RAYMOND JAMES

Steele Wealth Management

Fourth Quarter 2010 – "When Risk-Free Turns Risk-y"

QE2 Breaks the Bond Market's Back, Yields Jump. Risk Assets Rise in Tandem.

The Team:

Brian Steele CA CFA

Laura Prust

Jeannine Campbell

Kelly Townsend

Matthew Bell

European debt issues fail to smother optimism sparked by QE2 and improving jobs data

- The S&P/TSX Composite Index gained 8.99% during the fourth quarter of 2010.

- The high beta sectors -- Materials, Energy and IT -- drove the market forward and outperformed the TSX Composite throughout the quarter.

- The lower beta sectors -- Consumer Discretionary, Consumer Staples, Health Care, Financials, Telecom, Industrials and Utilities -- lagged the impressive market gain.

- Commodity markets continued to lead equity markets, with copper, gold, rare earths and many agricultural commodities hitting new all-time highs.

- Emerging markets underperformed in the quarter with China's Shanghai Composite gaining 5.74% in Yuan terms and 4.03% in CAD terms while India's BSE Sensex returned only 2.19% in Rupee terms and lost 0.63% in CAD terms.

- European debt issues continued to surface throughout the quarter. Ireland was forced to accept bailout funds after its cost of debt (bond yields) spiked. Portugal, the next small and troubled PIIGS (Portugal, Ireland, Italy, Greece, Spain) nation also saw their debt costs rise but a lack of near-term funding needs prevented a crisis and the need for a bailout.

- The second round of Quantitative Easing (QE2) was finalized on November 3rd and is touted as being one of the main drivers of the rally seen in the second half of 2010. QE2 resulted in a mass exodus out of bonds and into higher risk assets like stocks and commodities. As bonds sold off, long-term interest rates and expected inflation rose materially, signaling a major shift in consensus expectations from a deflationary environment to a high inflation or stagflationary environment.

- Employment numbers continued to improve following a lackluster Q3. Unemployment dropped to 9.4% and 7.6% in the U.S. and Canada respectively, from 9.6% and 8% respectively. U.S. jobless claims fell below 400,000 for the first time since the start of the Great Recession. Extended periods whereby weekly jobless claims are sub-400,000 signal strong job and wage growth. The employment situation remains the main economic indicator to watch as a falling unemployment rate will support wage growth which in turn supports housing affordability.

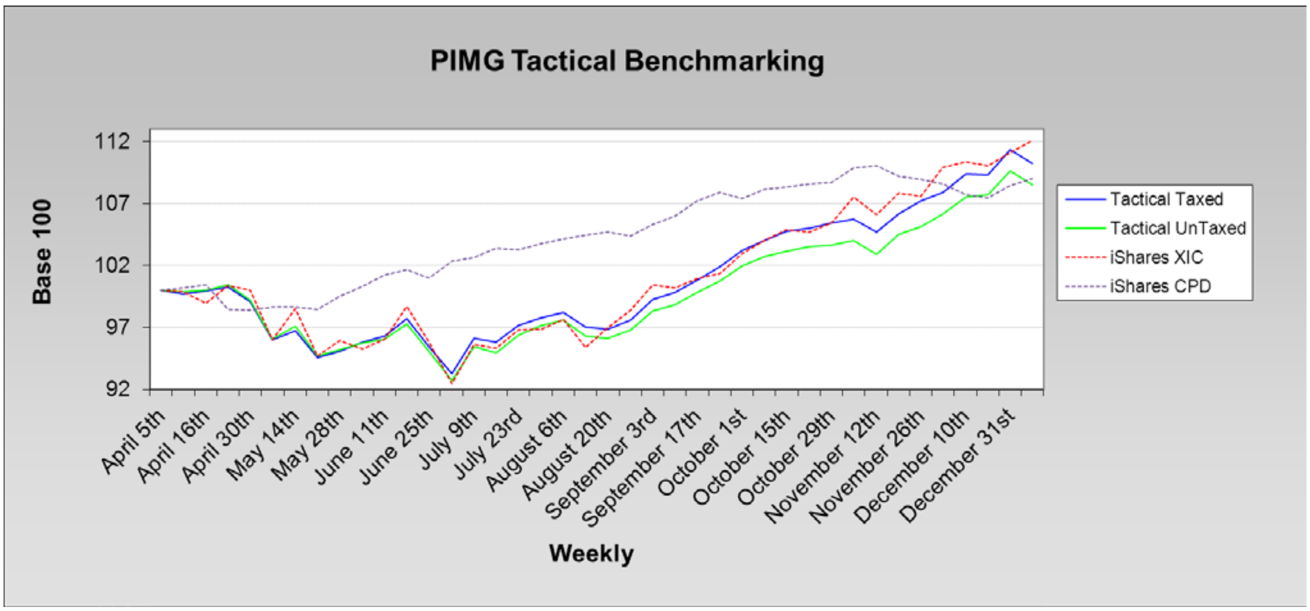
- Manufacturing data in the major manufacturing economies (the U.S., China and Germany) all showed steadily expanding factory sectors throughout the quarter.

- All pistons were firing for risk markets with government intervention backing up solid manufacturing and employment data. Since much of the gain in risk markets is clearly the result of added liquidity, we grow increasingly worried about the retraction and/or expiry of quantitative easing or bailout programs and the effect that said retraction and/or expiry would have on risk markets.

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

vs

PIMG Tactical Taxed & Tactical Untaxed Portfolios: April 5th – December 31st



PIMG Tactical Taxed Portfolio:

- Gained 7.47% during the quarter
- The portfolio's asset allocation as at December 31st was 5.7% cash, 34.1% preferred shares and 60.2% equity.

PIMG Tactical UnTaxed Portfolio:

- Gained 7.05% during the quarter
- The portfolio's asset allocation as at December 31st was 11% cash, 9% convertible debentures, 19.1% preferred shares and 60.9% equity.

The top five outperformers in this quarter were:

- New Millennium Capital (Materials/Iron Ore) at +63.25%
- First Quantum Minerals (Materials/Copper) at +34.79%
- Sierra Wireless (IT/Wireless Products) at +33.55%
- Research In Motion (IT/Consumer Products) at +15.91%
- Sun Life Financial (Insurance/Life & Health) at +14.75%

The top five underperformers were:

- Compton Petroleum (Energy/Natural Gas) at –24.34%
- Petrolifera Petroleum (International Energy/Oil & Gas) at -21.52%
- Aecon Group (Construction/Infrastructure) at -14.19%
- Rogers Communications (Telecom) at -9.32%
- EnCana Corp (Energy/Natural Gas) at -8.22%

During the quarter we bought:

- Sun Life Financial: We bought Sun Life Financial early in the quarter as our long-term inflation expectations shifted upwards on the back of the U.S. Fed's second round of Quantitative Easing (i.e. QE2). We chose a life insurer as we wanted to gain the most leverage to what we saw as the upcoming normalization of interest rates. Sun Life provides substantial upside in a rising interest rate environment due to the size of its variable annuity business and helps achieve positive cash flow in a low-rate environment.

- Allstate: We bought Allstate for many of the same reasons as Sun Life, although Allstate is primarily a property and casualty insurer. We purchased Allstate stock following an earnings-miss-related selloff. The miss was the result of a one-time spike in claims and we believed Allstate would return to business as usual. Allstate is also a levered play on the stock market.

- SMART Technologies: We bought SMART following a major selloff. The selloff was the result of a reduction in management guidance due to lower than expected public spending in the U.S. and other Western countries. We believe that SMART's products will drive a paradigm shift in how Western nations educate. SMART's products offer one of a very few ways to increase the quality of education at low cost.

- New Millennium Capital: We purchased more New Millennium following the announcement of Arcelor Mittal's offer for Baffinland Iron Mines. We believed that a fair offer for Baffinland increased New Millennium's scarcity value and also provided a valuation benchmark for comparison.

- Sierra Wireless: We bought Sierra Wireless once and sold Sierra Wireless twice throughout the quarter. We sold Sierra prior to its earnings release as we had deemed it expensive and at risk of a selloff should earnings not beat. Sierra subsequently sold off and we purchased the stock once again. Sierra then recovered from its selloff and we sold based on the increasing risk of the networking equipment sector after Cisco announced lower guidance due to lower than expected public spending.

- Groupe Aeroplan Preferred A: We bought the Groupe Aeroplan Preferred A shares once and sold them once in the quarter. We identified a rare opportunity to exit the position at a price that was a significant premium to its peers. We then repurchased the shares at a more reasonable price.

- Royal Bank: We purchased Royal Bank in the midst of the mini-selloff in bank shares. We assumed that investors were bailing on bank shares in order to invest in higher beta securities like materials and energy. We purchased Royal Bank specifically as we believe its wholesale and trading businesses will experience material recovery in the next year or so and that Royal's earnings will beat expectations. We were also attracted to the 3.77% yield.

- Sun Life Preferred C: We switched out of the Great West Life Co Preferred H shares and into Sun Life Preferred C due to a ~40 basis point spread between the two issues. We saw the issues as being virtually identical and believe the risk profile of the two companies to be similar. We believe the spread between the two issues will close over time and that the switch prevents us from experiencing capital loss and offers the opportunity for capital gain.

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

- Dundee Preferred A: The remaining amounts of Dundee Preferred A were sold early in the quarter. We began selling the issue at the end of the third quarter.

- Sierra Wireless: See the dialogue in "During the quarter we bought" section above.

- Groupe Aeroplan Preferred A: See the dialogue in "During the quarter we bought" section above.

- Suncor: We sold Suncor following a run-up in the price of oil and as Suncor approached the top of its intermediate-term trading range. We also wanted to free up cash to deploy into more high beta names like New Millennium, SMART Technologies and Sierra Wireless.

- Inmet Mining: We sold Inmet because we wanted to reduce our copper exposure and redeploy cash into other small cap names listed in the Suncor comment above. We wished to switch into small cap iron ore and technology companies as they had not appreciated as much as the copper miners in the short-term.

- First Quantum Minerals: We sold a portion of our First Quantum Minerals position as we wanted to reduce our exposure to copper. Also, the position was growing into a large portion of the portfolio and we wished to remove some stock specific risk, especially considering First Quantum's legal issues in the Democratic Republic of the Congo.

- EnCana Corp: We sold EnCana Corp as our short-term natural gas price expectations declined following the change in weather forecast consensus from an extremely cold winter to a normal to mild winter.

- Great West Life Co Preferred H: See the dialogue in "During the quarter we bought" section above.

- Compton Petroleum: We sold Compton Petroleum following the reduction in our short-term natural gas price expectations.

Going Forward:

As interest rates have risen and bond values have declined, an allocation to preferred shares has allowed us to see minimal downside while maintaining a balanced portfolio with a high yield.

Our overweight allocation to small caps and base metals also paid off in the quarter as the annual "January Junk Rally" came early this year, in light of QE2. We are looking to pare back on our outsized materials allocation but we wish to maintain an overweight position to protect the portfolio from a high inflation environment resulting from near all-time high demand for commodities in Asia.

We will continue to look to add value by investing in underinvested small cap equity with high leverage to the business cycle. We believe that the economic cycle is currently at its mid-point, where energy and industrial stocks generally outperform. We will look to add high beta stocks in these sectors to take advantage of the business cycle.

We expect M&A activity to remain strong in 2011 with the materials and energy sectors leading the way.

It is expected that a wave of municipal defaults will hamper 2011 growth in the U.S. similar to the effect that high levels of sovereign debt and resulting austerity has had on growth in the European Union (EU).

Equity markets will likely be subject to historically high event risk due to the high likelihood of further EU country bailouts and the need for a larger bailout fund base. We expect several EU-debt related selloffs to occur throughout the year but we do not see the EU debt issues as "systemic" as we believe all issues will be dealt with diligently and thoroughly.

The main "event" to prepare for in the first half of the year is the period leading up to and following the expiry of the U.S. Federal Reserve's Quantitative Easing (QE2) program. We would expect the market to react negatively to the removal of such a substantial source of liquidity. Historically, withdrawing stimulus prior to gaining genuine evidence of economic stability has resulted in extremely negative market response. We expect the period surrounding the expiry of QE2 will be the highlight of 2011.

We believe our portfolio is well prepared for turmoil yet geared to the sectors that will outperform at this point in the economic cycle as well as in a slow growth and/or stagflationary environment.

Sincerely,

Steele Wealth Management