RAYMOND JAMES

Steele Wealth Management

Fourth Quarter 2011 – "Running in the Deep End"

U.S. Markets Gain Traction But Eurozone Debt Woes Keep Most Investors Treading Water

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U.S. Markets Storm Ahead While European Debt Woes Hamper Most Other Markets

- The S&P/TSX Composite Index gained 4.07% during the fourth quarter of 2011.

- The Industrials, Energy and Telecom sectors outperformed the TSX Composite Index throughout the quarter.

- The IT, Materials, Consumer Discretionary, Utilities, Financials and Consumer Staples sectors underperformed the TSX Composite Index.

- The S&P 500 returned 11.8% in the fourth quarter as U.S. manufacturing, jobs and housing data improved steadily. Economic activity also improved in the Eurozone, China, India and several other nations, with the JPMorgan Global All-Industry Output Index hitting a 9-month high in December.

- Inflation generally declined throughout the quarter, particularly in areas that needed the most price relief, China and the Eurozone, though inflation remains above central bank targets. High inflation had central bankers in these regions on guard about endorsing additional monetary stimulus but it is now widely expected that central banks will use monetary stimulus if and when needed to stimulate the economy and reduce liquidity pressures.

- Commodities markets, which were decimated in Q3, were volatile throughout Q4 but ended the quarter up slightly (+2.4% using the CRB Index) as manufacturing data bounced strongly off the year's lows and the probability of additional monetary stimulus rose in China and the Eurozone. A major lag on the index was the selloff in gold and silver as a result of a strengthening U.S. dollar combined with the ECB sticking to its stance of minimal monetary stimulus and monetization of debt.

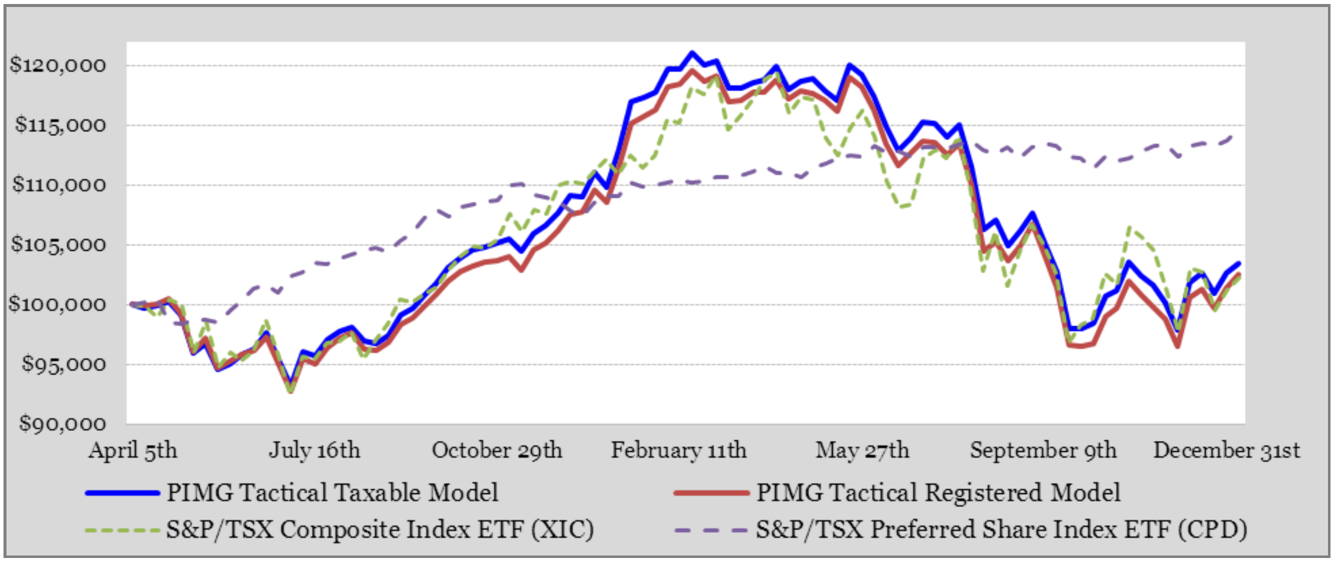
- Emerging markets, which have been weak all year, continued to underperform in the fourth quarter with China's Shanghai Composite losing 6.77% in Yuan terms and 7.97% in CAD terms and India's BSE Sensex losing 6.07% in Rupee terms and 14.99% in CAD terms.

- European debt worries continued to influence risk markets throughout the quarter. Concerns pertaining to Greece's debt woes fell to the backdrop as Italian and Spanish bond yields spiked. At one time in the quarter, investors sold off the debt of even the highest quality AAA "Euro-Core" countries, sparking worries that the oft feared "contagion" was spreading to the core countries for good. Luckily, the run on high-quality European sovereign bonds was short-lived and as a result the worst fears regarding the European debt crisis were soothed. Subsequent moves by the ECB to provide liquidity to European banks helped avert a liquidity crisis and steered bond yields lower. That said, liquidity is still tight in the European banking system and bond yields remain elevated in Italy, Spain and Belgium.

- The global employment outlook improved throughout the quarter as general economic activity rebounded. The employment picture improved the most in the U.S., where the unemployment rate fell to 8.5% in December from 9.1% in September, and weekly jobless claims have been steadily coming in under 400k, seen as a requisite for employment growth.

The S&P/TSX Composite Total Return & Preferred Share Indices
vs
The PIMG Tactical Taxable & Tactical Registered Models

April 5th, 2010 (Inception) to December 31st, 2011



	PIMG Tactical Taxable Model	PIMG Tactical Registered Model	S&P/TSX Composite Index ETF (XIC)	S&P/TSX Preferred Share Index ETF (CPD)
Cumulative Return Since Inception	3.47%	2.47%	2.22%	14.68%
Compound Annual Return	1.98%	1.41%	1.27%	8.19%
Standard Deviation	11.56%	11.57%	16.15%	3.97%
Sharpe Ratio	-0.09	-0.14	-0.11	1.31
Largest Monthly Gain	7.87%	7.80%	6.48%	3.33%
Largest Monthly Loss	-9.89%	-10.21%	-9.12%	-1.59%
Number of Up Months	10	10	9	16
Number of Down Months	11	11	12	5
Correlation with Tactical Taxable	--	0.99	0.86	0.24

We have assumed a 1% performance fee when calculating the returns for our PIMG models. To the best of our knowledge, the ETFs used as benchmarks track the indices they represent though material tracking error and misrepresentation can occur which is beyond our control. Volatility and correlation data are calculated from weekly returns. For the purpose of calculating Sharpe ratios, a risk-free rate of 3% is assumed.

PIMG Tactical Taxable Model:

- Gained 5.60% during the quarter
- The portfolio's asset allocation as at December 31st was 14.5% cash, 26.7% preferred equity and 58.8% common equity.

PIMG Tactical Registered Model:

- Gained 6.16% during the quarter
- The portfolio's asset allocation as at December 31st was 14.5% cash, 5.4% convertible debentures, 21.3% preferred equity and 58.8% common equity.

The top five outperformers in this quarter were:

- Connacher Oil and Gas (Energy/Oil & Gas) at +133.85%
- Canadian Pacific Railway (Industrials/Rail & Freight) at +37.19%
- Yellow Media Preferred "A" (Media/Advertising) at +35.43%
- Aecon Group (Infrastructure/Construction) at +34.27%
- New Millennium Iron (Materials/Iron Ore) at +26.56%

The top five underperformers were:

- Research in Motion (IT/Mobile Hardware) at -33.75%
- Sandvine Corp (IT/Network Hardware) at -24.50%
- Sun Life Financial (Financials/Life Insurance) at -23.05%
- Loblaw Companies (Consumer Staples/Grocery) at -1.90%
- Teck Resources (Materials/Diversified) at -0.97%

During the quarter we bought:

- Saputo Inc: We bought a small position in Saputo as we believed the selloff related to the North American dairy industry trade talks was overblown. Saputo appeared to be trading at a significant discount to its peers, Kraft and Maple Leaf Foods.

- Progressive Waste Solutions: We bought a full position in Progressive after it fell over 20% off its annual high and began trading in-line with its much larger peers, Waste Management and Republic Services. We believe Progressive's higher growth rate and smaller size should allow it to trade at a premium to its larger peers.

- Eldorado Gold: We bought a small position in Eldorado following the announcement of their bid for European Goldfields. At the time, the stock had fallen over 35%; whereas its larger peers, Barrick Gold and Goldcorp, were down less than half that amount. We believed Eldorado would make up some lost ground versus its peers as the initial negative shock of the takeover news subsided.

- Open Text: We bought a full position in Open Text following the release of a negative earnings report by Oracle which highlighted that the software sector may be experiencing a slowdown, and all software stocks, including Open Text, sold off. We believed that any slowdown would be temporary and that a slowdown had already been priced into Open Text shares, which were down over 20% off the annual high.

- Teck Resources: We bought a full position in Teck as we were heavily underweight the Materials sector. We were concerned that the sector and primarily the base metals stocks were due for a correction following three quarters of underperformance. We like Teck due to its diversification, low cost structure and exposure to two of the most cyclical commodities (coal and copper), thereby giving us plenty of leverage to a recovering Materials sector.

- Suncor Energy: We bought a small position in Suncor as it had lagged its peers while oil rallied, despite its high leverage to oil prices. We believe Suncor will play catch-up in the coming months as the high price of oil is reflected in earnings.

- Chemtrade 5.75% Debenture A Due 12/31/2018: We bought Chemtrade Debenture A after it dropped $6 in its first week of trading. We like the underlying stock and believe it can reach the conversion price before maturity. We also believe the business is stable enough to allow for a high chance of payback at maturity and that the rate given to those who buy today is too high given the risk.

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

- Allstate Corp: We sold our position in Allstate in order to reduce risk related to U.S. Financials as well as to take advantage of the favourable exchange rate at the time.

- Cisco Systems: We sold our position in Cisco in order to raise cash for future buys and to take advantage of the favourable exchange rate at the time.

- New Millennium Iron: We sold one-third of our position in New Millennium to reduce overall portfolio risk as well as company-specific risk. Although we did not believe anything had changed at New Millennium, the extreme deterioration in international trade and GDP led us to cut back on our most cyclical holdings.

- Aecon Group: We sold our position in Aecon after it had materially outperformed its peers and the general market. We believed Aecon was beginning to look expensive and we wished to 'lock-in' the recent gain and look to redeploy the proceeds into something more attractive.

- Research in Motion: We sold our position in RIM mostly for tax-loss purposes, though following the PlayBook write-down last quarter, we could not see any near-term catalysts for the stock and thus had little reason to hold it in the near-term.

- Student Transportation: We sold a portion of our position in Student Transportation to reduce our company-specific risk as the position was approaching 5% of the portfolio.

- Student Transportation 7.5% Debenture A Due 10/31/2014: We sold our position in Student Transportation Debenture A as the debenture was in-the-money and traded in tandem with the underlying stock. We did not think it was prudent to have ~10% of the portfolio invested in (and/or linked to) the performance of one company's common shares.

- Connacher Oil & Gas: We sold half of our position in Connacher following a news release stating that the company had rejected a private, unsolicited offer. We thought it was prudent to take some profits following the 9-day, 100%+ gain.

Going Forward: “Gear-Year” Ahead?

At one point during the quarter, we had over 25% of the portfolio in cash, reflecting our bearish view towards economic growth and global liquidity. Following the ECB move to provide an infinite amount of three-year bonds to European banks (which we saw as monetary easing – something the ECB has stated it is against) as well as modest improvement in global economic activity and employment, we decided to deploy the cash into high quality names of sectors in which we were greatly underweight, primarily the Materials sector. Despite having a sizable cash position throughout an up quarter, the portfolios outperformed the benchmark due to their overweight positions in the Industrials (up 14.5%), Telecom (up 7.15%) and Consumer Staples (up 2.4%) sectors and underweight position in the Materials sector (down 4.5%).

Looking ahead, we believe the sectors (Materials, Energy) and markets (emerging, small cap) that have seen a long period of decline are due for a rebound as the ECB appears to be more open to stimulus (blatant or not), the U.S. Federal Reserve continues to be open to additional monetary stimulus and the Chinese central bank is looking to support markets now that inflation has subsided. With the central banks of the three largest economies of the world geared towards monetary expansion combined with the recent slew of positive economic data, we believe risk premiums will drop and markets will experience another “risk-on” rally. Additionally, 2012 marks the third year of recovery, aka the “Gear Year”, in which economic activity tends to accelerate at a rapid pace.

Despite our expectation of an equity market rally in the next six months or so, we still remain concerned about the long-term structural issues in the Eurozone as well as relations between the West and the Middle East. We are confident that so long as the ECB continues to provide ample liquidity to Eurozone banks, the Europeans can work through their issues without affecting global growth. The real risk lies in the Middle East where any initiation of conflict in Syria or Iran would cause a spike in oil prices which could stop the worldwide recovery in its tracks. We expect that our bullish stance will remain in place unless we see further deterioration in the Middle East or the adoption of a more conservative stance by the ECB.

As we have turned bullish on economic expansion and equities, we favour and have been buying stocks in the materials, industrials and energy sectors. We are also partial to small caps in these sectors as they have seen declines far in excess of their larger peers and are due for a rally. We continue to believe that preferred shares, specifically lower-rated rate reset and retractable preferred shares issued by companies with improving credit outlooks, offer the best risk/return profile in the fixed income market.

As we enter the New Year, we have geared the portfolio towards catalyst-rich stocks that should see decent leverage in a rising stock market, while maintaining a portfolio that yields over 3.5%.

Sincerely,

Steele Wealth Management