RAYMOND JAMES

Steele Wealth Management

First Quarter 2011 – "A Wave of Risk"

Crises grip Asia, Africa, Europe, yet World Markets Hang Ten.

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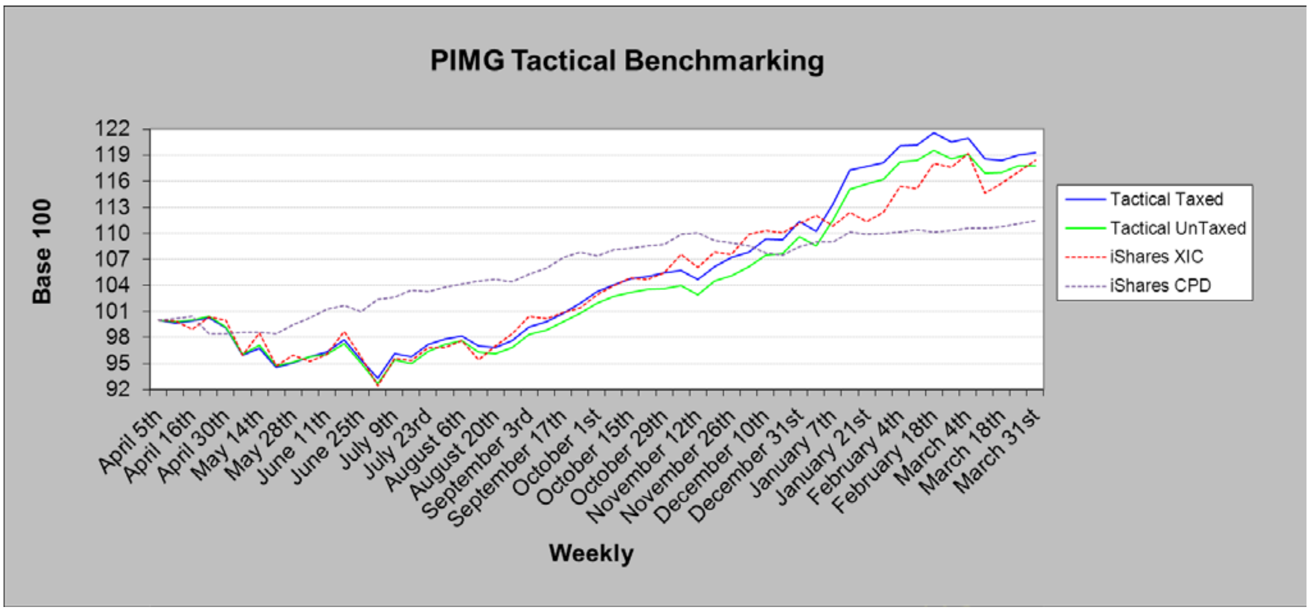
Oil market supply disruptions and Japanese tsunami and nuclear crises fail to tame the bulls

- The S&P/TSX Composite Index gained 5.67% during the first quarter of 2011.
- The generally mid- to late-cycle sectors – Health Care, IT, Energy, Financials and Industrials -- outperformed the TSX Composite throughout the quarter.
- While the generally early- to mid-cycle sectors – Consumer Discretionary, Materials, Utilities, Consumer Staples and Telecom -- lagged the TSX Composite.
- Base metals and agricultural commodities sold off in the quarter as tame Chinese growth limited near-term industrial demand and the Japanese crises increased risk aversion and in turn limited investor demand.
- Energy stocks came into focus in the quarter as unrest and civil war in the Middle East and North Africa (MENA) caused oil supply disruptions. The tsunami and nuclear crisis in Japan put further support under the price of energy, particularly natural gas and coal, as investors bet that Japan will need to burn more fossil fuels in order to restore lost power capacity.
- Emerging markets underperformed in the quarter with China's Shanghai Composite gaining 4.27% in Yuan terms and 1.98% in CAD terms and India's BSE Sensex losing 5.19% in Rupee terms and 7.92% in CAD terms.
- European debt worries were dormant for most of the first quarter but after the rejection of austerity measures by Portuguese parliament in early March and the subsequent resignation of Portugal's Prime Minister, Euro debt worries resurfaced, though with little equity market reaction. Credit risk on Portuguese debt ended the quarter at an all-time high.
- As per trend, the North American employment picture continues to improve albeit at a turtle's pace. Unemployment rates dropped to 8.8% in the U.S. and rose to 7.7% in Canada, from 9.4% and 7.6% last quarter, respectively, though total employment was up on both sides of the border. U.S. private payrolls are increasing at about 200,000 per month which suggests slow but healthy job growth in the U.S. The U.S. housing market remains a thorn in the side of U.S. and global growth as increasing distressed sales have resulted in several all-time lows in new home sales data. On a real basis, U.S. house prices (20-city Case-Schiller composite) are back to the lows set in May 2009.
- The American, Chinese and German manufacturing industries continued to expand throughout the quarter, though German manufacturing data experienced some volatility as Euro appreciation caused demand for European produced goods to moderate.
- With QE2 (the U.S. Fed's Quantitative Easing Program) expected to finish at the end of the second quarter, the market mood is cautiously optimistic. Market participants have shifted their focus from QE2 to potential interest rate hikes in the Eurozone, China and the U.S. Premature interest rate hikes would slow growth but are unlikely to trigger an equity market collapse.

S&P/TSX Composite Total Return Index & S&P/TSX Canadian Preferred Share Index

vs

PIMG Tactical Taxable & Tactical Registered Portfolios: Inception – March 31st, 2011



PIMG Tactical Taxable Portfolio:

- Gained 8.23% during the quarter
- The portfolio's asset allocation as at March 31st was 6.3% cash, 31.8% preferred shares and 61.9% equity.

PIMG Tactical Registered Portfolio:

- Gained 8.72% during the quarter
- The portfolio's asset allocation as at March 31st was 6.1% cash, 9% convertible debentures, 5.1% bonds, 17.7% preferred shares and 62.1% equity.

The top five outperformers in this quarter were:

- New Millennium Capital (Materials/Iron Ore) at +66.38%
- Petrolifera Petroleum (International Energy/Oil & Gas) at +64.52%
- Canadian Natural Resources (Energy/Oil & Gas) at +17.28%
- Toronto Dominion Bank (Financials/Banking) at +16.38%
- Student Transportation Convertible Debenture "A" (Consumer Services/Busing) at 15.94%

The top five underperformers were:

- Connacher Oil and Gas (Energy/Oil & Gas) at -11.72%
- Cisco Systems (IT/Telecom Equipment) at -10.73%
- Research In Motion (IT/Consumer Products) at -5.58%
- SMART Technologies (IT/Educational Hardware & Service) at -3.45%
- Aecon Group (Construction/Infrastructure) at -2.64%

During the quarter we bought:

- Loblaw Companies: We bought Loblaw following a minor selloff in the food retailers and wholesalers sector. We think adding non-financial, non-utility "premium" defensive names makes sense at this point in the cycle as income growth is beginning to surface yet consumers remain skeptical about big ticket purchases, hopefully driving brand value in defensive sectors. Loblaw's Joe and PC brands are superior to their peers' and we think that as the "grocery wars" intensify in the face of rising food inflation and shrinking margins, the Loblaw brands will help retain the current and drive the future customer base.

- Canadian Natural Resources: We bought Canadian Natural Resources following a one day selloff sparked by a fire at their Horizon project. We saw the selloff as overblown as it only caused a temporary shut-in of ~16% of production. We bulked up on energy exposure as the portfolios were underweight at the time and the sector was beginning to climb with the price of oil.

- Quadra FNX Mining: We switched from First Quantum to Quadra Mining as we believed the market is not fully reflecting the political risk at First Quantum's DRC (Democratic Republic of the Congo) projects and is overly discounting Quadra's future projects, primarily Sierra Gorda. We think that Quadra has a better and more diversified long-term base metals portfolio mostly due to much lower political risk.

- Cisco Systems: We bought Cisco following an earnings related selloff due to its massive war chest (>$40 billion) and reliable cash flow (traded at ~7x ex-cash cash flow on purchase date). We think its cash balance and legacy cash flows will provide material price support. We believe Cisco is in a great position to begin making strategic acquisitions that will boost earnings significantly over the next number of years. We also like the buy as a currency play with the USD/CAD exchange rate well over $1.

- Connacher Oil & Gas: We purchased Connacher as we were underinvested in oil and gas and it had lagged its larger cap peers during the oil price surge to over $100. Since Connacher is one of the most highly levered companies to the price of oil (due to a high but manageable debt load), we believe it should have led the pack as oil prices climbed. In a high oil price environment, Connacher should see substantial price gains as its ability to pay down debt, develop its smaller properties and pursue acquisitions increases materially.

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

- New Millennium Capital: We sold New Millennium on four separate occasions throughout the quarter. In anticipation of news regarding its taconite projects, New Millennium's valuation surged and although we like the company, we saw little chance of New Millennium striking a deal that would justify said valuation. We may re-establish a position in the company in the future at a more reasonable valuation.

- First Quantum Minerals: See the Quadra FNX dialogue in the "During the quarter we bought" section above.

- Petrolifera Petroleum: We sold Petrolifera following the announcement that they were to be purchased by Gran Tierra at a significant premium.

- TransCanada Corp: We sold a portion of our TransCanada position as it reached a historically significant resistance level. We used the proceeds to help fund a portion of the Connacher buy.

- SMART Technologies: We sold SMART during a period of market weakness seen in mid-March. We believed the stock would be susceptible to a further increase in risk aversion.

Going Forward:

Our preferred share allocation continues to pay off relative to bonds as credit spreads tightened throughout the quarter. We believe credit spreads will continue to contract as economic activity picks up in developed countries.

Base metals continued to soar early in the quarter and our overweight base metals allocation paid off as a result. We sold the bulk of our metals exposure throughout January. Base metals prices pared gains in February due to soft demand resulting from Chinese New Year celebrations/holidays and in March due to near-term demand concerns sparked by the Japanese crises. We wish to maintain a market allocation to base metals as the sector appears to be fairly priced.

The small cap segment has appreciated considerably since the inception of our two Tactical portfolios. Our portfolios, which used to have a material small cap tilt, now consist mostly of large caps. Our focus has changed from cap allocation to sector allocation and we continue to believe the energy and interest sensitive (banks & insurance) sectors will outperform in the near- to intermediate-term.

M&A activity was dormant through much of the first quarter due to the Chinese holidays and Japanese crises. We expect M&A activity to rebound substantially in Q2 and beyond.

The European debt crisis will continue to unfold throughout Q2 with the odds in favour of Portugal taking a ~€80 billion bailout sometime this year. We believe the market has become disinterested in most European debt-related headlines and we do not see the ongoing Euro debt crisis affecting world equity markets. That said, in the off chance that Spain requires a bailout, we would become much more risk averse.

Last quarter we commented on how equity markets generally react negatively to the withdrawal of monetary stimulus. We believe the end of QE2 will be highly anticipated but we would not be surprised if markets chugged along as per usual. It may take many months or years for the full effects of the QE2 and other monetary stimulus measures to be felt. In light of credit market and asset market risks, we remain cautiously optimistic as economic data appears to support a bullish stance.

We believe our portfolio is positioned to provide steady income in all economic environments. We remain almost fully invested but the portfolios have a noticeably defensive tilt. Assuming the macroeconomic theme remains intact, we will continue to add risk when opportunities arise.

Sincerely,

Steele Wealth Management