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Steele Wealth Management

Third Quarter 2010 – "Debt Crisis Averted. Let's Party?"

Debt Refinanced. Government Support Extended. Commodity, Equity Markets Soar.

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Sovereign debt worries subside; Manufacturing data and QE2 spark the return of optimism

- The S&P/TSX Composite Index gained 9.98% during the third quarter of 2010.

- Most of the smaller sectors, Materials, Industrials, Utilities, Consumer Staples and Health Care, outperformed the broad market.

- Most of the larger sectors, Financials, Energy, Telecom, IT and Consumer Discretionary, underperformed the broad market.

- Since the beginning of July, commodity markets have appreciated at about the same pace as seen in mid-2009, with copper, gold, silver and most agricultural commodities making or nearing all-time highs. These gains boded well for commodity-heavy equity markets like Canada's TSX and Australia's ASX.

- Emerging markets also performed well in the quarter on the back of rising optimism with the Chinese Shanghai index gaining 10.73% in Yuan terms and 8.49% in CAD terms and the Indian BSE Sensex index gaining 13.38% in Rupee terms and 13.43% in CAD terms.

- Although non-commodity-focused markets (NYSE, FTSE, CAC 40, and DAX) mostly participated in the rally, U.S. and European banks continued to struggle leading up to and following the changes to bank regulation under 'Basel III' requiring many banks to increase their 'Tier-1' reserves to a more conservative level by 2012. The Basel Committee has plans to finalize a new set of possibly growth-stymying standards on New Year's Eve of this year providing further risk to banking growth expectations.

- Successful refinancing of PIIGS (Portugal, Italy, Ireland, Greece & Spain) debt throughout the quarter eased near-term sovereign debt concerns. The focus has shifted to the mere quantity of European debt, both sovereign and corporate, which requires refinancing over the next four years or so, an amount which "dwarfs the historic capacity of the market", according to Moody's.

- Headline North American unemployment numbers deteriorated slightly finishing the month of September at 9.6% and 8.0%, for the U.S. and Canada respectively, compared to 9.5% and 7.9%, respectively, at the end of the second quarter. These numbers do not do the improving employment picture justice as seasonality and layoff of U.S. census workers added to the number of unemployed. Private sector hiring has improved over the quarter and this bodes well for employment demand and economic stability.

- Throughout the quarter, manufacturing data out of the U.S. and Germany was modestly positive while Chinese data continuously beat expectations. Better than expected manufacturing data poured cold water on the double-dip fears and helped support the rally we saw in the quarter.

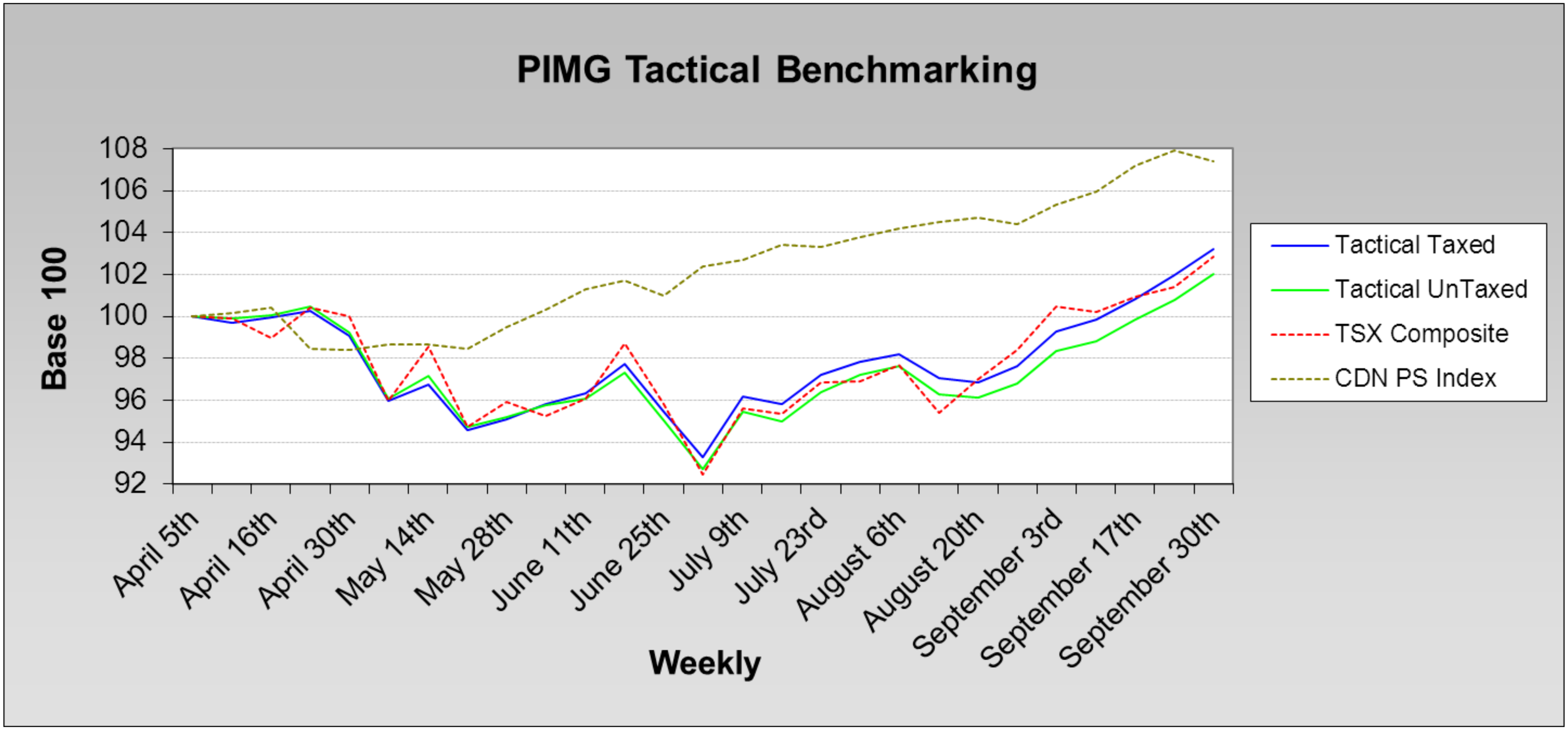
- Corporations were busy throughout the quarter. Mergers & Acquisitions activity heated up, resembling that of the boom years, implying that corporate leaders are confident their cash is better spent on equities than sitting in cash. Corporate earnings were generally positive leading to generally higher guidance than previously forecasted. Both developments are positive for expected consumer and investor confidence.

- As we hinted last quarter, expectations turned out to be overly bullish for existing home sales in the U.S., as was foreshadowed by the new home sales data for the month of May. Canadian home sales numbers also disappointed for the month of July. Housing sales volume data both north and south of the border has since improved slightly and the lower than expected home sales has not had a noticeably negative effect on home prices.

- Overall, it was a positive quarter. We saw neutral news flow in the areas that are expected to see the slowest recovery (housing, employment) and positive news flow in the areas which are needed to prove a recovery (manufacturing, earnings).

- Despite the improvements mentioned above, the U.S. Federal Reserve is contemplating whether to offer further monetary stimulus (i.e. QE2) in order to support what is seen as the large group of mostly cyclically unemployed and to offer some additional support to the still ailing housing market. The distinct possibility of QE2 is a major driver of what we call the "Liquidity-Induced Asset Boost" where commodities, stocks and bonds all have increased in price, despite the historically low correlations shared between the three.

S&P/TSX Composite Total Return Index & S&P/TSX Canadian Preferred Share Index vs PIMG Tactical Taxed & Tactical Untaxed Portfolios: April 5th – September 30th



PIMG Tactical Taxed Portfolio:

- Gained 10.94% during the quarter, outperforming the TSX Composite Total Return index.
- The portfolio's asset allocation as at September 30th was 4.5% cash, 38.4% preferred shares and 57.1% equity.

PIMG Tactical UnTaxed Portfolio:

- Gained 10.28% during the quarter, outperforming the TSX Composite Total Return index.
- The portfolio's asset allocation as at September 30th was 4.7% cash, 14.5% convertible debentures, 22.8% preferred shares and 58% equity.

The top five outperformers in this quarter were:

- Sierra Wireless (IT/Wireless Products) at +51.34%
- First Quantum Minerals (Materials/Copper) at +46.49%
- Inmet Mining (Materials/Copper) at +35.99%
- New Millennium Capital (Materials/Iron Ore) at +34.54%
- Petrolifera Petroleum (International Energy/Oil & Gas) at +21.54%

The top five underperformers were:

- Compton Petroleum (Energy/Natural Gas) at –11.67%
- Research In Motion (IT/Consumer Products) at –4.26%
- EnCana Corp (Energy/Natural Gas) at –2.93%
- Data Group Income Fund Conv. Debenture (Services/Print Management) at +0.46%
- Superior Plus Income Fund Conv. Debenture (Energy/Distribution & Marketing) at +0.49%

During the quarter we bought:

- New Millennium Capital: We switched into New Millennium as Tata Steel's option deadline to buy 80% of New Millennium's DSO project was soon approaching and we expected to see some share appreciation following a positive DSO project investment decision. Tata also has an exclusive option to participate in New Millennium's much larger taconite project which expires at the end of 2010. We expect an arrangement to be made regarding the taconite projects before then.

- Superior Plus Corporation: We switched into Superior Plus after it reported lackluster Q2, its shares tanked and its yield soared above 14%. We believe the yield to be sustainable and any sustainable yield above 12% is a unique buy in this environment. Not only do we view the yield as sustainable but Superior has some serious leverage to economic growth, if we begin to see an improvement in expectations.

During the quarter we sold:

- Western Potash: We sold Western Potash in order to free up funds to purchase New Millennium. Following the decision to not investigate the natural gas anomalies found throughout their Milestone properties further, Western Potash's outlook had diminished somewhat and we saw little reason for a near-term rally in the shares.

- Labrador Iron Ore Income Fund: We sold Labrador IOIF to free up funds to purchase Superior Plus. We recognized that Labrador's earnings are mostly variable due to changes in the spot price of iron ore and that our recent acquisition of New Millennium should provide enough leverage to changes in iron ore prices. We also wanted to pare back on our materials positions as the commodity rally had rendered us heavily overweight the materials sector.

- Dundee Preferred A: We began to sell our position in Dundee Preferred A but due to limited liquidity, we were only able to sell ~62% of our holdings by quarter-end. We are planning on buying a high-yielding, value-oriented common share with the proceeds as we recognize that unlimited central bank support of the economy and asset markets should eventually result in higher than expected inflation and interest rates, which in turn poses a risk to preferred share valuations. We chose to sell Dundee Preferred A as it is one of our lower yielding preferreds and we felt that in buying a high-yielding common share we could increase our portfolio yield while gaining further exposure to the equity market.

Going Forward:

With the gradual change in expectations from near- to intermediate-term rate increases to rate increases in the more distant future, our 60/40 equity/preferred share strategy has continued to pay off. The preferred share portion of our portfolio continued to firm up throughout the quarter and we have begun to sell a portion in order to reduce our exposure to increases in interest rate expectations as we feel expectations cannot go much lower. We plan on buying high-yielding, value-oriented common shares with the proceeds in order to maintain our portfolio yield while protecting against inflationary pressures.

Our overweight positions in base metals and energy outperformed in the quarter as the global economic outlook improved and commodities rallied. We plan on holding an above average weight in commodity-linked stocks as we believe the commodity bull market will continue to gain steam and we maintain that our preferred share allocation should provide a suitable hedge.

We continue to like small-cap stocks over large-cap stocks, especially in the mining and energy sectors as M&A activity continues to ramp-up, particularly on the low-end of the capitalization scale. Small-caps had a difficult time shaking off worries surrounding the Euro-debt crisis but have begun to show life following the spike in M&A activity in late-August to September.

Corporate earnings have continued to surprise to the upside, defying our skepticism. We are no longer as skeptical about near-term corporate earnings but remain concerned about long-term earnings growth.

European austerity measures will continue to be an overhang on European growth expectations but we do not see any near-term shocks with regards to sovereign debt. That said, we think the equity market and commodity rallies could continue on the back of QE2 and what should be a short-term trend of rising consumer and investor confidence.

We would expect the bond market to lose steam following QE2 as it signals central bankers' dedication to ensure we reach a healthy, non-negative rate of inflation. Should QE2 not work, we may enter a Japan-style deflationary-spiral and if QE2 works too well, we may see above average, runaway style inflation. Either way, we believe our commodity-linked equity allocation will protect us from a highly inflationary scenario while our preferred share allocation will protect us from a deflationary scenario. If we see low or normalized inflation, our above-benchmark yield provides us with steady income of approximately 4.2%.

Sincerely,

Steele Wealth Management

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