Raymond James
Steele Wealth Management
Second Quarter 2010 – "Our Big Fat Greek Crisis"
Greece spooks markets. "Trading Error" spooks markets.

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* all quarterly figures stated below use a start date of April 5th (the second day of the quarter), as it was the date we began to implement the new portfolios

Sovereign debt worries escalate; "Flash Crash" scares/confuses market participants

- The S&P/TSX Composite Index lost 7.05% during the second quarter of 2010

- The smaller sectors, Consumer Discretionary, Health Care, Materials, Telecom and Utilities, all outperformed

- While the more prominent sectors, Financials, Energy, Industrials, IT and Consumer Staples, underperformed

- Global equity markets firmed up throughout the month of April but began to show weakness at the beginning of May due to escalating worries about European sovereign debt, particularly in the PIIGS (Portugal, Italy, Ireland, Greece, and Spain).

- On May 6th, the 'Flash Crash' shocked equity markets forcing major U.S. indices down over 9%. Market participants were confused by the 37% drop in Proctor & Gamble shares, trades executed at $0.01 on S&P 500 constituents Exelon and Accenture, and trades executed at over $100,000 on bellwethers Apple and Hewlett-Packard. The market soon rebounded as investors failed to find any information that could justify such a drop in the market indices.

- Since the 'Flash Crash', world markets have trended down on the intensification of the European sovereign debt crisis, passing of financial regulation in the United States and worries about Chinese growth forecasts. European Union leaders approved bailouts for Greece and Europe as a whole, but this had little to no effect on equity prices as most market participants see these bailouts only as a delay to the necessary restructuring and/or default of European sovereign debt.

- The North American employment numbers continued to improve slowly finishing the month of June at 9.5% and 7.9%, for the U.S. and Canada respectively; this is compared to 9.7% and 8.2% for the U.S. and Canada respectively at the end of the first quarter

- As for leading economic indicators, ISM manufacturing data has declined quarter-over-quarter after surprising to the upside for the month of April. North American consumer confidence continues to miss expectations and sits at depressed levels. U.S. and Canadian investor confidence indicators dropped in response to heightened pessimism surrounding the European debt crisis and equity market skepticism as a result of the "Flash Crash".

- In the U.S. and Canada, house sales and prices are expected to drop modestly following the May 1st expiration of the first time home buyer tax credit in the U.S. and implementation of the HST in Ontario and B.C. on July 1st.

- U.S. existing-home data is muddied by the extension of closing dates to July 1st, 2010, but in the U.S., the much smaller new-home market may be a window into the true health of the U.S. housing market. The new-home market missed already bearish expectations by 100,000 in May, marking the lowest number of new homes sold in any month since the government began compiling new home data in 1963.

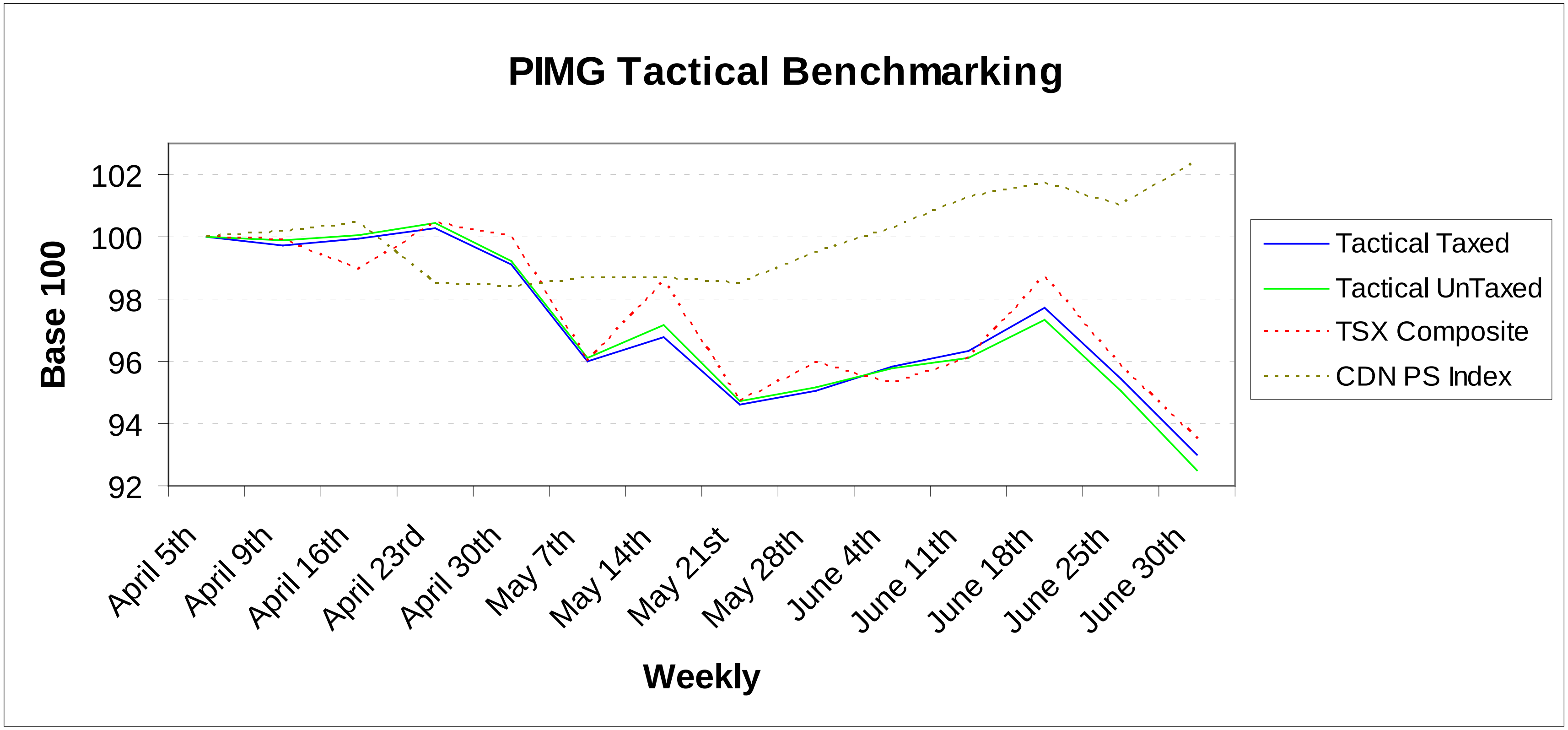
- It is possible that this drop in new home sales foreshadows the severity of the drop in existing home sales, therefore proving analysts' forecasts for the housing markets to be overly bullish. For example, for the month of May, 46% of existing-home sales were purchased by first-time home buyers. As this number continues to decline, the number of existing-home sales should drop.

- Overall, we experienced plenty of negative news flow and negative sentiment towards stocks throughout the quarter.

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

vs

PIMG Tactical Taxed & Tactical Untaxed Portfolios: April 5th – June 30th



PIMG Tactical Taxed Portfolio:

- Lost 7.08% during the quarter, performing in-line with the TSX Composite index.
- The portfolio's asset allocation as at June 30th was 0.8% cash, 43.8% preferred shares and 55.4% equity.

PIMG Tactical UnTaxed Portfolio:

- Lost 7.62% during the quarter, slightly underperforming the TSX Composite index.
- The portfolio's asset allocation as at June 30th was 1.2% cash, 15.4% convertible debentures, 27.5% preferred shares and 55.9% equity.

The top five outperformers in this quarter were:

- Iberian Minerals (Materials/Copper) at +22.71%
- West Coast Energy Preferred J (Utilities) at +6.02%
- George Weston Preferred D (Consumer Staples) at +5.52%
- Great West Lifeco Preferred H (Financials/Insurance) at +4.14%
- Dundee Corp Preferred A (Diversified Financials) at +3.93%

The top five underperformers were:

- Compton Petroleum (Energy/Natural Gas) at –40.30%
- First Quantum Minerals (Materials/Copper) at –35.41%
- Western Potash Corp (Materials/Potash) at –30.00%
- Petrolifera Petroleum (International Energy/Oil & Gas) at –29.29%
- Research in Motion (IT/Consumer Products) at –25.25%

During the quarter we bought:

- Inmet Mining: We switched into Inmet after copper prices had plummeted and large cap copper stocks were trading at extremely low current and future P/E ratios, particularly Inmet, which expects to ramp-up production significantly in the next year.

During the quarter we sold:

- Iberian Minerals: We sold Iberian when it had greatly outperformed its large cap peers in a period of plummeting copper prices and stocks, and switched into the larger, lower-risk Inmet Mining.

Going Forward:

At the beginning of the quarter, we modified our strategy and adjusted our portfolios in reaction to the increasing risks affecting the global economic recovery. The new strategy is one that provides us with high fixed returns through preferred shares and debentures yet provides opportunity for abnormal equity returns through increased exposure to the seemingly more undervalued small cap sector.

Our decision to boost our fixed income allocation couldn’t have come at a better time. Our high fixed income allocation sheltered much of the downside seen in small-cap equities over the period. Small caps performed very poorly throughout the quarter as global demand concerns pushed commodity prices down and bond spreads (financial risk) up, two factors that affect small cap valuation considerably. That said, we continue to expect the large-cap/small-cap valuation spread to close over time as business conditions gradually normalize.

The market correction has made stocks look more attractive but we are skeptical of analyst estimates of corporate earnings growth for the second half of 2010. Growth in earnings for the year ahead is substantial, leading us to believe that there is greater risk of earnings misses relative to earnings beats in the next year.

The European pledge to enact austerity measures looks to be reminiscent of the deficit-reducing actions made by governments in the 1930s which in part led to the final stage of decline in the Great Depression. If all EU countries agreed to reduce their annual deficits to 3% of GDP, which is the entrance requirement for admission into the Euro currency group, we would see acute reductions in overall European GDP, posing major risks to forecasted world GDP growth rates. Proposed reductions in European deficits will reduce Europeans GDP will in turn have an effect on Asian and North American GDP, so austerity there means lower growth here.

Our fixed income allocation should shelter some of this macroeconomic risk over the next year. We are and will remain overweight the Energy, Materials and Telecom sectors and underweight the Financials sector. We believe that the overweight sectors above will have to catch up to the relatively overbought Financials if the recovery is to continue.

We remain cautious but we see opportunity in small cap commodity-linked equities that we consider to be oversold. There are many growing small caps that can provide a lot of value irrespective of commodity prices and we will maintain exposure to these securities. We are comfortable with our current allocation but we plan on marginally increasing equity exposure should markets continue to decline.

Sincerely,

Steele Wealth Management

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