Gold) at 112.15%
- Suncor Energy (Integrated Oil&Gas) at 38.22%

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

- Sun Life Financial (Insurance) at -27.31%
- Rogers Communications (Telecommunications) at -11.84%
- Canadian Utilities (Utilities & Power Generation) at -7.16%

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

- Manulife Financial: we built a position after Manulife dropped over 38% in under three weeks; the market was focusing on the growing liabilities of life insurance companies and attaching an unreasonable probability of default to the value of common shares
- Royal Bank: we bought Royal after declines in U.S. banks led Canadian banks lower, although the Canadian banks did not share the same concerns; Royal continues to be our favourite bank in Canada and the world
- Rogers Communications: we purchased more Rogers as it continued to lag its peers and we felt the loss of Ted Rogers as CEO was overblown in the share price

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

- Manulife and Sun Life Financial: we sold our positions in these life insurance companies after a strong rally to prices that more accurately reflected the probability of asset-liability mismatches
- Royal Bank: we sold our position after a strong rally in bank stocks worldwide; a rally so strong that Royal looked expensive on an earnings basis (in general, banks have not looked expensive relative to earnings in a long time)
- Suncor Energy: we sold our position after a run up in oil and gas equities; Suncor looked overpriced as it outperformed its peers and the looked expensive relative to the price of oil

Going Forward

How you position your portfolio is heavily dependent on your choice of whether you are a deflationist or an inflationist. We believe that the stimulus programs will have an inflationary effect several years from now but that deflation will remain the major issue for the next several years. Such a sharp decline in Japanese exports will pose a serious problem in the world economy as Japan’s ability to purchase U.S. and UK debt has dropped significantly. The Japanese consumer will have a much less prominent position in the world economy (note: Japan is the world’s second largest economy after the United States). Should Japanese officials succumb to the pressures to keep the Yen down and production up, it would hurt the U.S. economy. The Japanese situation is clear; either they take the brunt of the contraction or they begin to manipulate their currency and pass some of the contraction onto its trading partners. Currency devaluation could have severe, long-term consequences on global trade and cohesion.

Many smaller economies have their own issues and have already accessed the IMF for emergency funding including Mexico, Pakistan, Iceland and many Eastern European nations. It is important to remember that the IMF only has as much as is pledged from the larger economies of the world. This goes to show how all countries are related in this crisis; for example, the U.S. lends to the IMF so that the IMF can provide a loan to Mexico who in turn can continue doing business with the U.S. The political pressures to lend domestically and buy from domestic businesses will rise as the recession drags on. Tariffs on Chinese steel imported into the EU have already been increased to protect domestic steel makers and U.S. steelmakers are in the process of receiving that same benefit. Protectionism is a natural reaction to economic hardship, and this combined with declining employment worldwide could result in a deflationary spiral, in spite of government stimulus.

Where to go from here?

As at the end of the quarter, our G30 portfolio consisted of 60.5% cash, 4.5% fixed income and 35% in equities; our Aggressive Growth portfolio consisted of 65.8% cash and 34.2% equity. We remain cautious towards equities and most trades made throughout the quarter were opportunistic and short-term in nature. Although some indicators point towards a possible economic recovery, we are unconvinced as global trade is still near multi-year lows and credit spreads remain wide. Fixed income performs best in deflationary environments but as inflation can be just as detrimental to a balanced portfolio as deflation, we remain underweight fixed income.

We will continue to hold cash throughout these uncertain times, keeping a keen eye on price levels. We will take advantage of short-term market panics and buy equities that look heavily oversold but will hold mostly cash as we wish to keep our portfolio defensive against deflation.

Sincerely,

The Steele Wealth Management Group