

# Contents

	<b>Page</b>
<b>Executive Summary</b>	
2010 Winter Outlook	3
<b>Portfolio Strategy</b>	
Riding the Normalization Wave	5
<b>Economic Outlook</b>	
If We Were Bulls	10
<b>Feature Article</b>	
Charting a Course with Cautious Optimism – Outlook 2010	15
<b>U.S. Equity Strategy</b>	
Top 10 U.S. Picks for 2010	27
<b>Fixed Income Strategy</b>	
Market Outlook for 2010	29
<b>Mutual Funds</b>	
Staying the Course for 2010	34
<b>Guided Portfolios</b>	39
Canadian Core	39
Canadian Income Plus	41
U.S. Core	43
North American Core	46
Core-Plus Fixed Income	48

*The author(s) of the report own(s) securities of the following companies.*

**Bank of Nova Scotia, Rogers Communications Inc., Research In Motion Limited, Potash Corporation of Saskatchewan, Inc.,**

*The supervisors of the Portfolio Advisory Group own securities of the following companies.*

**Bank of Nova Scotia, Manulife Financial Corporation, TELUS Corporation, BCE Inc., Canadian National Railway Company, General Electric Co,**

*Scotia Capital Restriction -- U.S. (American) Bank of Nova Scotia*

*The Fundamental Research Analyst/Associate, in his/her own account or in a related account, owns securities of the following issuer(s) under his/her coverage: Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Manulife Financial Corporation, Royal Bank of Canada, Sun Life Financial Inc., Toronto-Dominion Bank*

*The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of the following issuer(s): Bank of Montreal, Bank of Nova Scotia, BCE Inc., Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Natural Resources Limited, Crescent Point Energy Corp., Enbridge Inc., Great-West Lifeco Inc., Manulife Financial Corporation, Research In Motion Limited, Rogers Communications Inc., Royal Bank of Canada, Shoppers Drug Mart Corporation, Sun Life Financial Inc., Suncor Energy Inc., Talisman Energy Inc., TELUS Corporation, Thomson Reuters Corporation, Toronto-Dominion Bank, Finning International Inc.*

*The Portfolio Strategist/Associate, in his/her own account or in a related account, owns securities of the following issuer(s): National Bank, Sun Life Financial Inc., Toronto-Dominion Bank*

*The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s): Barrick Gold Corporation, IAMGOLD Corporation, Silver Wheaton Corp., Finning International Inc.*

*Scotia Capital Restriction Bank of Nova Scotia*

*Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): Bank of Montreal, BCE Inc., Canadian Imperial Bank of Commerce, Enbridge Inc., Great-West Lifeco Inc., Manulife Financial Corporation, National Bank, Rogers Communications Inc., Royal Bank of Canada, Sun Life Financial Inc., TELUS Corporation, Thomson Reuters Corporation, Toronto-Dominion Bank, Finning International Inc.*

*The Bank of Nova Scotia ("the Bank") is the parent company of Scotia Capital Inc. ("SCI"). This Report includes comparative information regarding a substantial number of competitors of the Bank where such comparable information is known or ascertainable by SCI and in equal prominence to the information in respect of the Bank. Bank of Nova Scotia*

*The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): Barrick Gold Corporation, BCE Inc., Canadian National Railway Company, IAMGOLD Corporation, Potash Corporation of Saskatchewan, Inc., Research In Motion Limited, Rogers Communications Inc., Shoppers Drug Mart Corporation, Silver Wheaton Corp., TELUS Corporation, Thomson Reuters Corporation*

*Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, the following issuer(s): Bank of Montreal, Bank of Nova Scotia, Barrick Gold Corporation, Canadian Imperial Bank of Commerce, Canadian National Railway Company, Crescent Point Energy Corp., Enbridge Inc., Great-West Lifeco Inc., IAMGOLD Corporation, Manulife Financial Corporation, National Bank, Potash Corporation of Saskatchewan, Inc., Rogers Communications Inc., Royal Bank of Canada, Shoppers Drug Mart Corporation, Silver Wheaton Corp., Sun Life Financial Inc., Talisman Energy Inc., TELUS Corporation, Thomson Reuters Corporation, Toronto-Dominion Bank*

# Executive Summary

## 2010 Winter Outlook

*Stewart Hunt — Managing Director, Portfolio Advisory Group*

It is always interesting to look back to see what we were saying at this time last year to determine how well our crystal ball was working. Our compliments to Vincent Delisle, Scotia Capital Portfolio Strategist, who at this time last year was calling for equity markets to retrace their November 2008 lows and subsequently rebound and ‘base build’ for the balance of the year. While the market low of March 2009 was below the market low of November 2008, it did mark the bottom from which the market dramatically climbed back to finish in positive territory. Derek Holt, Vice President Scotia Capital Economics, last year predicted the global economy, and particularly the North American economy, would struggle to reach positive growth until the latter half of 2009 with the effects of massive fiscal stimulus having its full impact in 2010. Based on what has occurred over the past year both Delisle and Holt were very accurate with their predictions.

So what are we anticipating for 2010? Delisle, while still positive on the equity markets, believes we will see returns that will be more associated with the long-term equity returns of 8 -10%. Delisle sees these returns being achieved with cyclical stocks leading the way however, as the year moves on giving way to more defensive stocks as the markets adjust to higher interest rates and the gradual removal of government stimulus. While recommending being overweight equities and cash Delisle predicts a shift towards a more neutral asset allocation as the year progresses. Holt and the Scotia Economics department anticipate positive economic growth globally and in North America with the employment picture in Canada and the US improving. This will allow the Bank of Canada and the US Federal Reserve to begin removing market liquidity and the federal governments to begin reducing the flow of fiscal stimulus. As a result, Holt predicts interest rates will move higher in the latter half of 2010 and government spending will slow down.

As we move into the New Year here are some of the highlights of the Winter 2010 IPQ:

- As noted above, our Scotia Capital Portfolio Strategist Vincent Delisle remains positive on the equity markets, predicting further long-term equity returns provided through sector rotation out of cyclical stocks into defensive companies as the year progress. With improving economic conditions and employment he sees higher interest rates on the horizon moving towards a more neutral asset allocation and away from overweight equities and cash.
- Scotia Capital Economists Derek Holt and Karen Cordes, while structurally bearish in their bias, provide their perspective ‘if we were bulls’ on the economy. They do see and anticipate the economy will grow while being fed by fiscal steroids and low interest rates; however, they are concerned about the sustainability of the recovery as fiscal stimulus gets taken away and a more normal interest rate environment comes into play.
- In our feature article, Canadian Equity Advisors Gareth Watson and Geoff Ho help investors ‘chart a course with cautious optimism’ in their 2010 outlook. Both Watson and Ho provide a sector by sector comment on the Canadian equity markets concluding with two lists of stocks. One, of stocks they feel should be consistent performers in a balanced portfolio and two, stocks that could add some extra return if fundamentals improve / strengthen.
- Paul Danesi, our U.S. Equity Advisor, provides his top 10 U.S. stock picks for 2010, noting that while not anticipating the returns of 2009 the U.S. Equity market will remain in the “sweet spot” at least through the first half of 2010. With the Canadian dollar forecast moving towards par or even a premium to the U.S.dollar, U.S. stocks look cheap from a currency perspective. In addition, with low bond yields and cash paying zero, equities look relatively attractive. Danesi has focused his list on a number of themes including emerging markets, consumer and infrastructure development and a return

of capital spending, with a focus on technology. With global economic growth being driven by the emerging markets Danesi has a bias towards companies with a multinational orientation.

- Joey Mack, Director, Portfolio Advisory Group Fixed Income Trading and Sales, provides his thoughts on the bond market for 2010. After another consistent positive return in 2009, largely driven by double digit returns from corporate bonds, Mack sees the economic recovery and the potential for higher rates impacting bond returns. Mack guides fixed income investors towards reducing duration, holding or buying corporate bonds, high yield bonds for moderate to high risk investors, and buying floating rate bonds where the coupon rate is reset on a regular basis which will benefit if rates move higher.
- Justin Kusinskis, Associate Director, Portfolio Advisory Group Fund Research, recognizes it is impossible to predict what will happen in 2010 and highlights the need for investors to focus on the sound investment principle of diversification. Kusinskis has highlighted Strategic Yield Funds for conservative, income-oriented investors as providing a low volatility income solution beyond the bond market. For more aggressive investors, adding global or emerging market funds to a diversified portfolio could provide additional returns. This supports Paul Danesi's strategy for his top 10 U.S. stock picks.
- In conclusion, Steve Uzielli and Tim Vlahopolous provide their quarterly review and commentary on the performance of the Equity and Fixed Income Guided Portfolios.

Our Winter 2010 edition of Investment Portfolio Quarterly is designed to provide you with our ideas on the economy and investing climate for the year ahead, focusing on where we see investment and portfolio strategies to put you in the best position to benefit from market activity. The start of a new year is a great time to be contacting your ScotiaMcLeod advisor to determine what investments best suit your financial needs.

Stewart Hunt

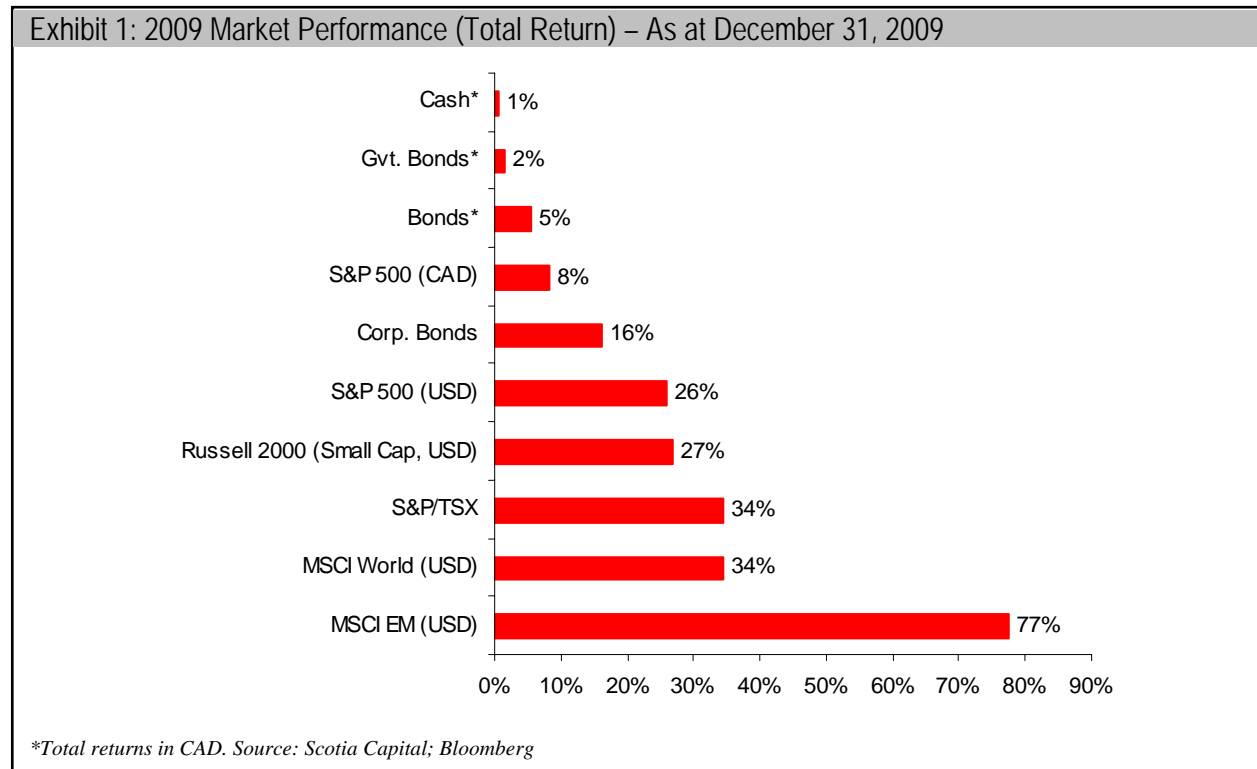
# Portfolio Strategy

## Riding the Normalization Wave

Vincent Delisle — Portfolio Strategist, Scotia Capital

### A Quick Recap of 2009

2009 was a horrible year for the global economy, but equity markets managed to post solid performances, further illustrating the way markets feed off anticipation, not what is written in the daily newspapers. As far as we are concerned, the 2009 cyclical recovery has been highly similar to other post-recession rebounds in terms of both timing and leadership. The magnitude of the rebound, not the sequence, has been historic.



### Setting Our Sights on a More Challenging 2010

Entering 2010, we are inclined to stick to our constructive equity view, but caution that the economy may upstage markets in coming months. Improving macroeconomic data and positive profit trends should continue in the first half of 2010, thus supporting further outperformance from cyclical assets and sectors. Robust earnings growth (30%-35%) and positive funds flows could lift equity indices another 10%.

The equity risk-reward outlook is not as compelling as it was at the start of 2009, however, and investors should expect more modest gains now that the equity normalization phase is in the latter stages. In our opinion, the equities' normalization phase will be over when risk premiums revert closer to their historical averages (Moody's BAA credit spreads should narrow another 100 bp) and markets price in the Federal Reserve's exit strategy. When the U.S. yield curve starts to flatten, market leadership should migrate towards lower-beta sectors and markets, thus reversing the cyclical domination witnessed through 2009.

Our objective in 2010 will be to adapt our asset mix stance when the risk-reward outlook no longer dictates an aggressive cyclical bias. The next normalization wave will likely hit monetary and fiscal policies, setting the stage for sub-par GDP growth post-2010. By the end of 2010, we believe portfolios should not look as cyclical as they do now.

## ISM Model and 2010 Game Plan

Our ISM model assesses the equity market's risk-reward profile based on different "investment phases." ISM indices (services and manufacturing) have historically proven to be reliable barometers of the current state of the U.S. economy. The rationale behind this ISM model is that equities will price what the ISM is telling us. Results of our 1950-2009 ISM/S&P 500 research are illustrated in Exhibit 2.

Exhibit 2: ISM Index and Investment Phases (1950-2009)*: One Year Forward Equity and Interest Rate Behaviour					
Phases	ISM Ranges	1-Yr Forward			
		S&P 500	Prob. of Positive Return	Fed Funds (bp)	10-Yr Yield (bp)
Apocalypse	< 40	27%	100%	-106	-32
Worse-to-Bad	40-50	10%	74%	-102	-23
Show-me-the-Money	50-55	8%	72%	-47	-1
Optimism	55-60	6%	67%	+73	+13
Goldilocks	60+	2%	62%	+113	+32

*\*S&P 500 data going back to 1950, Fed Funds to 1958; 10-year yields to 1953; and MSCI Mexico (USD) to 1987*

*Source: Scotia Capital*

Our objective early in 2009 was to take advantage of the equity market's compelling risk-reward profile. When the ISM dips below 40 (Apocalypse phase), the S&P 500's one-year forward gain averages 27% and the probability of positive returns stands at 100%. Although the S&P 500 continues to perform well when the ISM moves above the 50 level, the risk-reward outlook starts to wane when the ISM goes over 55. Our blended ISM index hovered at the 50 level in December 2009, up from 38 a year ago. Our bottom line: stay cyclical to kick off 2010, but stand ready to pare down bets as the ISM crosses the 55 level.

Exhibit 3 uses the same methodology to highlight when small cap and cyclical leadership dominates. Large caps and quality/defensive sectors tend to shine once the ISM moves above 55, which is what we expect in coming months. Consequently, our 2010 objective will be aimed at taking risk off the table as markets price in upcoming improvements in the U.S. economy.

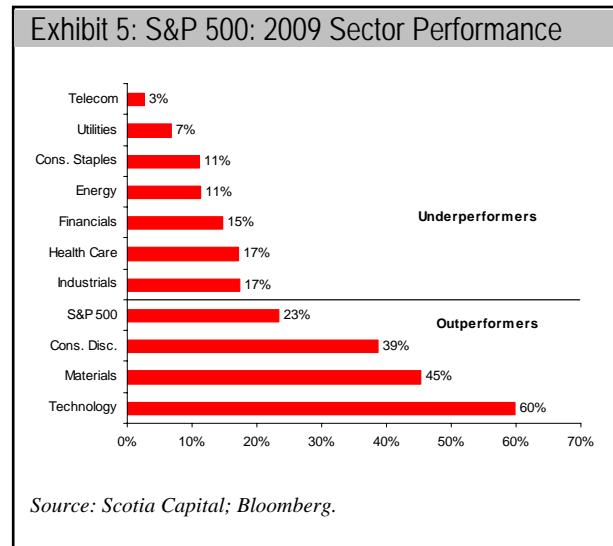
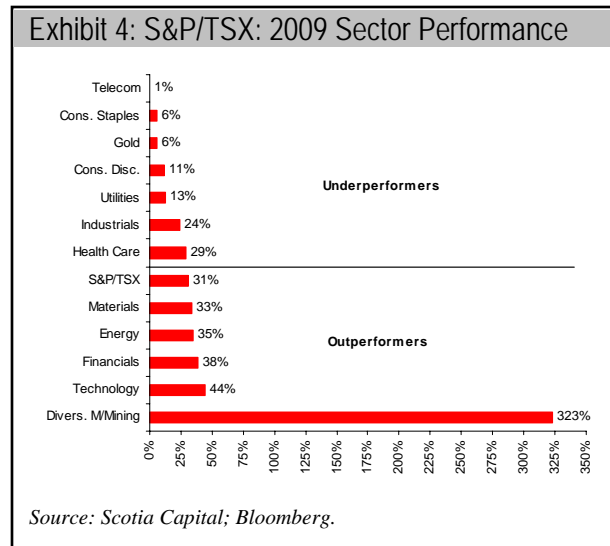
Exhibit 3: ISM Index & Investment Phases*: Small Cap and Cyclical Leadership One Year Forward					
Investment Phases	ISM Ranges	S&P 500	1-Yr Forward		
			Rel. Performance*		
			Small/Large	Cyclicals/Defensives	
Apocalypse	< 40	27%	22%	28%	
Worse-to-Bad	40-50	10%	2%	8%	
Show-me-the-Money	50-55	8%	0%	4%	
Optimism	55-60	6%	-1%	-1%	
Goldilocks	60+	2%	-4%	-0.1%	

*\*Using the Russell 1000/2000 index since 1978; Dow Transport/Utilities since 1950; and the MSCI Mexico since 1987*

*Source: Scotia Capital; Bloomberg*

## 2010 Equity Strategy: Shift to Mid-and Late Cyclicals and Large Cap Markets

Small cap, emerging markets, and cyclical sectors have been leading the charge since the spring rebound started in March and 2009 sector performance has provided a textbook illustration of late-stage recession/early-stage expansion leadership. Exhibits 4 and 5 offer a recap of TSX and S&P 500 sector returns for 2009. We expect this cyclical outperformance to continue early in 2010, albeit to a lesser extent. Mid- to late-cycle areas such as Technology, Industrials, Energy (oil), and Materials should outperform Financials and Discretionary when the tightening cycle begins in the latter half of 2010.



The Financials sector was one of our preferred segments for 2009 (high beta/cyclical bias) but we have been moving away from that recommendation since last fall. We reduced our Financials weighting in November 2009 and we now plan to adopt an “Insurance over Bank” bias for 2010, thus reversing our 2009 Bank preference. The Insurance sector tends to outperform Banks in periods of yield curve flattening, and relative valuations point to the Insurance sector closing its discount to the Bank group. Moreover, Bank stocks’ performance could be muted until dividend growth resurfaces in 2011. Late in 2009, we also raised our recommendation in the Telecom sector, as we believe the sector will perform better in 2010 with investor appetite shifting to more defensive areas with high dividends.

Although S&P 500 performance continues to be led by cyclical sectors, large capitalization segments have assumed leadership in the last couple of months, a trend that should help the Telecom sector. Defensive sectors such as Utilities, Staples, and Healthcare could continue to lag the overall market at the start of 2010, but earnings leadership could return to this low-beta group later next year. We will be monitoring earnings revisions ratios in order to assess the appropriate timing to raise our weighting in defensive areas.

### Potential Game-Changers in 2010

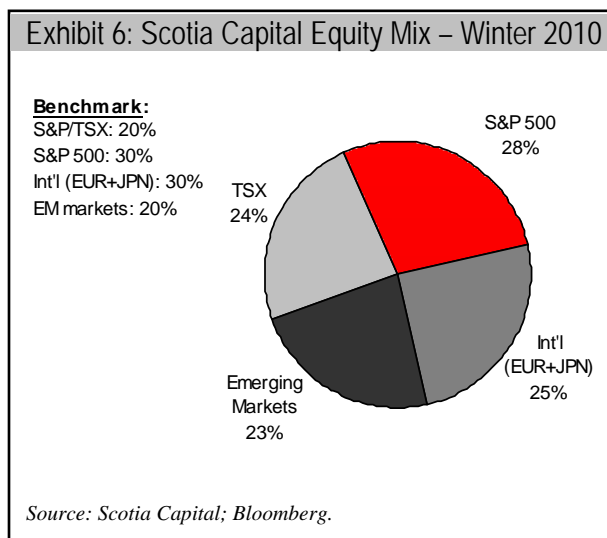
Key items to watch in 2010, in our opinion, will be the behavior of the U.S. dollar, the timing of Fed rate hikes, and a public/private sector handoff. Tangible improvements in business spending early in 2010 could set the stage for employment growth and a sustained consumer spending recovery. When the U.S. economy starts adding the jobs, market dynamics will likely materially change. Such a scenario would provide global central banks the additional comfort to start normalizing monetary policy – i.e., raising interest rates.

The greenback is slated to weaken further in coming years, but we would not dismiss the potential for a short-term rally once the Fed raises interest rates. As long as the U.S. dollar remains biased lower (which is Scotia Capital’s forecast for 2010), we believe investors should focus on Canadian, Latin American, and emerging Asian equities. When the normalization phase is over, market leadership could reverse as currency and interest rate dynamics change. Gold performance looks especially vulnerable under that scenario. We expect this new leadership to become very topical in the latter half of 2010.

10 Themes For 2010

The following is a list of guidelines (and reminders) that will influence our strategy in the coming months:

1. Stay constructive on the U.S. economy as long as jobless claims and housing fundamentals are improving.
2. Don't fight the equity uptrend when forward earnings estimates are being revised higher.
3. Probability of overshoot for equities and commodities remains greater than the risk of a major correction entering the year.
4. In contrast to last year, most 2010 gains will likely be made in the first half of the year.
5. Take off your cheerleader hat when the ISM moves above 55 and/or the S&P 500 is trading above 1,200.
6. Take beta out of equity portfolios (add large cap, S&P 500; reduce small cap, emerging markets) when blended ISM crosses over 55.
7. Don't plan holidays when ISM data is released.
8. Bonds will not price in rate hikes until the U.S. is adding jobs.
9. Monitor the U.S. dollar's reaction (and commodities' reactions) when U.S. employment turns positive – the greenback's not going to zero.
10. By the end of 2010, portfolios should not look as cyclical as they do now.



**Exhibit 7: 2010 Sector Strategy**

Sector	Recommendation
Energy (Oil over Natural Gas)	Overweight
Materials	Overweight
Industrials (biased higher)	Neutral
Discretionary	Overweight
Staples	Underweight
Health Care	Underweight
Financials (overweight Insurance)	Underweight
Technology	Overweight
Telecom (biased higher)	Neutral
Utilities	Underweight

Source: Scotia Capital; Bloomberg.

Asset Mix

Rising interest rates should represent one of the main challenges next year as central banks look to implement their “exit strategies” in the second half of 2010 and as inflation fears resurface. Bond returns are expected to range between 0% (government) and low single digits (corporate bonds) next year versus low-double-digit gains for equities, thus warranting an equity overweight stance. Our asset mix recommendations and expected total return tables are shown in Exhibit 8.

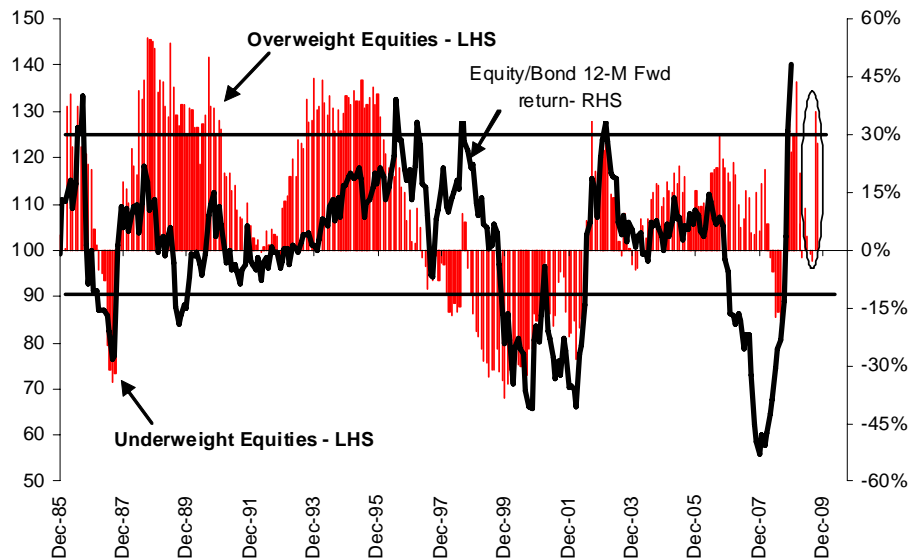
Exhibit 8: Scotia Capital Asset Mix – January 2010

	Asset Mix		Change from Last	Total Return Next 12-M
	Benchmark	Recommended		
<b>Equities (TSX)</b>	<b>60%</b>	<b>68%</b>	<b>0%</b>	<b>10%</b>
<b>Bonds</b>	<b>38%</b>	<b>26%</b>	<b>0%</b>	<b>0%-5%</b>
<i>Government</i>	28%	15%	0%	0%
<i>Corporate</i>	10%	11%	0%	5%
<b>Cash (91-D Tbills)</b>	<b>2%</b>	<b>6%</b>	<b>0%</b>	<b>1%-2%</b>

Source: Scotia Capital estimates

Based on our models, S&P 500 and long-term bond (U.S. 10-year yields) “fair values” should hit 1,275 and 4.8% in 2010, respectively. Compared to current levels (S&P 500 at 1,115; 10-year yields at 3.84%), equities appear 13% undervalued and long-term bonds 6% overvalued – i.e., a 19% differential favouring the S&P 500. As highlighted in our asset allocation barometer (Exhibit 9), we are still getting a strong equity overweight signal. Note that the solid line (black) depicts the 12-month forward S&P 500 over bond performance. Hence, every model signal (now) is compared to what happened one year later.

Exhibit 9: Scotia Capital Asset Allocation Barometer



Source: Scotia Capital estimates

\*ex-dividend performance is in USD, except for the TSX. International performance based on the MSCI EAFE index.

### Taking Risk Off the Table in 2010

2010 should be the year in which the global economy gets back on its feet with world GDP growth hovering close to or above cruising speed of 3.5%. If 2009 was positive for financial markets, 2010 should be a good year for Main Street with job growth acting as a confidence booster. The liquidity-induced risk trade is expected to change, however, as markets start to price in interest rate hikes in the latter half of the year. The winning strategy in 2009 was to look for signs to add on risk in portfolios – i.e., a glass-half-full approach. In 2010, the risk-reward trade-off should increasingly dictate to take risk off the table.

## Economic Outlook

### If We Were Bulls

*Derek Holt, M.B.A., CFA - Vice-President, Scotia Capital Economics*

*Karen Cordes, M.A. – Financial Markets Analyst, Scotia Capital Economics*

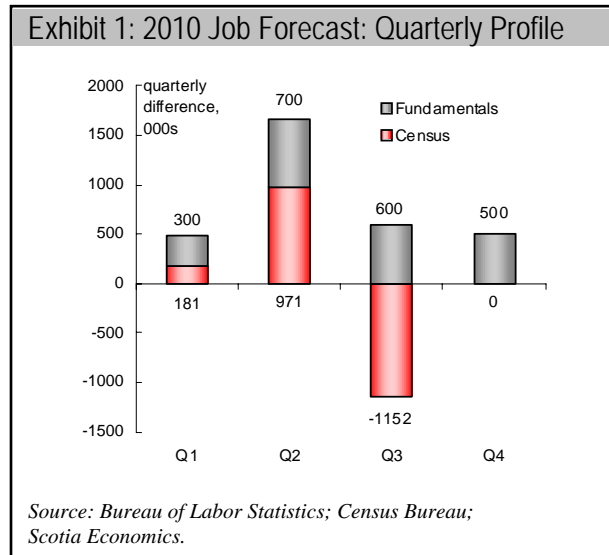
The bulls aren't doing a terribly good job of explaining why they're bullish. A GDP add-up that preaches growth on a wing and a prayer is far less appealing than a stylized facts approach that is fairly easily told via some broad-stroke highlights. So, in the spirit of bringing in a new year, we take a stab at what we'd argue by way of upside risks to economic growth. There are counter-arguments to most of them, but bah humbug – share a bubbly toast with us to happier thoughts for 2010 and cross your fingers.

But before offering a bullish list, and for the sake of clarity on our bias, we'd characterize ourselves as having been structural bears who have been opportunistically bullish on short-term waves during this crisis. That was the theme precisely one year ago in the January 2009 version of this publication, when we argued that a bottom in markets and the economy hadn't yet been reached, but that an economic recovery by late 2009 would be sharply priced in six to nine months in advance across the risk trades. Our piece six months later in July 2009 titled *Investing in the First 'V' of a 'W'* argued that U.S. GDP growth would temporarily go vertical, as it's looking to in Q4/09 largely via inventory swings with select other supporting actors, was a further example of opportunistic bullishness. But we remain structurally bearish in our bias, viewing what we're going through as a temporary growth spurt that will encounter renewed weakness by late 2010-11. That hasn't changed with the writing of this piece, as sustainability remains the number one concern. In fact, Scotia Economics is forecasting growth in the two-handle zone later next year and into 2011 once temporary lift effects dissipate and the near-term acceleration is fed by fiscal steroids and a stabilizing inventory cycle that barely translates into weak, but still rising, corporate earnings. We are concerned that markets will get too carried away, as strong short-term growth and job market indicators reflect these temporary forces, such that higher bond yields and borrowing costs, higher commodity prices, and policy tightening all risk being sharply premature given a milder longer-run outlook. The risk of an outright double dip and renewed financial market instability is non-negligible, but the base case we're running with is bullish near term, likely ultimately disappointing (to markets) longer term, but still offering sustainable growth. Good active portfolio management and occasional rebalancing will be key to riding through this period versus a passive investment style.

When will we know if the bulls or bears are right? Probably no sooner than 1H/11. Including data lags, it will be by that point that markets will be in a better position to judge what happens to the economy once fiscal steroids and inventory cycles begin to wane in their growth effects, and once markets have been further tested in their ability to take down U.S. Treasury supply. The economy remains in a multi-year set of structural adjustments following a multi-year period of rampant leverage.

But for now, here's some New Year's cheer to ponder.

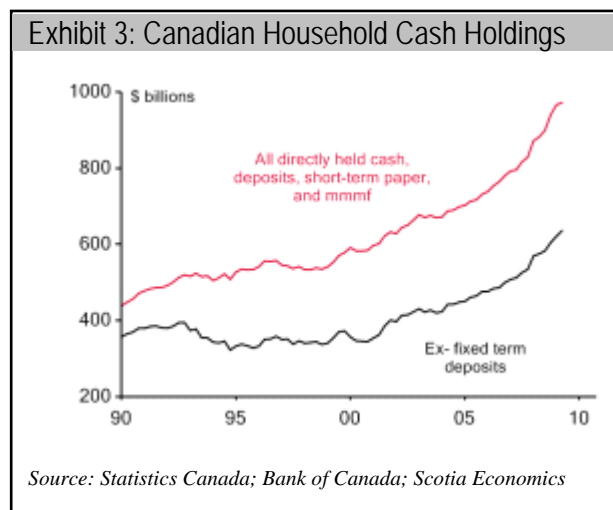
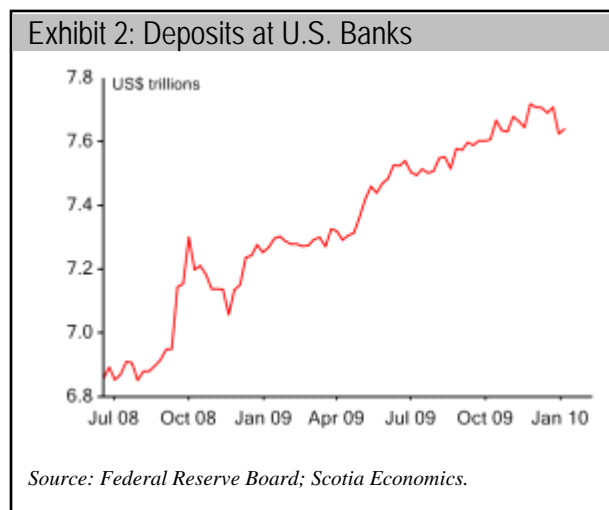
**1. Two million U.S. jobs in 2010:** Consensus is dramatically underestimating potential upsides to non-farm employment in 2010, in our opinion. The margins of error on a non-farm payrolls forecast are always considerable, but Exhibit 1 shows what we think is a plausible scenario for quarterly job growth in the U.S. economy through combined baseline hiring assumptions stemming from a recovery in private



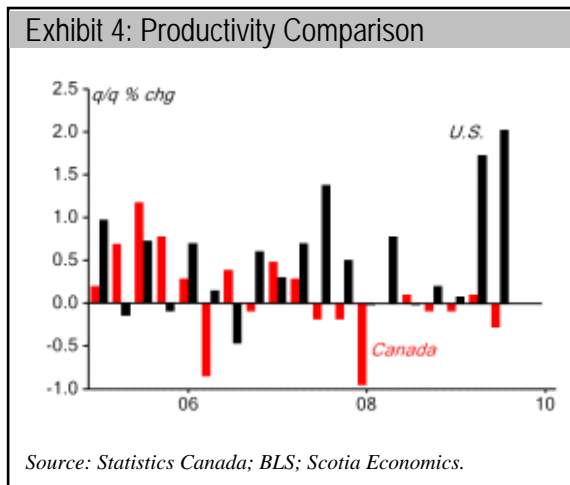
employment and the effects of fiscal stimulus, on top of which we add the quarterly distortions that we forecast to occur via the 2010 Census effects on hiring patterns. On net, we think 2 million jobs will be created in the U.S. economy for the year as a whole, far above consensus, but very reasonable in comparison to past recession-recovery phases and fairly modest compared to the 7 million jobs the U.S. economy lost through 2008-09. Our note, “Two Million U.S. Jobs in 2010”, published January 5, 2010, further elaborates on this forecast.

**2. Stockpiled cash:** Americans and Canadians have both stockpiled immense amounts of liquid cash over recent years and particularly during the crisis period (Exhibits 2 and 3). Clearly that has been due to a freeze factor, as paycheques have been left to idle in bank accounts during a period of

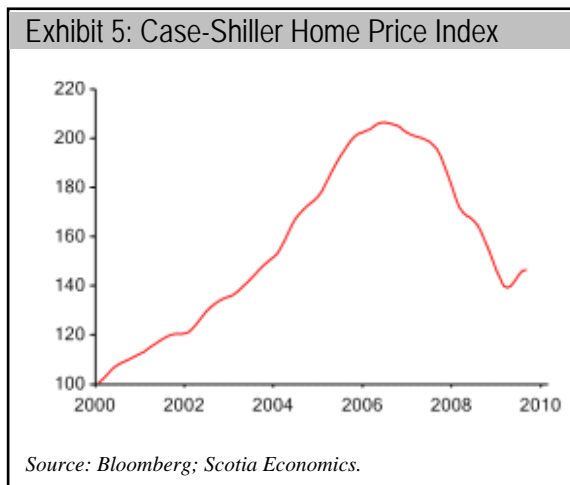
uncertainty, and asset allocation choices have been adjusted by retail investors in favour of relative safe havens. In theory, people should save more after a wealth shock and not redeploy such liquid holdings toward spending. But perhaps in practice, this mountain of cash could play the same role in the consumer spending outlook as the fabled mortgage equity withdrawal did in insulating consumer downsides after the relatively brief U.S. recession at the start of the decade following the dot-bomb and 9/11 shocks. Clearly the amounts wouldn't be drawn to zero, but precautionary saving has temporarily distorted these balances, and the risk here is that balances are drawn down perhaps by as much as several hundred billion dollars, which would temporarily put a bounce in consumer spending while hopefully transitioning to longer-run job growth. Idle cash makes for itchy feet ready to hit the malls, and that helps explain modest gains in pre-holiday spending.



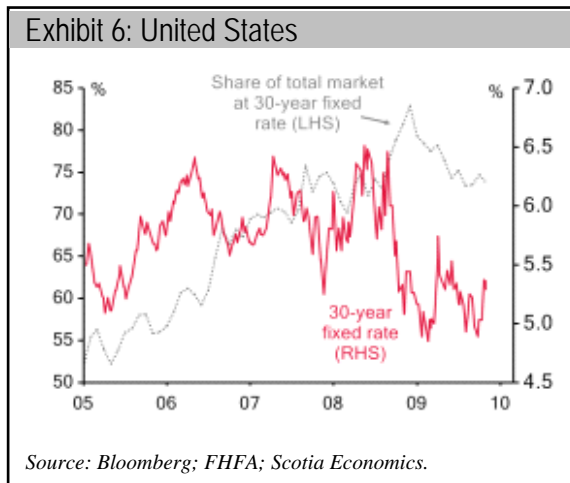
**3. U.S. productivity growth:** Although painful to workers who have had hours shed at an even faster pace than jobs, U.S. companies did what they do better than any others in the world and rapidly adjusted their workforces as revenues trailed off. The resulting impressive productivity figures, defined as output per hour worked, that occurred once sales stabilized and output started to climb again are a potentially



bullish signal for earnings growth (Exhibit 4). Perhaps not as bullish as the bottom-up analysts are assuming, and maybe it has already been priced in, but productivity growth has been the classic way out of U.S. downturns time and again. That is not true, however, for Canada, where a labour preservation bias against productivity growth is fairly longstanding in nature.



**4. Overstated wealth effects:** Most Americans didn't have a clue as to how much their homes were worth at the peak of the cycle, or didn't fully believe it, so what they feel they've truly lost is likely much smaller than a straight peak-to-current wealth calculation would suggest. For example, the S&P Case Shiller measure of U.S. house prices went up by almost 50% from spring 2003 until mid-2006, but came right back down to the same level by mid-2009 as quickly as it went up (Exhibit 5). It's unfair to figure negative wealth effects off the precise peak in housing wealth, unless the masses are able to track their home values much more precisely than we think we ever could. For Canada, the wealth effects are generally more resilient.

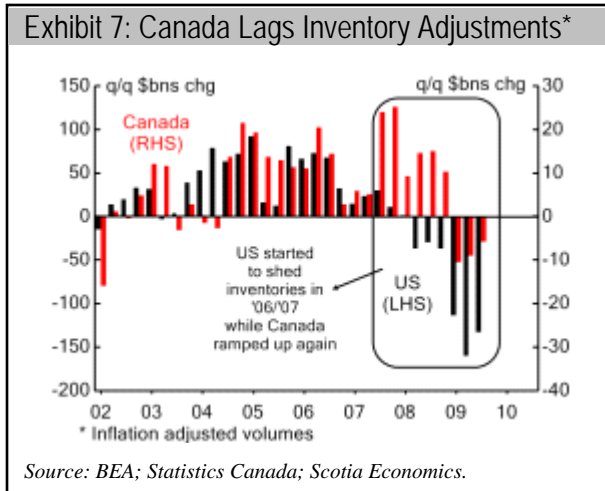


**5. Relatively few bought and financed at the peak:** Those who bought homes at the peak, or rushed in during the crazed period of ultra-loose terms through "Ninja" mortgages, option ARMs, balloons, and alt-A contracts, are the relative minority. Sixteen percent of the total U.S. housing stock rolled over during the peak period for U.S. house prices from 2005 to 2007. In our view, surely there's enough resilience among the rest.

**6. Cheap mortgage rates:** Americans are locking in cheap mortgage rates for decades to come, thanks to the 30-year fixed mortgage. About three-quarters of the U.S. mortgage market is now fixed (Exhibit 6), and refinancings have soared throughout this long down-cycle in rates toward record-low mortgage rates. That's sharply higher than a few years ago. Thus, a one-way put option held by the household insulates much of the U.S. mortgage market from the possibility of higher fixed rates in future, but the pricing risk resides at the lender.

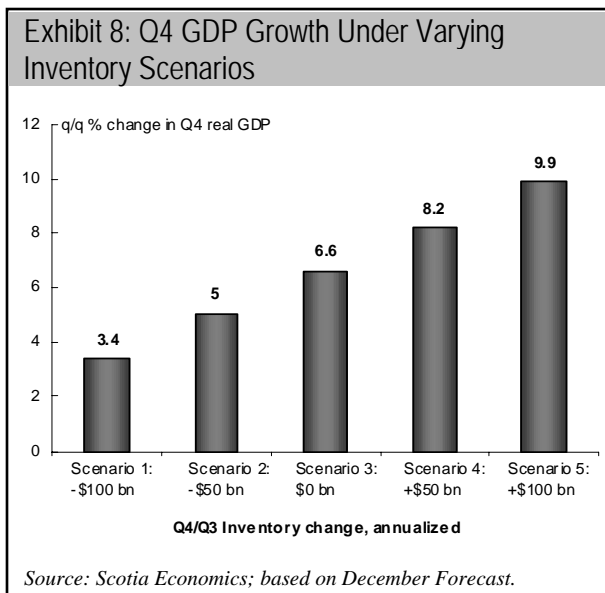
**Battle fatigue:** We could call it the punch-drunk effect, or the pent-up demand argument in economist-speak.

Consumers have abstained from most enjoyable things for so long that they're ready to party again. Volumes of housing sales, vehicle purchases, and big-ticket durable goods spending pushed to such lows that even a gentle lift-off can support decent prints for consumer spending growth.



**7. Base effects:** The U.S. economy built such a deep pit that everything is looking up from here. That doesn't mean we come anywhere close to the volumes of housing, business investment, and consumer activity that were being recorded at the peaks, but small lifts from very depressed levels of activity can support fairly impressive growth spurts.

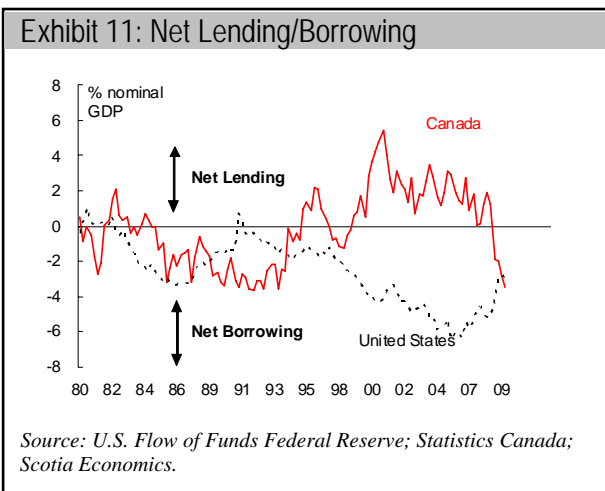
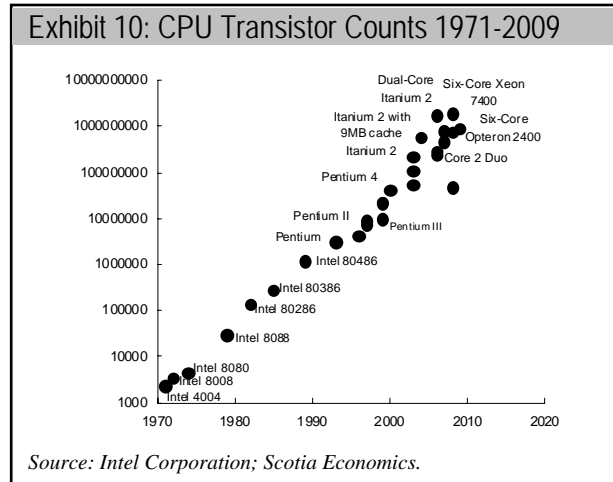
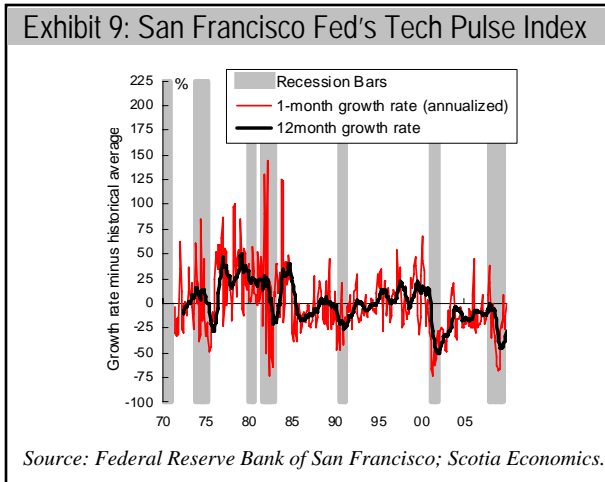
**8. Leaner inventories:** There are good reasons why inventories were sharply divested through this crisis, as companies sought to curtail production amidst a declining revenue outlook that required lowering carrying costs on bloated inventories. Whether inventories have really gone low enough in aggregate and across sectors is open to debate, but the majority of the sharp downward drag on GDP growth may well be over (Exhibit 7). Early evidence of renewed inventory investment in Q4 in the U.S. may be a sign of things to come. Given that U.S. inventories climbed in October, this could well be enough on top of our base case assumptions for other GDP components to drive Q4 growth massively upward in the 6%-8% quarter-over-quarter annualized range (Exhibit 8).



**9. Currency moves:** A broadly based depreciation in the U.S. dollar is a plus for the trade account because it raises the cost of imports and improves export competitiveness. We think a depreciated U.S. dollar is one part of the path towards gradually repairing global imbalances manifest in trade and capital accounts, and that should be a modest positive for U.S. growth going forward. For Canada, a strong Canadian dollar is a net negative to the economy, but

it gives ongoing reason to overweight Canada in portfolios, thanks in part to the currency return stemming from our expectation that the Canadian dollar could appreciate to significantly over parity against the U.S. dollar this year. In evaluating the net negative aspects to the economy, however, it's important to distinguish the sharply uneven effects of Canadian dollar appreciation that works against the trade balance, but lifts consumer spending and business investment, by sharply lowering the cost of imported consumer and capital goods that play a much bigger role in the Canadian economy than in many other industrialized economies.

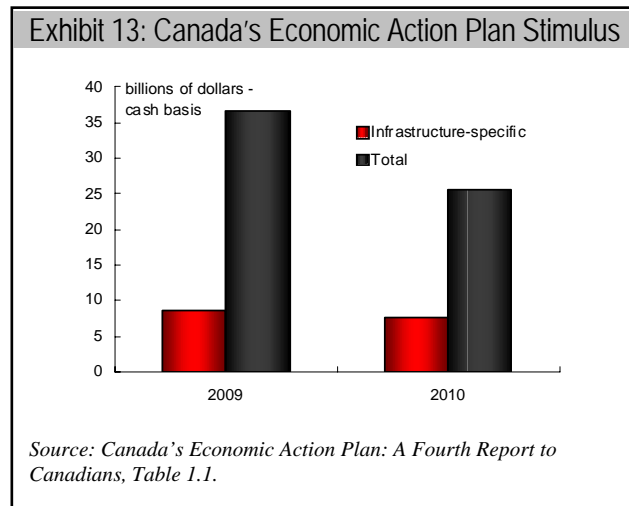
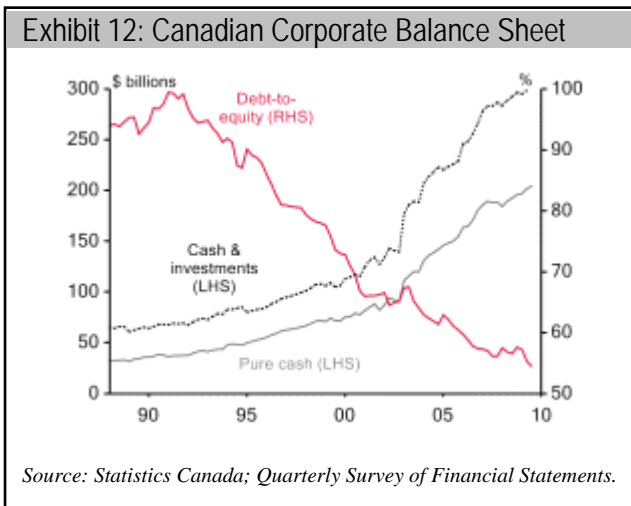
**10. Technological obsolescence:** No doubt massive excess capacity still exists, and that will continue to weigh on some key types of investment such as commercial real estate and some types of big-ticket equipment. But rapid technological obsolescence means that accounting depreciation of capital assets lags economic depreciation in terms of their true useful lives, such that companies simply cannot afford not to invest in some areas like information technology, and modern machinery and equipment. That's particularly the case given the likelihood that China's rapid expansion of manufacturing capacity and infrastructure renews another downward wave of global manufactured goods disinflation that will force survivors to invest themselves. This effect is difficult to gauge, but one way is the Federal Reserve Bank of San Francisco's Tech Pulse Index (formerly done by the NY Fed), which is throwing off recovery signals in the tech sector (Exhibit 9). Tech activity plummeted sharply and is in the early stages of a comeback. Another way is Moore's Law, which may be slowing down, but nonetheless continues to charge ahead as a measure of IT-related tech obsolescence (Exhibit 10).



**11. Improving structural imbalances:** The U.S. is addressing its structural imbalances at a faster-than-expected pace and that's less bearish on the U.S. dollar, and by corollary less bearish on U.S. dollar-denominated assets. The same is not true, however, for Canada, which is importing U.S. structural imbalances by giving up fiscal and trade surpluses. Exhibit 11 depicts the reining in of net economy-wide foreign borrowing by the U.S., but the return to net foreign borrowing by Canada.

**12. Corporate balance sheets:** Non-financial corporate balance sheets are in generally solid shape in both Canada (Exhibit 12) and the U.S. compared to past periods of distress, such as Canada in the late 1980s leading up to the recession of the early 1990s.

**13. Fiscal stimulus lies ahead.** In the U.S. case, 70% still lies in front, and the volume of Canadian stimulus remains high next year (Exhibit 13). But the rate of growth has peaked, and its contribution to GDP growth will wane rapidly.



## Feature Article

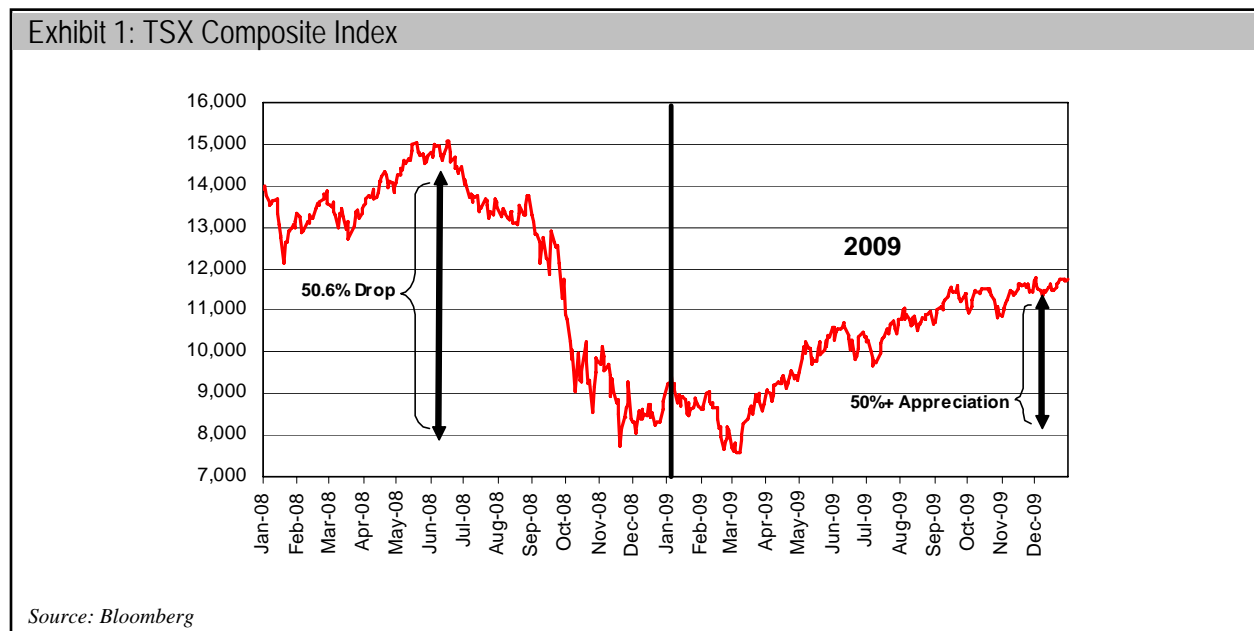
### Charting a Course with Cautious Optimism - Outlook 2010

Gareth Watson, CFA — Director, Portfolio Advisory Group

Geoff Ho, CFA – Director, Portfolio Advisory Group

#### 2009 – A Review

What a difference a year makes. At this time last year we had just witnessed the beginning of one of the worst financial collapses in 80 years. The flow of capital within the financial system ground to a halt, recessions globally accelerated and investors were left with disappointing returns amongst several asset classes, including equities. Alas, here we are in 2010 and most investors would agree that the state of the markets is not as bad as it once was. While no major stock market has managed to regain all of the losses in 2008, most indices have shown signs of improvement as some losses have been recaptured. As you can see in the chart below, the TSX index has been on a dramatically volatile course since 2008. The TSX fell by 35% in 2008 and from the peak of June 2008 to the trough of March 2009 the Composite Index actually lost half of its value! But since the March lows, the TSX appreciated for a number of reasons which we will discuss in this report. In our Outlook 2009 report from last year we made several predictions. We thought the TSX Index would post positive returns in 2009, albeit single digit returns; we thought the U.S. dollar would depreciate; we thought that commodity prices would regain lost ground towards the end of the year; and we thought defensive industries would still provide investors with dividend stability and growth. As we look back on 2009, we feel as though we can claim that our predictions proved true for the most part; however, we were pleasantly surprised at how quickly some of those predictions came to fruition.



Were we right that the TSX would appreciate? Yes. But did we expect returns between 20% to 30% and expect those returns so quickly? No. One of the main reasons why we underestimated the resiliency of the Toronto market was the speed at which the U.S. dollar depreciated. While we expected depreciation, we did not expect it to happen as quickly as it did in the first half of 2009. The U.S. dollar had been a “go to” currency for risk averse investors in 2008, but once speculation of a U.S. and global economic trough began to pick up in March, investors couldn’t leave the U.S. dollar fast enough. The result of this weakness was that commodity prices climbed and since the TSX is weighted 47% to commodities it should come as no surprise that equity investors were ready to jump back on the Canadian bandwagon.

Another factor that helped the Canadian market outperform related to successful monetary and fiscal policies used throughout the financial crisis and economic recession. The magnitude and speed of the response via various stimulus packages helped to establish some financial stability, albeit still fragile, over the past several months. When signs of economic stability and even modest improvement started to emerge, investors increased their risk tolerance and were more than happy to go after cyclical investments. Commodity related economies such as Canada and Australia were the beneficiaries of this interest. We expected commodity prices to rebound in the second half of the year, but since economic optimism returned to the market sooner than we expected, our original prediction proved to be conservative. But considering the year we had in 2008, we'd much rather be wrong for being too conservative than too aggressive.

And while cyclical (economically sensitive) stocks clearly outperformed defensive (less economically sensitive) stocks in 2009, we were pleased to see strong, blue chip companies within defensive industries continue their impressive record of not only maintaining, but increasing dividends. While defensive stocks may not have provided investors with the highest overall returns in 2009, from an income perspective they did provide consistency.

One theme worth noting from 2009 is that we feel fundamental analysis was less relevant than it has been in the past. Simply put, there were a number of factors affecting the market in 2009 that left us scratching our heads and noting "that doesn't make sense". For example, why were oil prices increasing when demand was declining and inventories were rising? Why were investors assuming a robust economic recovery was inevitable when consumers were saving instead of spending? And just because the absolute worst of the credit crisis was over, why did some investors act as if risk had disappeared altogether? While we recognize that markets are forward looking and that an economic recovery was inevitable, we also believe that other speculative and technical factors were at play in 2009 that made fundamental analysis less relevant in predicting future market direction. Without a doubt money flows influenced market returns, especially in commodity markets which are relatively small in size. While we like to think that the global equity market is large, it is completely dwarfed by the size and magnitude of both the fixed income and foreign exchange markets. And the equity market is larger than the commodity markets, so when you have billions of dollars chasing a smaller commodities market, it is inevitable that these speculative money flows will bias commodity prices higher. This fact is particularly true as purchases of commodities are no longer done just to meet physical demand (i.e. industrial use), but for investment purposes as well. The amount of choice investors have today to invest in various asset classes is staggering compared to even five years ago. The expansion of such choice has led to money flowing into asset classes that haven't seen such money flows before; therefore, we are seeing increased volatility in those asset classes as well.

Overall 2009 was what we would call a pleasant surprise. We will certainly not complain about the returns that were posted as we were more than happy to have some of our predictions prove too conservative.

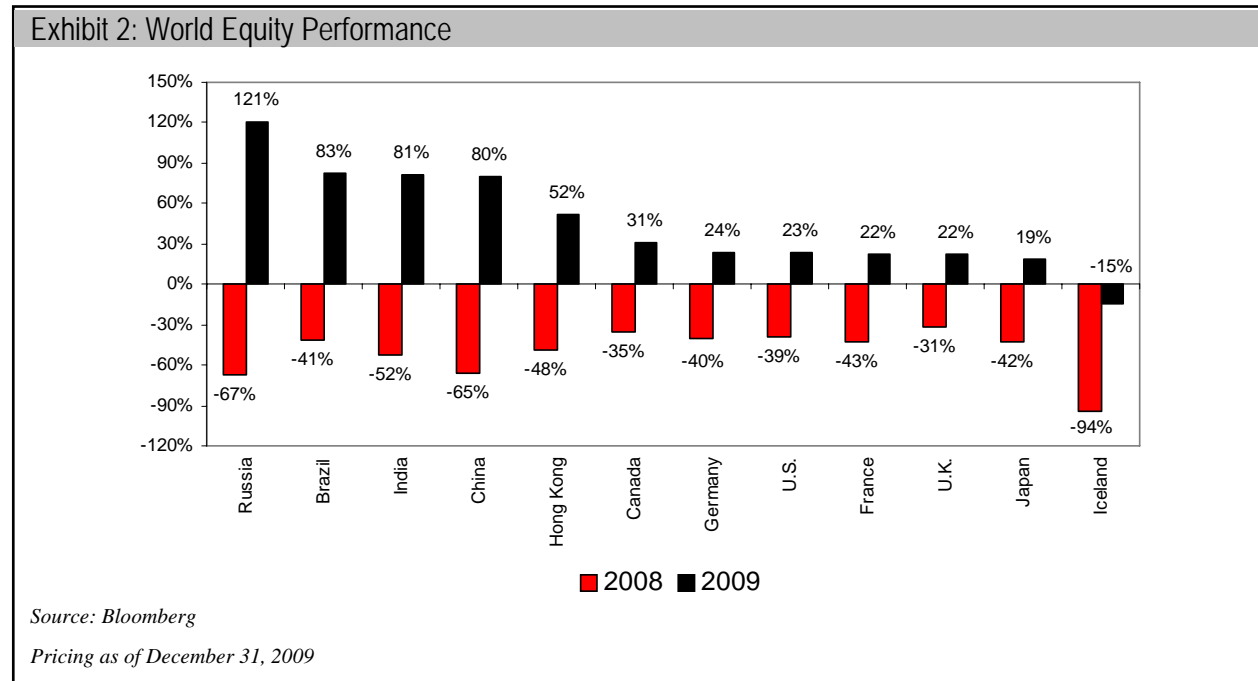
## The Present

Even though investors feel better about 2009 than they did about 2008, it's important to step back and take an honest and hard look at where we actually stand when it comes to the stock market, the credit crisis, the economy, monetary policy, fiscal policy, the currency market, and Canada's standing amongst its peers. In these areas of discussion we make the following conclusions:

- Equity markets worldwide have rebounded nicely off their lows
- The absolute worst of the credit crisis is likely behind us, but problems will persist for years
- Government and central bank intervention appear to have averted a depression
- Interest rates are at all time lows and will remain there for months
- The recession technically ended in the third quarter for North America, but the recovery could be sluggish
- U.S. dollar weakness has pushed commodity prices higher and speculators have returned to markets they briefly abandoned
- Canada emerged as a winner during a difficult time

### Equity markets worldwide have rebounded nicely off their lows:

As you can see in the chart below, 2009 was much kinder to equity markets than 2008 as all of the world's major exchanges have posted gains. Markets which posted the worst returns last year posted the best returns in 2009. This is evidence that we tend to over buy markets on the way up and over sell them on the way down. It also reflects the expectations and risk-reward tradeoff that exists with emerging market economies such as Brazil, Russia, India, and China (otherwise known as the BRIC countries). Investors were anxious to leave the emerging markets when the recession hit, but when signs of economic recovery began to emerge in 2009 they were the first markets investors embraced. We also highlight that Canada not only posted one of the smaller losses amongst industrialized nations in 2008, it also led gains within this group in 2009 thanks to its commodity based economy and responsible financial management.



### The absolute worst of the credit crisis is likely behind us, but problems will persist for years:

Is the credit crisis over? Absolutely not. Any investor that believes the credit crisis started when Lehman Brothers filed for bankruptcy would be incorrect. Believe it or not, the origins of the credit crisis can be sourced all the way back to the earlier part of this decade when U.S. banks started to underwrite subprime mortgages. It wasn't until mid-2007 that homeowners began defaulting on these mortgages and the U.S. housing market went into freefall. So it wasn't bank failures that led to the credit crisis, it was the U.S. real estate market that put us in the credit turmoil that still persists today. What originated as a real estate crisis morphed into a corporate credit crisis after Bear Stearns, Lehman Brothers, Freddie Mac, Fannie Mae and AIG all went bankrupt. It was this shock that accelerated and accentuated the economic recession since it's hard to provide capital and liquidity to your economy when your banks have no money to lend. From September 2008 to February 2009 it was exceptionally difficult for any corporation to raise money, especially at terms they found acceptable. This was the worst of the credit crisis as the flow of money within the global financial system had dried up and governments/central banks were forced to intervene and provide that liquidity. Since March, with stock market conditions improving, companies have found it increasingly easier to raise capital but the accentuation of the economic recession has done little to improve the balance sheets of individual consumers, especially those in the United States that have lost their homes, their jobs and can't get a dime of credit from their bank. The corporate credit crisis exacerbated today's current consumer credit crisis. Therefore, not only is the credit crisis not over, it's going to take years before credit conditions get "back to normal". While the absolute worst may be over with the corporate credit crisis, we still have a lot of work to do.

**Government and central bank intervention appear to have averted a depression:**

While anyone can debate the policies that were used or the dollar amounts spent, it is quite clear that government and central bank intervention from September 2008 onwards averted a depression. How do we know? Because we're not in a depression now and it would appear that most of the world's economies are showing signs of growth instead of contraction. There is no exact science to determine how much of an effect interest rate policy, fiscal stimulus, bailout packages, or central bank liquidity injections had on market and economic activity, but at some point in time during 2009 they began to work for the better.

**Interest rates are at all time lows and will remain there for months:**

One of the policies used by central banks to minimize the damage was the reduction of interest rates. This policy has left rates at all time lows in some of the world's largest countries/regions. The rate cuts were not as effective as they might have been in previous recessions as many financial institutions simply did not have the cash to lend at such low rates, but now that the global economy appears to be improving and money is flowing more freely, rate cuts will have a more meaningful impact. Considering that the U.S. consumer has been slow to recover from the recent downturn, it's unlikely that U.S. interest rates will increase in the immediate future. The same can be said for Canadian interest rates, but our higher dollar may be a more important factor prohibiting higher borrowing costs. With that said, all investors and consumers must be aware of the fact that interest rates here and in the U.K., Europe and Japan have nowhere to go but up. So while low rates provide cheap borrowing at present, those costs will inevitably increase. Believe it or not, rate increases are not necessarily a negative event. This may sound like a bizarre statement to make, but remember that interest rates are used to stimulate the economy when it slows or contracts. Conversely, rates are also used to slow a growing economy, thereby keeping it from overheating. From our perspective, when central banks eventually decide to raise rates, we view this as a positive signal that likely signifies that the economy has gained traction and that growth has fully resumed.

Exhibit 3: Various Central Bank Interest Rate Cuts since 2008

Various Central Bank Interest Rate Cuts since 2008			
	Rate as of 1-Jan-08	Rate as of 31-Dec-09	Difference
Bank of Canada	4.25%	0.25%	↓ 400 bps
U.S. Federal Reserve	4.25%	0.25%	↓ 400 bps
Bank of England	5.50%	0.50%	↓ 500 bps
European Central Bank	4.00%	1.00%	↓ 300 bps
Bank of Japan	0.50%	0.10%	↓ 40 bps

*Source: Bloomberg*

**The recession technically ended in the third quarter for North America, but the recovery could be sluggish:**

Recent data out of the United States and Canada indicate that both economies expanded in the third quarter of 2009, thus “technically” putting an end to their respective recessions. But we use the word “technically” because the end of the recession is no guarantee that everything is fine. Unemployment will continue to be a problem as will the ability of U.S. consumers to increase their spending. Canadians may not face the same problems as Americans as we did not have a real estate crisis that eliminated home equity and spending power; nor did the average Canadian encumber themselves with excessive debt. But we care about the state of the U.S. economy as the U.S. is still our largest trading partner by far. If the U.S. is hurting then it's hard for Canada to recover at the same time. Further along in this report we will provide you with data that suggests U.S. consumer spending continues to be under pressure and may stay restricted for some time to come.

**U.S. dollar weakness has pushed commodity prices higher and speculators have returned to markets they briefly abandoned:**

It wasn't that long ago that we saw a great deal of speculation in the commodity markets. Many investors will remember the days of US\$140+ per barrel of oil and how oil prices were actually climbing when the U.S. economy started to contract. How could this be? While we would like to think that fundamentals drive commodity prices, speculation is also a contributing factor. We believe that speculators returned to the commodity markets earlier this year after a brief disappearance following the collapse of so many hedge funds in 2008. This became all too evident to us when supplies were increasing, yet so were prices. Markets are supposed to be forward looking, so pushing commodity prices higher when the fundamentals suggest otherwise may be a precursor to future demand increases, or it could be simple price manipulation to make a quick dollar. Either way, speculation will always be a part of the commodity markets due to their relatively small size and will always lower the predictive ability of fundamental analysis.

With all this said, there was another significant factor at play in moving commodity prices and that was the downward direction of the U.S. dollar. Simply put, if most commodities are valued in U.S. dollars and the value of that dollar declines then theoretically you need less of that dollar to buy the same quantity of any given commodity. As such, commodity prices increase when the U.S. dollar weakens and vice versa. When risk tolerance started to change in March and investors decided to move out of the U.S. dollar, commodity prices appreciated. This U.S. dollar weakness only accelerated in the second half of 2009 as investors were even more risk tolerant and concerned about the outlook for the U.S. economy and its growing debt levels. We certainly can't attribute all of the strength in 2009 to currency translation, but it was a significant factor. While many investors believe that investing in Canada was a play on the economic recovery, we'd argue it was more a play on U.S. dollar weakness through the equity market.

**Canada emerged as a winner during a difficult time:**

Investors will wonder how we can make such a statement when we are in the midst of creating the largest deficit in Canadian history. While it is true that we will have a record deficit in the current fiscal year, it is not fair to make a comparison between today's deficit and deficits of the past in absolute terms. Instead, it is useful to compare the size of our deficit or debt to the size of our economy (GDP). As an example, it is expected that our debt to GDP ratio in Canada will likely range somewhere between 25% and 35% over the next three years. However, this compares to our last growing deficit in 1992 when our debt to GDP ratio was 64.1% and our peak debt to GDP ratio in 1996 of 68.4%. While our spending has increased during our recent recession, the debt raised to finance it is manageable.

In addition to our debt levels, we have also been better at keeping our fiscal books in order at both the Federal and Provincial level. Canada's federal deficit is expected to reach about \$55 billion this year which would equate to about \$1700 per Canadian. Contrast that with the U.S. where a projected deficit of \$1.5 trillion would equate to \$4870 for every American. Deficit spending is needed during a recession to stimulate the economy as governments need to spend when consumers are unwilling to do so. Indirectly, governments spend our money for us through our tax dollars, but if there isn't enough money to go around then issuing debt is necessary. Not only is our Federal government in better shape, but our provinces are doing relatively better than what we're seeing in some U.S. states. While we recognize that the situation in Ontario has only worsened with time, we can be happy that we're not California which almost went bankrupt earlier in 2009.

Finally, in addition to our better fiscal bill of health, Canadians can take pride that our financial system withstood the worst shock since the Great Depression 80 years ago. Our financial institutions were forced to write down some investments, but the dollar figures involved in this country paled in comparison to what we saw in Europe and the United States. The conservative nature of our banks and oversight by regulators at the Office of the Superintendent for Financial Institutions (OSFI) established a structure and mentality within our financial industry that steered us away from taking excessive risk. While the recession in Canada has impacted the finances of all Canadians, the credit crisis experienced in this country still left people with equity in their homes and some form of accessibility to credit. This contrasts to the United States where home equity has been destroyed and access to capital has been difficult to achieve. Canada used to be criticized for being too conservative in the past; however, in hindsight most Canadians are happy that we endured such criticism as Canada has been recognized for having the best financial system in the world for the past two years.

### Canadian Equity Market Outlook

In order to properly examine where the TSX may lead us in 2010, we must first understand its composition. As of December 31, 2009, the TSX was weighted to the following sectors point of the economy. We also show each sector's contribution to 2009 returns.

Exhibit 4: S&P/TSX Index Breakdown by Sector			
	Weighting in the TSX Index	Point Contribution to the TSX Index 2009	
<b>S&amp;P/TSX</b>		2459.50	
<b>Financials</b>	29.9%	953.90	34.6%
<b>Energy</b>	27.7%	770.89	27.9%
<b>Materials</b>	20.4%	697.47	25.3%
<b>Industrials</b>	5.6%	111.45	4.0%
<b>Telecommunications</b>	4.1%	-41.07	-1.5%
<b>Consumer Discretionary</b>	4.3%	85.51	3.1%
<b>Technology</b>	3.3%	116.23	4.2%
<b>Consumer Staples</b>	2.7%	21.19	0.8%
<b>Utilities</b>	1.6%	24.85	0.9%
<b>Health Care</b>	0.5%	17.98	0.7%

*Source: Scotia Capital; Bloomberg*

It should come as no surprise that with the recovery in Financials, Energy and Materials that these three sectors continue to make up a substantial portion of the TSX Index. For that reason most of our forward looking commentary will focus on these sectors, but we will touch on others as we look forward to 2010.

## Financials

### Banks

Following their fiscal year end earnings reports in December, the Canadian banks yet again provided evidence that they were in better financial position than their international peers, that dividend policies were not in jeopardy, that risk was managed more appropriately in Canada, and that Canadian banks were profitable in a difficult economic and financial environment. The Canadian banks continue to execute well and their financial strength has only improved. In fact, one could easily argue that capital levels at the Canadian banks are too high and that shareholders are not earning enough return for the extra capital that has been raised over the past 12 months. It is for this reason that we believe the banks may make acquisitions over the coming year or return some of that capital to shareholders in the form of share buybacks or even dividend increases. Yes, that's correct, dividend increases. While some investors fretted at the prospect of dividend cuts last February, we cannot rule out the possibility that shareholders could see a return to dividend increases over the next year if the banks can't find a more efficient use for their capital. While the operating environment for the banks still remains challenging as the world emerges from recession and while credit concerns still linger, their diversified revenue streams have provided stability and should continue to do so for the foreseeable future. It's also quite possible that we may have seen the peak in loan loss provisions for the current cycle and if this is true then Canadian banks can only benefit as earnings leverage will increase. While it is conceivable that the Canadian banks could fluctuate in price over the coming quarters as high expectations have already been built into their share prices, we are bullish on the Canadian banks and encourage investors to maintain their banks holdings as long as their weightings within their portfolio are appropriate. While investors should not expect a repeat of 2009 share price performance in 2010 as the market has already rewarded Canadian banks for their operating outperformance, they still remain in a position to grow earnings. If this is the case and we keep valuation multiples constant then we should see capital appreciation for the Canadian banks over the next year.

### Life Insurance Companies

On the other side of the financial equation are life insurance companies such as Manulife Financial, Sun Life Financial and Great-West Lifeco. These companies have not been treated as well as the Canadian banks over the past year as depressed equity and turbulent credit markets resulted in many writedowns. Furthermore, investors were not amused by the surprising dividend cut and massive equity issues out of Manulife. However, following such a difficult year for this industry, are these companies bad investments? A few months ago, we would have said no as the market appeared so distracted by offsetting credit losses and recent equity gains that it may have lost sight of the underlying insurance business which is holding up reasonably well in a difficult environment. But the most recent \$2.5 billion equity issue out of Manulife has caused us concern as we cannot be certain there are not more structural issues impacting the finances of these companies. Admittedly our concern lies mostly with Manulife as Great-West Lifeco's share price performance and earnings for that matter have held in quite nicely relative to its peers. But if there are some concerns at Manulife then we would expect all life insurance companies to experience these problems to differing degrees. The much longer-term outlook for a Manulife or Sun Life does look better if equity and fixed income markets continue to recover and expansion plans into other markets are efficiently executed. Such transformational growth will take time to achieve, but it would appear as though the seeds for growth are being sown as they try and diversify away from the more mature North American market. So again, are life insurance companies a bad investment? We would still answer that question with a no, but we will readily admit that we would much rather own a Canadian bank at this stage as they offer better transparency in our view and a better earnings track record. Great-West Lifeco would be our preferred name amongst the big three life insurance companies at this time.

## Energy

### Crude Oil

Throughout 2009 we expressed some reservation about the speed at which oil prices appreciated from a fundamental perspective. While prices have not pulled back to a great extent, they haven't appreciated much either during the second half of the year even with further U.S. dollar weakness. Perhaps this is a recognition that oil prices were too high, but investors were too reluctant to sell in case the rally continued. What is obvious is that speculators have returned to the market and that financial investing is possibly outweighing physical purchases. We still believe that inventory levels are too high and that demand is not strong enough yet to justify where oil prices trade today; however, as previously mentioned, markets are forward looking so perhaps speculators are telling us we have some good economic times to look forward to over the next six months. In the short term, barring any unexpected major supply disruptions, economic uncertainty and high inventory levels will likely limit near-term gains in the price of oil. However, we are of the view that if a pullback were to occur or if we consolidate at current levels until signs of an economic recovery strengthen, such a scenario would present an excellent long-term buying opportunity. This would allow investors to capitalize on the seasonally stronger spring period for energy stocks as well as the bullish longer-term supply fundamentals that are extremely supportive of the underlying commodity price. We strongly believe that under-exploration over the past few years as a result of budget constraints, increasing reliance on unconventional resources that tend to be more costly to produce, and the eventual uptick in the global economy all lend to the notion of higher crude prices over the longer term.

Exhibit 5: WTI Crude Oil Prices (US\$ per barrel)



Source: Bloomberg

### Natural Gas

Natural gas prices look even worse on a near-term basis than oil prices as inventories continue to rise. Increasing supply will continue to be a dominating theme for the commodity. Aside from high inventory levels, the onslaught of liquid natural gas (LNG) supply and the emergence of shale gas will prove to be major headwinds for natural gas prices going forward. However, at some point natural gas prices will revert back to their marginal cost of production which will help normalize them over the long term. With this in mind there may be an opportunity for long-term investors; however, we think those long-term opportunities are greater with investments in crude oil at this time. As such, we recommend that investors looking to play the Energy sector buy equities that are more weighted to crude oil production over natural gas.

## Materials

### Base Metals

Base metal equities have behaved in a similar fashion to energy equities in that they're both sensitive to the global economic recovery; therefore, most of what we've argued above for oil is similar to what we'll argue here for base metals. While base metal prices have appreciated over the past year thanks to increased demand, U.S. dollar weakness and speculative premiums, fundamentally speaking we are not convinced that supply/demand fundamentals are strong enough to justify such increases in the short term until we see an increase in U.S. consumer spending which has yet to materialize. In fact it's interesting to note that as prices for aluminum, copper and zinc increased during the second half of 2009, so too did their inventory levels at the London Metals Exchange. Either prices will have to come down if inventory levels continue to rise or consumption will have to increase to draw down those inventories and justify current pricing. With our short-term caution we also recognize that it is possible to see additional strength in this sector over the next six months if the economic recovery is greater and faster than expected. The emerging markets are starting to show signs of life again and they will be the first to pick up their demand of raw materials, but the western world will eventually have to follow. Longer term, the supply concerns we raise above for oil could become prevalent for base metals as well. It is for this reason that our short-term concern becomes more constructive for longer-term investors if the economic recovery accelerates.

### Precious Metals

We have been bullish on gold since the beginning of 2007 and emphasized gold as an investment opportunity in our 2009 Outlook due to our expectation that the U.S. dollar would weaken further. Considering that we've just hit an all time high for gold prices, we feel our comments from last year have been vindicated. U.S. dollar weakness was our justification for owning gold in 2009 and that view is unchanged going into 2010. In addition, we note that increased investment demand has put upward pressure on gold prices and that will not change until the U.S. dollar strengthens. One day the U.S. dollar will eventually rebound more sustainably, but we do not believe that time is now. While we are not the gold bugs that believe prices are going to US\$4000 an ounce, we do believe that there is support for average gold prices around the US\$1100 level in 2010. Admittedly, gold prices could easily retreat below this level in the first few months of the year due to seasonality or due to a short-term spike in the U.S. dollar if the economy improves more than expected. However, the time for US\$1000 + gold prices is not over just yet! Our views on gold can be repeated for silver as U.S. dollar weakness has been a driving factor for that precious metal. Therefore, we believe that support for silver prices should also continue into 2010.

Exhibit 6: Gold (US\$ per ounce)



Source: Bloomberg

## Fertilizers

When an investor puts money into fertilizer stocks, they must understand that there are many short-term factors that can impact grain prices and thus fertilizer equity prices. Weather is the most influential amongst them, so it's always wise to have a long-term investment horizon when purchasing stocks in this sector. Not much has changed in the past 12 months when it comes to our outlook for fertilizers as we continue to believe the supply/demand fundamentals for food on this planet help support fertilizer stocks over the long-term even though many bumps in the road are likely along the way. Just like other commodity related stocks we've discussed thus far, the short-term performance for fertilizer equities remains uncertain; however, in the absence of a double dip recession, we feel that fertilizer stock prices should be higher one year from now.

## Technology

While most investors look south of the border for technology stocks, as we have very little choice amongst large capitalization names in this country, we continue to recommend Canadian industry champion Research in Motion (RIM) for long-term shareholders. The company's recent earnings were not as strong as the market might have liked them to be as selling prices for the company's devices declined; however, we believe this concern is more cyclical in nature as no new devices were launched during the quarter. Aside from the average selling price disappointment, we still saw good earnings and solid subscriber additions. While competition is always going to remain fierce within the cell phone/smart phone market, we believe RIM is well positioned both strategically and financially for the long run.

## Consumer Discretionary

This sector is made up primarily of retailing and consumer goods stocks with the exception of food stores and drug stores. It is only logical to assume that if the economy improves then consumption increases and the Consumer Discretionary sector benefits. And while we don't deny that the market has been pricing in these expectations, we still remain concerned about the outlook for the U.S. consumer. However, we also recognize that Canadians have not been impacted to the same extent as Americans since we did not have a real estate crisis wiping away billions in consumer equity. As such, considering that the Canadian economy came out of recession in the third quarter of 2009 we are no longer discouraging investors from looking at this sector. While the economic recovery could be sluggish, we feel the Canadian economy will have enough momentum over the next 12 months to get consumers spending more and profits rising for Consumer Discretionary names.

## Industrials

If we are no longer hesitant about Consumer Discretionary stocks then we are no longer hesitant about most Industrials. In fact since most of the pick up in the global economy has come from developing nations it's only logical to feel more bullish on industrial stocks in Canada than Consumer Discretionary. If goods are being produced overseas and resource demand is increasing then the engineering services, railroad, and industrial equipment sectors are likely going to see an increase in business which should translate into increased profitability. We would certainly encourage investors in these sectors to maintain their exposure, if not increase it, over the course of the next year if they are underweight. If the Canadian economy is firmly back on track then it might even be time to start rethinking airline and auto part stocks; however, we recognize there is more risk in purchasing these stocks due to lower domestic demand and a stronger Canadian dollar.

## Defensives

As a reminder, defensive stocks/equities are those that perform well even when the economy does not. Such examples are Consumer Staples (drug stores and food stores), Utilities, Pipelines and Telecommunications. You still use the services and products provided by these industries even if we're in a recession. You know from previous comments that we're expecting a more gradual recovery in the Canadian and global economies going forward. As such, we continue to recommend that investors maintain defensive positions in a well balanced and diversified portfolio because the financial and

economic headwinds we face are not going to disappear entirely in the immediate future. Furthermore, many defensive companies in Canada also have strong balance sheets, good management teams and offer a sustainable and high relative dividend yield. However, we must make investors aware of the fact that since the global economy started to show more signs of improvement, we witnessed “sector rotation” as investors that bought defensive stocks in 2008 started to sell them and buy more economically sensitive cyclical stocks to position their portfolios for an economic recovery. Such a move can provide temporary weakness for defensives, but just because their share prices may fall does not mean they are bad companies and in most cases we see value investors step in and buy them if share prices fall too far. So while we recommend investors maintain exposure to these sectors of the market, we do not recommend that investors overweight defensive industries as sector rotation will have an ongoing influence in the market for the next 6 to 12 months. It’s also important to realize that even while investors may be flocking to cyclical areas of the economy, it is also unwise to eliminate your exposure to defensives altogether, especially if you’re looking for dividend income. If you have a diversified portfolio you will always have both defensive and cyclical stocks as holdings, but as we progress through an economic cycle it’s likely the relative weightings of these sectors will change to reflect the outlook for the economy.

### **Consumer Staples**

In Canada there are really only two types of companies that make up the Consumer Staples sector and those are drug stores and food stores. For 2010 we still favour drug stores over food stores as we believe the industry fundamentals are still more attractive for the drug store industry and the competitive position of Shoppers Drug Mart in particular. Shoppers Drug Mart is Canada’s only national publicly traded drug store and has continued to produce consistent earnings growth and cash flow over a number of years which should allow it to outperform in 2010.

### **Utilities & Pipelines**

Companies in this sector tend to have regulated assets and therefore consistent revenue streams and dividend growth track records over the past few decades. This type of consistency is what investors like to see whether the economy is expanding or contracting. While sector rotation will likely keep some investors away from this sector if economic indicators improve, utilities could easily be the first sector that investors turn to if economic growth stalls or the rate of acceleration does not meet market expectations. No matter what the economic environment, we still believe that utilities and pipelines should be components of a well diversified portfolio.

### **Telecommunications**

To be blunt, we believe the Telecommunications sector was mistreated in 2009 not only due to sector rotation, but also due to an overreaction to competitive threats. It is no secret that new entrants are trying to get their businesses up and running in this industry to compete against the major incumbents including Rogers Communications, TELUS, and BCE Inc. However, as of December 2009 these companies have yet to officially start operating or even gain full approval to do so from the CRTC. The longer this process drags on, the better for the incumbents. We also question how much business these new entrants will actually steal in the wireless market. Without a doubt they will take some market share as they have nowhere to go but up when it comes to counting new subscribers, but do not underestimate the competitive position of the incumbents due to service bundling and their ability to compete on price. Let’s also not forget that companies like Rogers, TELUS and BCE are cash flow generating machines and as such offer investors stable and growing dividends. As mentioned above, defensive stocks are usually oversold when investors rotate into cyclical stocks thus creating value opportunities. We believe this was the case towards the end of 2009 and that the market is starting to pay attention to this sector once again. While we recognize that cyclical stocks could still outperform telecommunications stocks in 2010, we still think investors will see positive returns from this sector going forward.

### Individual Stocks to Highlight

Last year, considering the state of the markets, we provided investors with two lists of stocks to watch. The first list identified stocks to consider if the economy continued to struggle and the second list identified stocks to consider if positioning your portfolio for an economic recovery. Since the worst of the economic struggles are likely over, we will provide you with two different lists this year:

#### *Stocks We Feel Should be Consistent Performers in a Balanced Portfolio*

Barrick Gold  
Canadian National Railway  
Enbridge  
Great-West Lifeco  
Research in Motion  
Rogers Communications  
Royal Bank  
Shoppers Drug Mart  
Suncor  
Thomson Reuters

#### *Stocks That Could Add Some Extra Return if Fundamentals Improve/Strengthen*

Bank of Montreal  
Brookfield Asset Management  
Canadian Natural Resources  
Crescent Point Energy  
Finning International  
IAMGOLD  
Potash Corporation  
Silver Wheaton  
SNC Lavalin  
Thompson Creek Metals

While these lists are not exhaustive, our intention here is to highlight higher quality names with relatively strong balance sheets, good management teams and a decent track record of past performance. We are not saying these companies will be the top performers of the year, but we do believe they should be considered depending on what you're trying to achieve and we recommend you contact your ScotiaMcLeod advisor for further insight. We believe our sector commentary from earlier in this report will help explain why you see these particular names in their respective lists.

### Overall Conclusion

There is no denying the fact that the rebound for the TSX Index has been impressive. Needless to say, our expectations have been exceeded due a weaker-than-expected U.S. dollar, a credit market that improved much faster than anticipated and emerging markets which literally refused to participate in the global recession. While we certainly do not expect the same rate of appreciation for the TSX index in 2010, we are bullish for the Canadian stock market over the long term and believe this country will be a great place to invest as the global economy accelerates this year and beyond.

# U.S. Equity Strategy

## Top 10 U.S. Picks for 2010

Paul Danesi, CIM – Director, Portfolio Advisory Group

The U.S. equity market is likely to remain in a “sweet spot” through the first half of 2010, although investors should not expect the sort of returns witnessed in 2009. As we enter the New Year, the global economy appears to be on the mend, corporate profits are recovering, and monetary policy remains highly stimulative and supportive of equity markets. Furthermore, cash and fixed income alternatives are unattractive.

While 2009 was a turbulent year, it proved to be a great time to be invested in equities as unprecedented efforts to stimulate financial markets and the economy achieved their intended effect. Equity markets overshot to the downside in the first quarter of 2009 as investors weighed the risks of a financial collapse and economic depression. In hindsight, panic selling created a tremendous opportunity for investors to buy U.S. stocks as the S&P 500 rallied nearly 70% from its March low. Looking at calendar year returns, the S&P 500 Composite Index returned 25%, while the tech-heavy Nasdaq Composite Index soared an impressive 45%. Information technology was the top performing sector last year advancing 40%, trailed by the cyclical materials and consumer discretionary sectors which provided returns of 27% and 21%, respectively.

Looking ahead, the largest threat to the U.S. equity market and economy are higher interest rates and an un-orderly decline in the U.S. dollar. The U.S. Federal Reserve and Treasury will eventually have to unwind the numerous liquidity programs and other stimulative measures which have been put in place over the last 18 months. It is very possible U.S. economic activity could slump again later in 2010 as ongoing signs of a recovery in the first quarter of 2010 force central bankers to prematurely remove economic stimulus and raise interest rates. Low interest rates have played a critical role in sustaining the recovery so far.

While there are risks, given the alternatives -low bond yields and cash returns near zero - equities look relatively attractive as we begin the New Year. Credit Suisse cautiously pegs yearend “fair value” for the S&P 500 in a range of 1050 to 1150, but there is the potential for the market to overshoot to the upside in the interim. With lower return expectations, investors should be far more selective when choosing stocks for their portfolios as we begin 2010. We admit attractive risk return profiles are much more difficult to find at this juncture.

Our stock picks for 2010 encompass a number of themes including investing in the emerging markets consumer and infrastructure development, as well as an expected resurgence in capital spending, particularly where technology is concerned. With stronger relative growth expected in most emerging economies in 2010, we are biased towards companies with a multinational orientation. The lone exception on our list being Bank of America, which is a recovery play on domestic banking, and where investors are under appreciating the earnings recovery potential in our opinion.

Exhibit 1: Top 10 Picks for 2010 – Consensus Data\*

Company	Ticker	Price			Consensus Target	Potential Total Return	EPS		P/E		Market Cap. (millions)
		Jan. 7, 2010	Dividend	Yield			2010	2011	2010	2011	
Bank of America	BAC	\$16.93	\$0.04	0.2%	\$21.70	28%	\$0.94	\$2.01	18.0	8.4	\$166,743
EMC Corp.	EMC	\$17.56	\$0.00	0.0%	\$20.25	15%	\$1.11	\$1.26	15.8	13.9	\$36,026
Fluor Corp.	FLR	\$48.97	\$0.50	1.0%	\$59.30	22%	\$3.45	\$3.75	14.2	13.1	\$8,907
General Electric	GE	\$16.25	\$0.40	2.5%	\$18.20	14%	\$0.95	\$1.16	17.1	14.0	\$176,740
Intel Corp.	INTC	\$20.60	\$0.63	3.1%	\$25.00	24%	\$1.51	\$1.63	13.6	12.6	\$115,023
McDonald's	MCD	\$61.90	\$2.20	3.6%	\$68.40	14%	\$4.41	\$4.79	14.0	12.9	\$66,738
Mead Johnson	MJN	\$45.96	\$0.80	1.7%	\$48.42	7%	\$2.45	\$2.68	18.8	17.1	\$9,250
PepsiCo	PEP	\$60.97	\$1.80	3.0%	\$71.40	20%	\$4.19	\$4.67	14.6	13.1	\$94,801
Teva Pharmaceutical Industries	TEVA	\$56.84	\$0.63	1.1%	\$64.75	15%	\$4.51	\$4.96	12.6	11.5	\$54,711
Transocean Ltd.	RIG	\$91.01	\$0.00	0.0%	\$108.00	19%	\$10.53	\$11.66	8.6	7.8	\$29,862

\*U.S. Dollars

Source: Bloomberg; ScotiaMcLeod.

While there are risks, we are not ready to get overly defensive just yet, so our list offers some beta in names like EMC Corp., General Electric, Transocean, and Intel. EMC Corp. is considered to be one of the best ways to play a recovery in enterprise spending on information technology. General Electric is a play on global economic growth and a recovery in its capital arm. Among defensives industries we emphasized those companies that offer above average growth, in some cases such as Teva Pharmaceuticals, at the expense of dividends. Mead Johnson Nutrition is somewhat unique in that it is considered to be a highly attractive takeover target for Nestle SA or Heinz Foods. All in all, our list for 2010 offers a fairly diverse basket of U.S. blue chips.

# Fixed Income

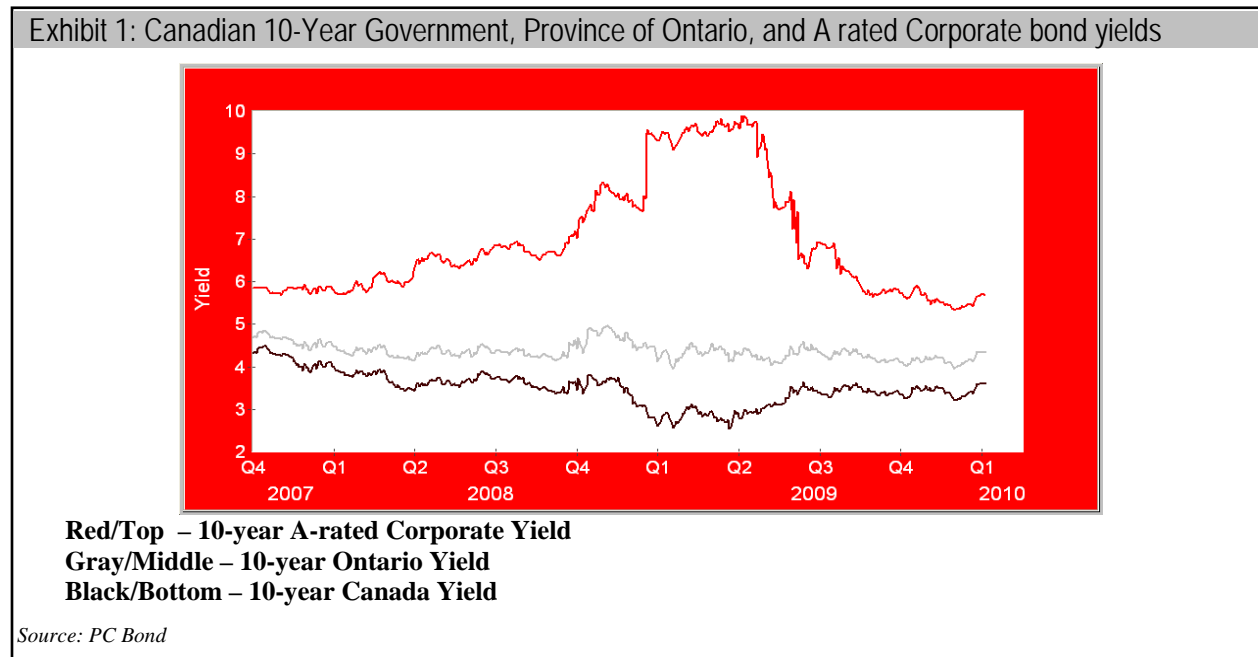
## Market Outlook for 2010

Joey Mack, CFA — Director, Portfolio Advisory Group, Fixed Income

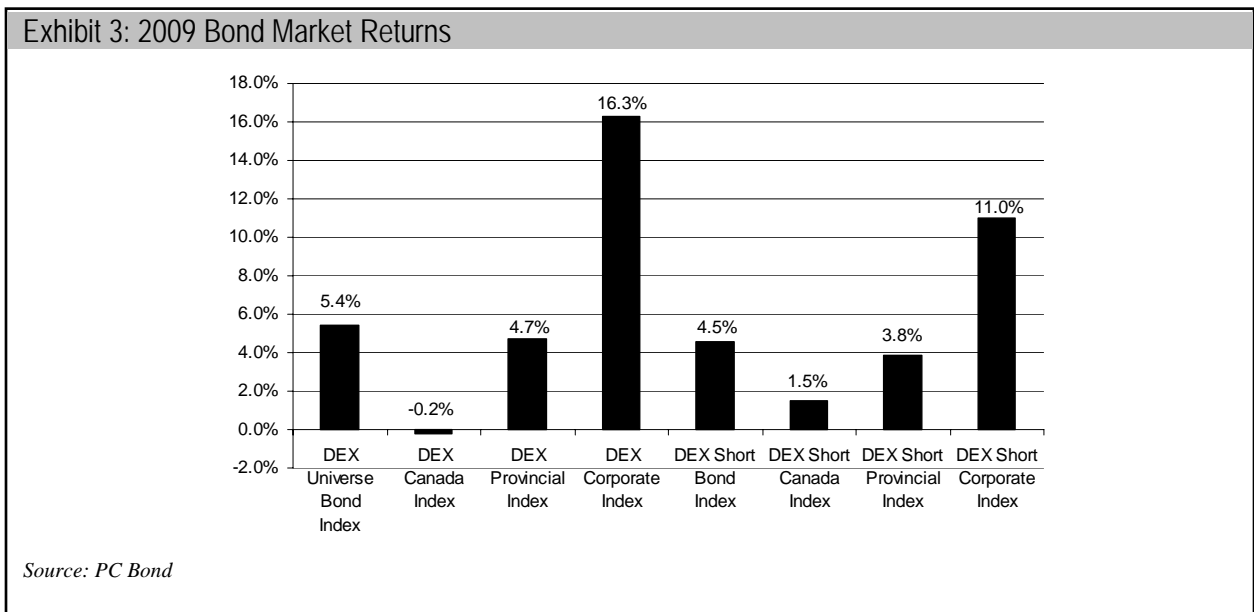
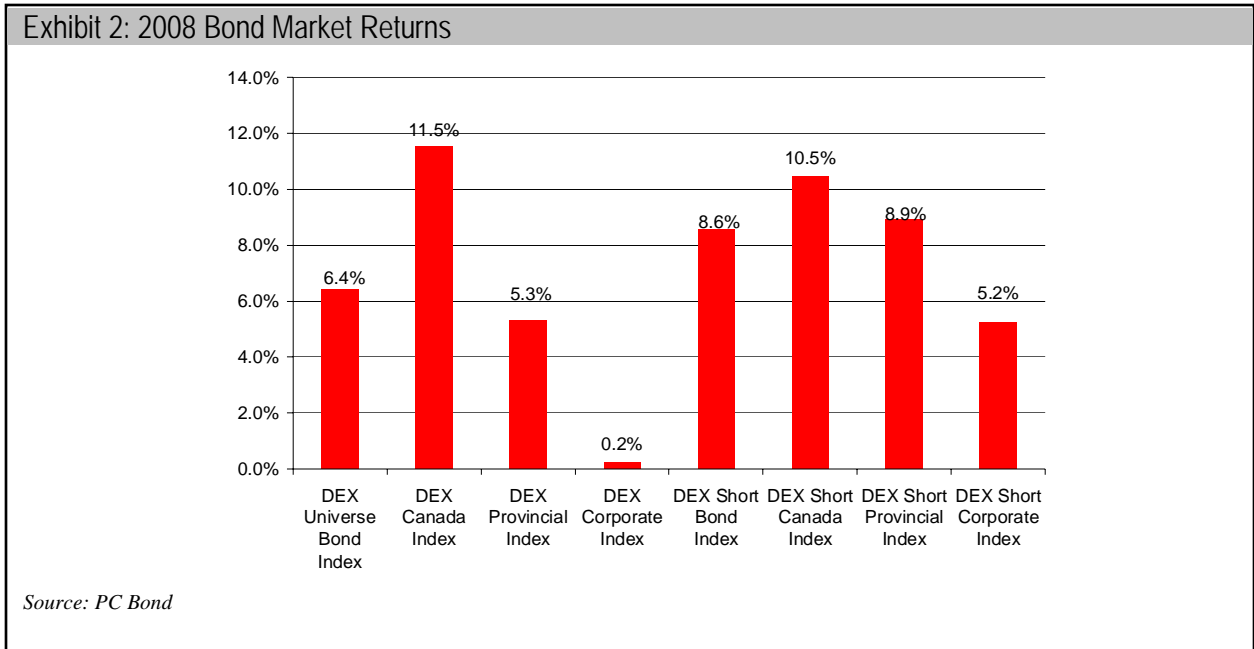
### Introduction

Over the past two years, the overall performance of the Canadian bond market has been both strong and consistent. In 2008, the DEX Universe Bond Index (the benchmark for Canadian bonds) posted a return of 6.4%, and this has been followed by another positive year in 2009, with bonds providing a total return of 5.4%.

However, the overall performance masks what has actually been a very volatile and fragmented performance record. The following chart highlights the yield movements on 10-year Government of Canada, Province of Ontario, and a generic A-rated Corporate bond.

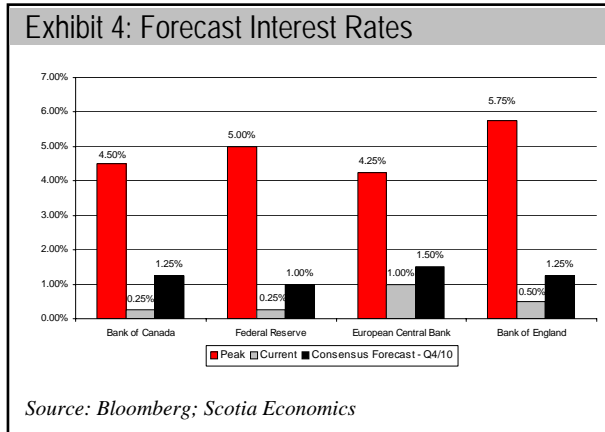


The path of yields shows that it really has been a tale of three bond markets – following the collapse of Lehman Brothers Inc. in the U.S. and then the ensuing credit crisis, yields on corporate bonds rose dramatically in the latter half of 2008 and the first quarter of 2009, while Government of Canada yields fell sharply in a “flight-to-quality” bid. Provincial bond yields meanwhile behaved much as most investors expect bond markets to behave, with 10-year Ontario yields hovering around the 4.5% level. Hence, after a strong performance in 2008, government bond markets struggled this year, with Canada bonds posting negative returns in 2009. In contrast, after near zero returns in 2008, corporate bonds put in a strong double-digit performance in 2009, as the yield pick up versus government guarantees narrowed sharply.



Going forward, consensus outlooks for the economy continue to suggest 2010 will be a year of positive, if muted, growth in the developed world, while the outlook for developing economies is more robust. Commodity prices have begun to move higher, and data suggests that globally the economic recovery is underway in most major markets.

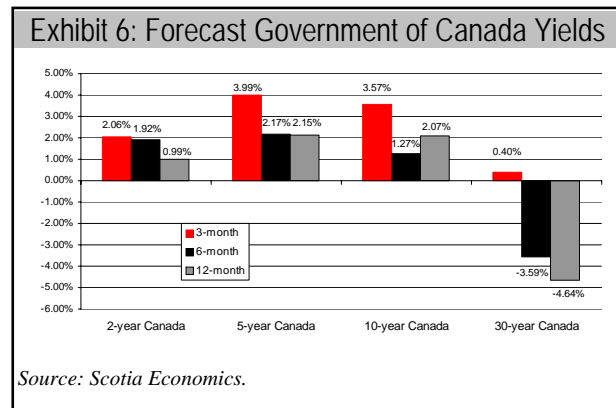
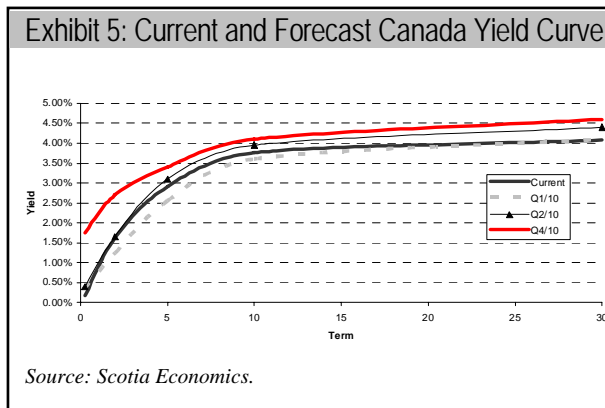
This in turn is framing expectations for most central banks around the world to begin to tighten rates later this year. The following chart highlights target central bank rates around the globe – where they had peaked before the credit crisis, where they are today, and what the consensus forecast is for the end of 2010.



The second half of 2010 is expected to be the beginning of the rate hike cycle, with the Bank of Canada forecast by Scotia Economics to continue to raise rates through the first half of 2011 to eventually reach 2.25%. Against this backdrop, Scotia Economics is also forecasting government of Canada yields to continue to rise. 2-year yields, currently at 1.48%, are forecast to increase to 2.70% by the end of 2010, while 5-year yields are expected to rise from 2.77% currently to 3.40%, and 10-year yields are expected to rise from 3.61% to 4.1%.

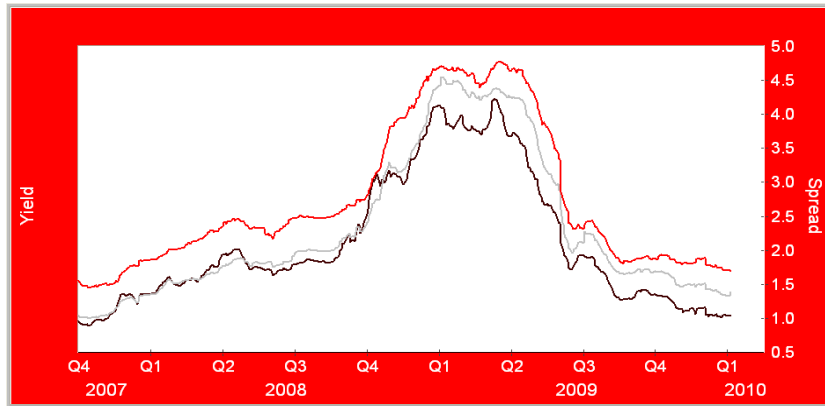
This in turn is suggesting we will see limited returns from bond markets in 2010. Looking at

Government of Canada yields exclusively, although the forecast suggests we may have some room to retrace the rise in yields that we saw last December in the first quarter, over the balance of the year rising yields will push bond prices lower and reduce overall returns.



The outlook for corporate markets indeed changed dramatically in 2009. Highlighted by the following charts, whereas at the beginning of the year, alongside the sell-off in equity markets, corporate bonds were pricing in a significant probability of default, the introduction of government stimulus packages and bail-outs of key financial institutions saw economic conditions improve and investor fears abate. Hence, after government bond yields moved to multi-decade lows at this time last year, corporate bond yields are now also at multi-decade lows on an absolute basis, although the yield pick up versus government bonds remains above the levels from prior to the credit crisis.

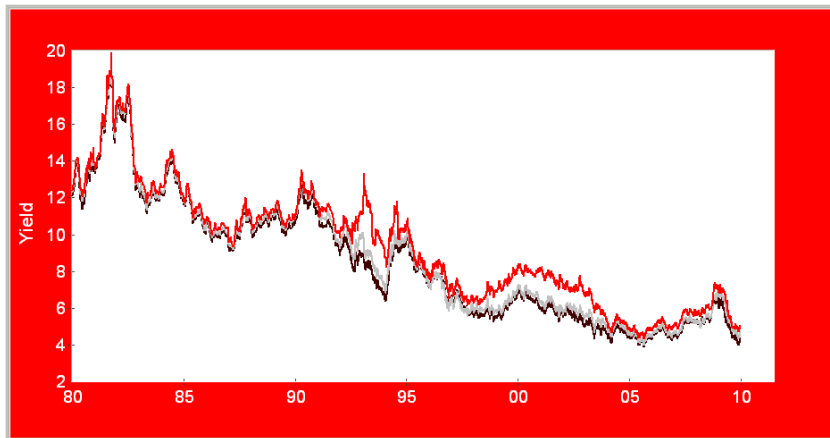
Exhibit 7: Credit Spreads (yield pick-up over Canada Bonds) have Narrowed Significantly



**Black – Mid-term AA rated Corporate bond spread**  
**Gray – Mid-term AA rated Corporate bond spread**  
**Red – Mid-term BBB rated Corporate bond spread**

Source: PC Bond

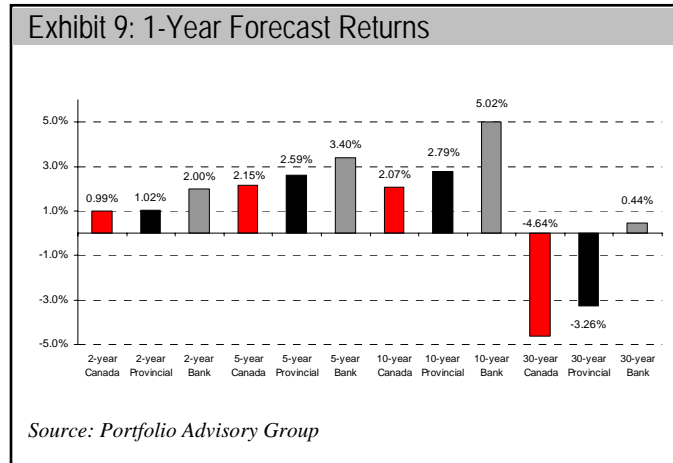
Exhibit 8: Average Corporate Bond Yields by Rating Since 1980



**Black – Mid-term AA rated Corporate bond spread**  
**Gray – Mid-term AA rated Corporate bond spread**  
**Red – Mid-term BBB rated Corporate bond spread**

Source: PC Bond

Therefore, with yields still at multi-decade lows, and forecast to rise throughout 2010, we have very limited return expectations for Canadian bond markets. The following chart highlights our forecast returns by term and sector.



With the exception of the very long end (30-year sector) of the market, returns are expected to be positive, but in the low single-digits. A rise in yields will more negatively impact longer-term bonds, and hence we continue to recommend investors stay underweight in duration – more active investors should look to take profits on longer maturity positions and either reinvest in shorter-term bonds (less than 5-years) or rebalance into other asset classes entirely.

For investors maintaining fixed income exposure, we strongly continue to favour corporate bonds, and to a lesser extent provincial and municipal issuers. As noted

above, the yield pick-up versus Government of Canada benchmark securities remains relatively attractive, and this will serve as somewhat of a cushion. This is not only due to the incremental income provided, but also as we expect there to be some room for credit spreads to narrow as Canada bond yields rise (corporate, provincial, and municipal bond yields we expect will rise less than Canada bond yields).

We especially highlight both high yield bonds as an attractive alternative to investment grade government securities at this juncture. High yield bonds have all the features of debt obligations but are much more highly correlated to stocks; and high yield bonds can, and do, trade more or less independently of prevailing interest rates. In addition to Scotia Capital's constructive equity market outlook, we note that high yield bond yield spreads are on average over 6%; this is still above the high 5% area that they averaged over the past 5-years. Unfortunately, the Canadian high yield market is fairly small and illiquid, and combined with the need for greater diversification, we recommend investors look to mutual funds or exchange traded funds as the best way to play the sector.

Finally, we recommend investors also consider floating rate notes (FRN) as an attractive alternative in a rising rate environment. An FRN is a debt instrument with a variable interest rate, usually based on an accepted short-term benchmark rate (in Canada, this is primarily the Canadian Deposit Offering Rate (CDOR) which is based on Bankers' Acceptances). The coupon on a floating rate note is re-set periodically (typically monthly or quarterly) based on this benchmark rate.

For example, TD Bank has issued an FRN that matures on February 15, 2011, with a quarterly coupon that is re-set every 3 months at the Banker's Acceptance rate plus 0.4%. The current coupon is 0.83286%, was re-set on November 15, 2009, and will be re-set again on February 15, 2010. Currently offered at 100.00, running yield is 0.83286%, and the coupon will rise in-line with the increase in Banker's Acceptance rates. Scotia Economic's forecast is for 3-month T-Bill yields to rise to 2.25% in 1-year. Banker's Acceptance rates are normally slightly higher than T-Bills, and hence we will conservatively estimate a 3-month CDOR rate of 2.40% in a year's time. Hence, the coupon on this security will be re-setting in the area of 2.80% in a year's time...much more attractive than the 1.0% you can lock in a 1-year GIC at present.

Although the complexity of an FRN will often deter investors, in the current environment and based on the Scotia Economics' forecast, we consider them an excellent alternative to other short-term instruments available in the marketplace.

## Mutual Funds

### Staying the Course in 2010

*Justin Kusinskis – Associate Director, Portfolio Advisory Group, Mutual Fund Research*

2009 proved to be just as interesting as 2008, although for much different reasons. Early in the year, the bears were out in force, with market returns plummeting into the month of March before making an abrupt turn upwards and a very unexpected rapid ascent. By the time 2009 came to a close, the S&P/TSX Composite Total Return Index was up 35.05% for the year, and the S&P500 Total Return Index finished the year with a return of 26.46% (all figures in local currency).

One unexpected characteristic of last year's market performance was the relatively high degree of correlation among asset classes, and what appeared to be the absence of fundamentals driving market returns. When markets were in a tailspin heading into March, there was nowhere to hide except in cash, but even then, anemic rates reduced the attractiveness of this asset class. Clearly, earning nothing was better than the possibility of losing more money in the markets. This was evident in spades as investors flocked to money market investments during the first half of the year. However, almost as quickly as investors had flocked to money market investments, as the year progressed and the markets improved, investors sold money market investments in favour of short-term income funds and bond funds, and then to balanced funds and equity income funds. As we left 2009, investors had not yet committed to pure equity funds in a meaningful way, and have actually steered clear of international and global equity funds.

Last year, we highlighted the importance of professional money management to assist in navigating through these challenging markets. We believe this is even more important as we move forward into 2010, and it warrants repeating:

1. Anything can happen in the markets, and if we know anything at all, it's that change is constant;
2. Given #1, professional money management is more important than ever;
3. Given #2, finding the right professional money manager is even more important.

As we move forward into 2010, we anticipate a return to fundamental factors as the primary driving force behind market returns. The challenge of course will be identifying those companies that will outperform, and avoiding the companies that will underperform. This is where choosing the right professional money manager comes into play. With attractive investment opportunities more difficult to come by, we believe the talent and experience of the fund managers on the ScotiaMcLeod Mutual Fund Recommended List provide investors with a selection of some of the best money managers in Canada – fund managers we believe have the propensity to outperform on a risk-adjusted basis over time based on their disciplined investment processes.

In this edition of IPQ, we will review some of the key themes from 2009, and look ahead to what we expect for 2010 before delving into a few ideas on how to position your portfolios in the coming year.

#### Themes from 2009

**The “Dash for Trash.”** As the market began its descent in the summer of 2008, some of the hardest hit securities were lower quality companies (hence the term “trash”). As the market began its recovery in March 2009, these same securities were the largest beneficiaries of the upswing. Most investors and money managers were not expecting this counter-intuitive market behaviour, and as a result, were not positioned to take full advantage of the market's surprisingly quick recovery.

**Rapid Market Recovery.** In mid-March, the market reached its low, and the ascent from that low to where we ended up at the end of the year (S&P/TSX Composite TR is up 35.05% for 2009) is truly an amazing turn of events. In what many experts are dubbing a “liquidity-driven market rally”, there has been a fair amount of skepticism regarding the sustainability of this trend we have experienced. We are definitely having a difficult time justifying the rally from a fundamental perspective, at the same time, if we are not invested, we are not participating in this rally – so we need to strike a comfortable balance where we can stay invested, but still sleep at night.

**The Search for Yield.** 2009 was definitely a good year for high yield bond investing. As severe pricing dislocations persisted in the high yield space, investors flocked to capture higher yielding securities. Dividend-paying equities and preferred shares were also popular destinations for investor capital given the relative stability of these kinds of investments. Indeed, the “get paid to wait” theme was quite prevalent, and continues to be prevalent today. The caveat to these opportunities is that the easy money has largely been made. Going forward, great opportunities will be harder to come by, which highlights the importance of finding the right manager that has flexibility to take advantage of a flexible investment mandate in the yield space. Strategic / Diversified Yield funds are a great alternative for investors in search of yield.

**Fundamental What?** Fundamental analysis was not overly relevant in 2009 given the high degree of correlation between many asset classes that were historically not highly correlated. We see this changing in 2010 with stock selection based on fundamental analysis becoming more important. Finding skilled managers to navigate this kind of market environment will be critical to success.

**Fear and Confusion.** Investors continue to be baffled regarding the direction to take with their investments. Government stimulus packages were put into motion which has helped to spur activity, however, there are several questions that remain. Ultimately, investors need to be reminded about basic investment principals such as being diversified, staying invested and being disciplined in the execution of an investment strategy. One caveat to this statement is that many investors may have to revisit their investment objectives and risk tolerance levels to ensure they are aligned. We continue to hear about investors who were not prepared to deal with the volatility we experienced last year. With a large cohort of investors in or near their baby-boom years, it’s a good time to sit down and re-evaluate investment parameters.

#### Looking ahead to 2010 - What are the possible outcomes?

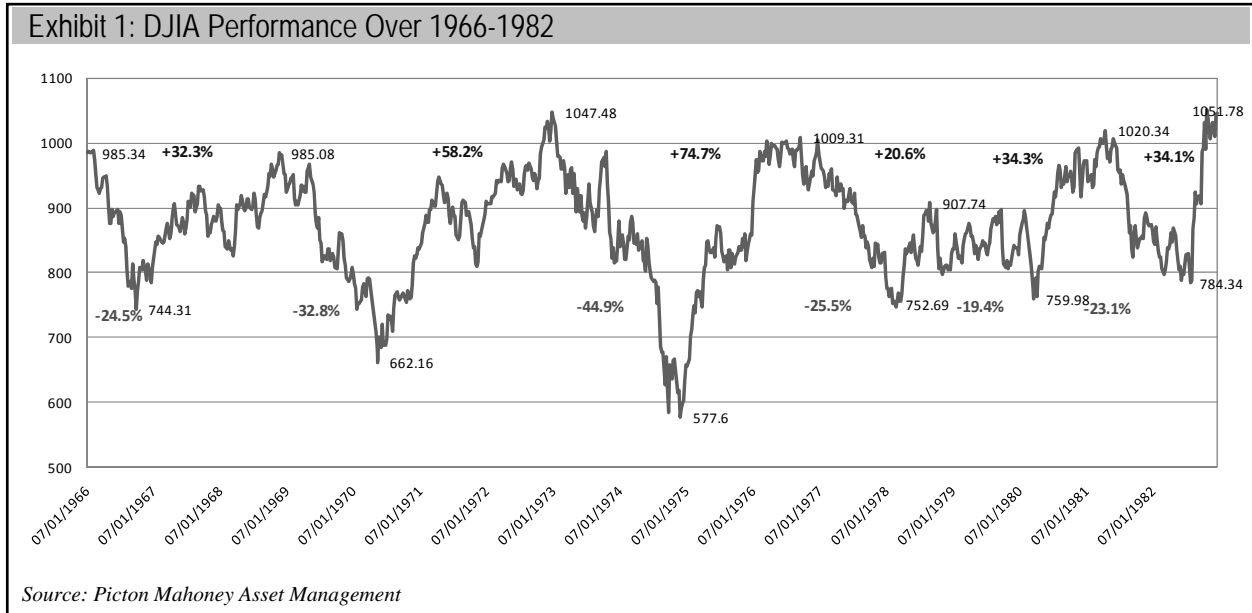
**Up, down, sideways, or perhaps a combination of all three.** Ultimately, we don’t know what the market will do. Many managers were very surprised that the market rallied as much as it did since the March 2009 lows, particularly since economic conditions in many respects were continuing to deteriorate (e.g. unemployment increasing, consumer spending decreasing, housing in the US deteriorating, etc.). The market’s increase appears to have been driven largely by government stimulus, and perhaps partially by sentiment that suggested the market was significantly, and unjustifiably oversold into March 2009.

There remains a significant amount of uncertainty in the markets today that calls into question the sustainability of shorter-term recovery. Some of the more poignant factors we note:

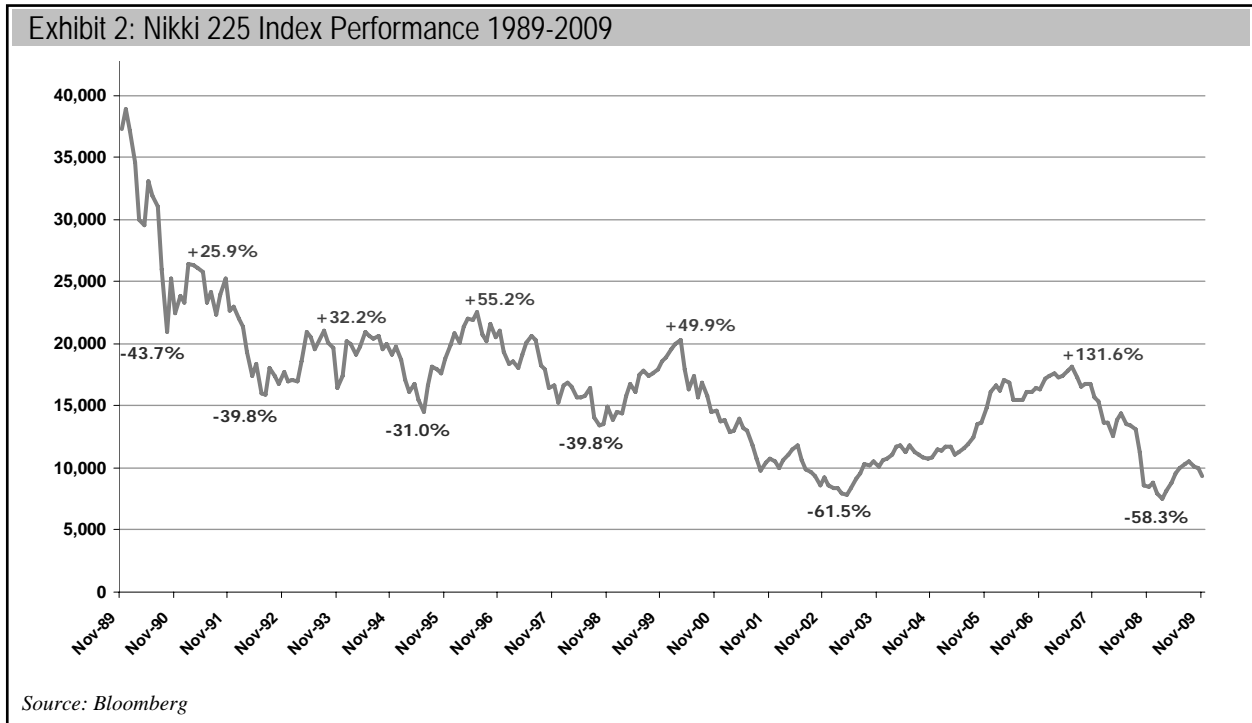
- Consumers retrenching and re-thinking their historical spending habits as evidenced by the increase in savings rates, particularly in the US.
- Continued deleveraging by consumers and corporations – although this is ultimately a positive development longer term, it doesn’t help shorter-term economic challenges.
- Despite more recent “positive” news, very high unemployment rates in the U.S. persist.
- Default rates have continued to increase, although there are signs of this slowing down; default rates are likely to persist at elevated levels versus historical norms.
- Record debt levels on a global scale with some countries being downgraded (e.g. Greece).

The consensus seems to point to a “new normal” with reduced lending, higher standards for lending practices, lower overall GDP growth, and a host of other expectations. The “elephant in the room” continues to be the end result of the staggering size of global stimulus packages that have been used to avoid a depression-type scenario. This has never happened before, which means no one can be sure about the longer-term ramifications of such measures.

Conceivably, as a number of managers seem to believe, we could be in for a market environment not unlike what happened in the U.S. with the DJIA from 1966 to 1982 (see **Exhibit 1**). As the chart illustrates, this was a 16-year period where the 1,000 level was never meaningfully breached, but which also had several significant market rallies and declines.



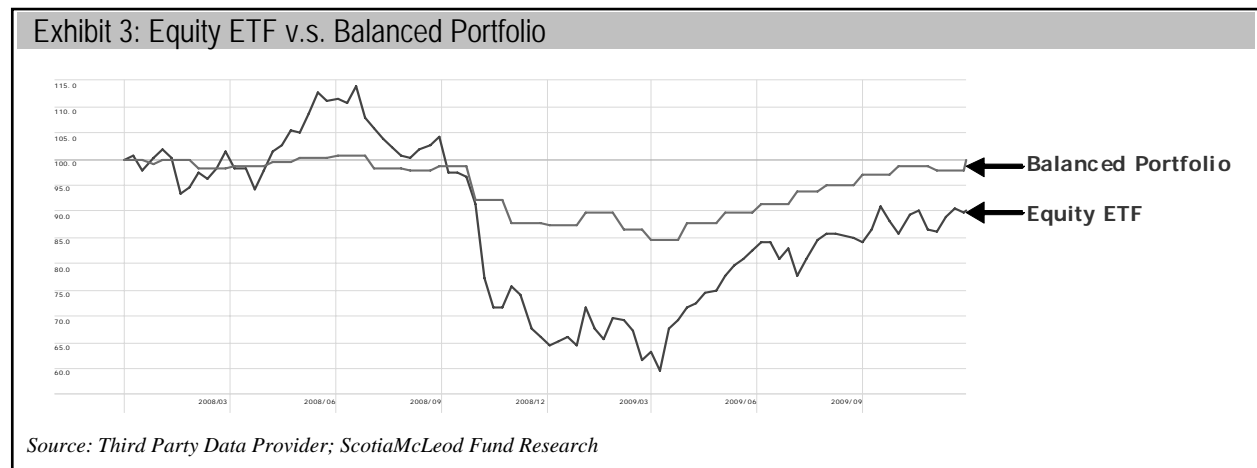
A more recent example of another market that had experienced (and is still experiencing) a long period of sideways market returns is Japan. As illustrated in **Exhibit 2**, there were several periods of significant rallies followed by significant declines over the course of the last 20 years. More discouraging still has been the general downward trend of this market during the period. So not only has it moved in a largely sideways direction, it has experienced a longer-term downward trend. At this point, Japan is a fairly unique example of systemic issues that, so far, are beyond the current woes in the U.S., but regardless, there have been several comparisons made to Japan in terms of where we don't want to end up.



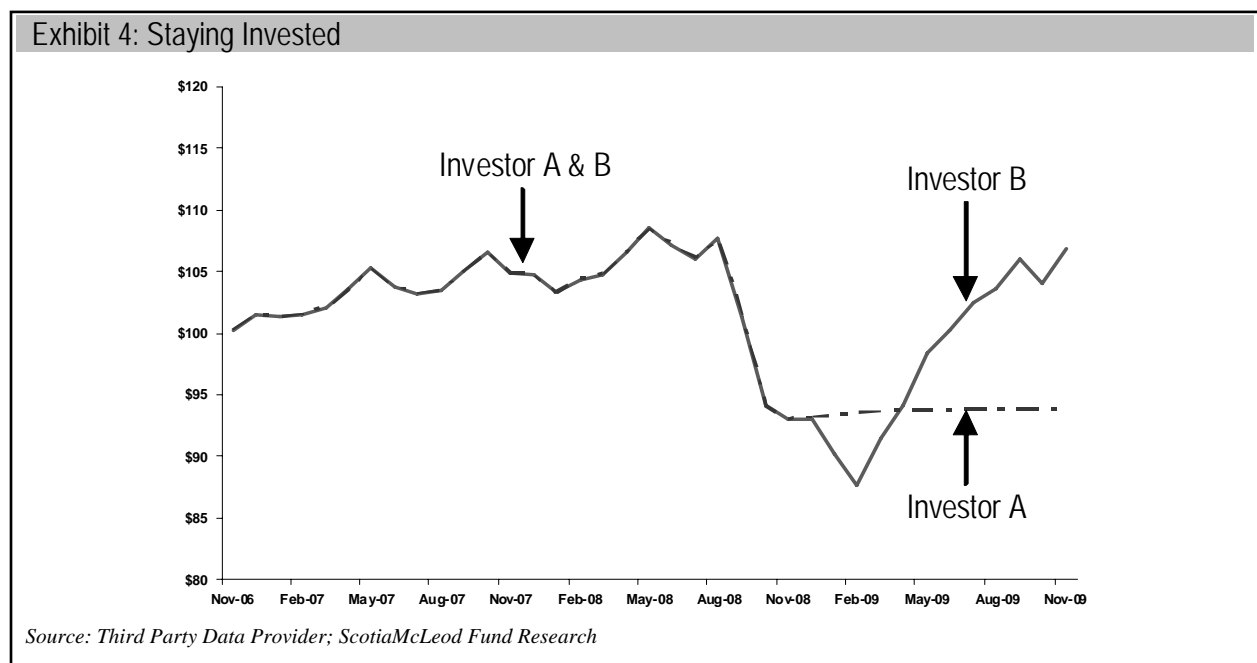
Strategy Ideas for 2010 - So what does all of this mean as we move forward into 2010? How should investors be positioning their portfolios?

Best of luck to the market prognosticators out there, but since we have no crystal ball, we will stick to time-tested principles of sound investing. What do these include?

**Be diversified.** Investors were ecstatic when the market was reaching all-time highs in 2007. All anyone had to own was an equity market ETF and they were swimming in paper gains. Clearly, as the market tanked, the euphoric feelings turned to concern, and then to horror as they saw their nest eggs whittle away to anemic levels. A simple illustration (**Exhibit 3**) can provide some insight into the benefits of diversification. Would you rather be at point A or point B? Would you rather experience the volatility of the equity index ETF or the volatility of the balanced portfolio? As illustrated, not only is the volatility of the Balanced Portfolio less than that of the ETF, the returns are also more favourable.



**Stay invested.** We understand the urge to try and time the market. The prospect of being “right” on timing the market can be very rewarding. It’s no secret however, that no one can consistently time the market, and realistically, it very seldom happens. So as challenging as it is to stick to the principle of staying invested, it is vitally important to do so in combination with executing a disciplined (unemotional) investment strategy. We highlight a fairly simple example in **Exhibit 4**.



Both Investor A and Investor B were invested in the same balanced fund prior to the market downturn. However, like so many investors did near the market bottom, Investor A sold out of the balanced fund and went into a money market fund. Investor B, on the other hand, remained invested in the fund. As you can see in the chart, while Investor B's holdings were affected by the market downturn, by not panicking and continuing to stay the course, Investor B was able to participate and benefit from the market rebound. While Investor A's move to a money market fund avoided the remaining downside that Investor B experienced, Investor A's portfolio did not benefit from the market recovery and continues to earn near zero returns.

## Conclusion

As much as we'd like to speculate what will happen in 2010, no one really knows. So in terms of portfolio positioning, we will always go back to the sound investment principles that we have discussed – be diversified, stay invested, and stick to a disciplined investment strategy that fits your objectives and risk tolerance levels. It's not exciting or sexy, but it works.

Given the challenges of the last couple of years, it may be worth re-visiting your objectives and risk tolerances with the intention of either reaffirming you have the right strategy that matches your objectives and risk tolerance level, or perhaps making a few adjustments as necessary to help you sleep at night. Given the events of last year, many investors have been completely turned off of the market, and may have learned their risk tolerance levels were not as aggressive as they once thought.

For conservative income-oriented investors, one of the investment opportunities we like is Strategic Yield Funds. As part of a diversified portfolio, these funds should add a relatively low volatility solution focused on sourcing the best yield opportunities.

For more aggressive investors with longer time horizons, you may want to consider greater emphasis on global and/or emerging market opportunities, again, as part of a diversified portfolio.

We would also encourage investors to have a look at the 2010 Mutual Fund Recommended List that is put together by the ScotiaMcLeod Portfolio Advisory Group (PAG) Fund Research team. A considerable amount of due diligence goes into producing and maintaining the Mutual Fund Recommended List, and with uncertainty set to continue into the coming year, it is more important than ever to find talented managers that have the experience to navigate these markets.

The Fund Research team feels confident in its choices for 2010. The quantitative portion of our process allows us to remain objective in narrowing down the large universe of funds by assisting us in identifying funds that are "quantitatively attractive". This quantitative approach is combined with a detailed qualitative assessment of a fund's unique characteristics. As with previous years, we have met with the fund managers of every fund on this list, and many more managers that are not on this list in order to arrive at what we feel to be some of the best fund investment ideas for the coming years.

The ScotiaMcLeod PAG Fund Research team wishes you great success in your investment endeavours for 2010, and it is our hope that the 2010 Mutual Fund Recommended List becomes a useful resource for you along the way. Please contact your ScotiaMcLeod advisor for a copy of the 2010 ScotiaMcLeod Mutual Fund recommended list.

## Equity Guided Portfolios

*Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group*

The Equity Guided Portfolios are models designed to provide investors with a convenient way of investing directly in individual holdings and building diversified portfolios composed of equity securities. The portfolios are actively managed by a dedicated Portfolio Manager with oversight from the Investment Committee of the ScotiaMcLeod Portfolio Advisory Group. Each portfolio has a specific mandate but they all have the common objective of providing investors with a consistent long-term rate of return through holding a portfolio of stocks comprised of industry leaders with unique franchises and strong management teams, combined with an attractive trend in profitability.

## ScotiaMcLeod Canadian Core Guided Portfolio

### Performance Update

Investors should anticipate positive equity returns in 2010, but certainly more modest returns than those generated in 2009. While 2008 was a highly abnormal year, characterized by gut-wrenching volatility and massive capital deterioration, 2009 was as much or more anomalous, but thankfully in a positive direction. The trend for equities remains higher, but likely with limited upside potential until such time as investors are more willing to look beyond 2010 and start discounting further economic recovery and profit growth into 2011. Investors will need to moderate return expectations for the coming year and consequently, not only will stock selection become increasingly important, but dividend income will also play a larger component of total shareholder returns. For now the Core Guided Portfolios are emphasizing economically sensitive sectors as they are expected to outperform in the early part of the year, but as 2010 unfolds and there is a clearer indication of when the Federal Reserve is likely to begin raising interest rates, it will be time to begin a shift back toward a more market neutral, if not defensive, portfolio positioning.

The fourth quarter delivered a strong finish for Canadian equity markets in 2009, although returns were modest compared with those experienced in the second and third quarters. The major indices displayed signs of fatigue in October, unable to sustain the strength experienced during the market rally earlier in the year. Mixed economic data led to profit taking as investors pondered the stability of the economic recovery. Equity markets resumed their upward trend in November, propelled higher by a combination of better than anticipated earnings announcements and positive economic news. December delivered a strong finish for the year, driven higher by commodity price increases and investor optimism regarding prospects for 2010. In what became a recurring theme in 2009, as seen in the second and third quarter, most industrial commodities were strong during the fourth quarter in response to an improving global demand outlook combined with ongoing selling pressure on the U.S. dollar. Crude oil futures increased 15% and closed the quarter above US\$80 per barrel. Natural gas futures rallied another 20%, ending the quarter at US\$5.84/MMBtu. Gold bullion futures moved higher by 11% in the quarter despite a pullback in December; the precious metal peaked at US\$1218 per ounce on December 3rd and finished the year at \$US1017 per ounce. Copper increased another 21% after a similar increase in the previous quarter.

In the fourth quarter the Canadian Core Guided Portfolio generated a total return of 3.6% while the benchmark S&PTSX60 Index increased 2.6% on the same basis. For all of 2009 the Portfolio significantly outperformed the benchmark, increasing 45.8% while the Index returned 31.9%, the Canadian market's best one year performance since 1983. The relative performance gains during the year resulted from some large capital gains generated among some of the more heavily weighted Financials, Energy, and Materials sectors.

Specifically in the fourth quarter, eight of ten sectors posted positive returns, led by the relatively lesser-weighted Utilities, Industrials, and Consumer Staples groups. Financials were the only group of consequence to experience a negative move in the quarter while they were the second best performing group, after Technology, for the full year. Shares of portfolio holdings **Manulife Financial** and **Sun Life Financial** came under particular pressure in the quarter, dropping 14% and 10% respectively. **Sun Life** fell in the wake of Manulife's decline which stemmed from the surprise announcement in November that the company was raising \$2.5 billion in new equity in an effort to increase capital levels. Investors were spooked by the offering, coming as it did after a large equity issue the previous December combined with the shock of a dividend cut during the summer. Although the stock rebounded slightly in December, it remains inexpensive, but in the absence of any positive catalyst like an acquisition or two, **Manulife** shares are likely to remain undervalued until management regains credibility with investors. Weakness among some holdings was offset during the quarter by strong performance among positions in more cyclical sectors like **Canadian National Railways** which advanced 9% after several of the large railroad companies reported positive earnings surprises, followed by Warren Buffett's acquisition of Burlington Northern. The biggest contributor to portfolio performance in the quarter, and in fact all of 2009, was **Teck Resources** which rallied another 25% in the final quarter of the year due to the continued strength in commodity prices. **Teck** shares advanced 512% in 2009 after declining 83% the previous year due to balance sheet concerns that have since been resolved.

## Changes

No changes were made to the Canadian Core Guided Portfolio during the quarter. We continue to monitor all current holdings as well as the portfolio composition to ensure that the portfolio reflects characteristics and attributes in line with the investment mandate which is to provide a consistent long-term rate of return. Our objective is to establish appropriate sector allocation and then to identify the best investment opportunities within each sector.

Exhibit 1: ScotiaMcLeod Canadian Core Guided Portfolio

Company	Symbol	Rating	Risk Ranking	Price 31-Dec-09	Target Price	Dividend	Dividend Yield	Potential ROR
<b>Interest Sensitive:</b>								
AGF Management Limited	AGF.B	1-SO	High	\$17.00	\$20.00	\$1.00	5.9%	24%
Bank of Nova Scotia	BNS	2-SP	Low	\$49.22	\$55.00	\$1.96	4.0%	16%
Brookfield Asset Management	BAM	1-SO	Medium	\$23.39	\$31.58	\$0.59	2.5%	38%
Great West Lifeco*	GWO	8-CS	8-CS	\$26.88	\$28.00	\$1.23	4.6%	9%
Manulife Financial*	MFC	8-CS	8-CS	\$19.33	\$22.00	\$0.52	2.7%	17%
Rogers Communications	RCI.B	1-SO	Medium	\$32.69	\$39.00	\$1.16	3.5%	23%
Royal Bank of Canada	RY	1-SO	Low	\$56.40	\$75.00	\$2.00	3.5%	37%
Sun Life Financial*	SLF	8-CS	8-CS	\$30.25	\$36.00	\$1.44	4.8%	24%
<b>Consumer Products:</b>								
Shoppers Drug Mart	SC	1-SO	Low	\$45.41	\$57.50	\$0.86	1.9%	29%
Thomson Reuters Corporation	TRI	1-SO	Low	\$33.95	\$45.00	\$1.18	3.5%	36%
<b>Industrial Products:</b>								
Canadian National Railway	CNR	1-SO	Medium	\$57.34	\$66.50	\$1.01	1.8%	18%
Research In Motion	RIM	1-SO	Medium	\$71.03	\$112.00	\$0.00	0.0%	58%
<b>Resource:</b>								
Agrium Inc.	AGU	Restricted	Restricted	\$65.42	R	\$0.11	0.2%	
Barrick Gold	ABX	1-SO	Medium	\$41.46	\$61.05	\$0.42	1.0%	48%
Canadian Natural Resources	CNQ	1-SO	High	\$76.00	\$92.00	\$0.53	0.7%	22%
Nexen Inc.	NXY	2-SP	High	\$25.22	\$29.00	\$0.20	0.8%	16%
Suncor Energy	SU	2-SP	Medium	\$37.21	\$44.00	\$0.40	1.1%	19%
Talisman Energy	TLM	1-SO	Medium	\$19.69	\$23.00	\$0.23	1.1%	18%
Teck Resources Ltd.	TCK.B	1-SO	High	\$36.82	\$52.50	\$0.00	0.0%	43%
TransCanada Corp.	TRP	1-SO	Low	\$36.19	\$45.00	\$1.52	4.2%	29%

\*Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital; Bloomberg.

## ScotiaMcLeod Canadian Income Plus Guided Portfolio

*Stephen Uzielli-Portfolio Manager, Portfolio Advisory Group*

### Performance Update

While lagging its benchmark in the two previous quarters, during the fourth quarter the ScotiaMcLeod Canadian Income Plus Guided Portfolio outperformed the Dow Jones Canada Select Dividend Index. The portfolio generated a total return of 4.1% during the quarter while the benchmark index increased 3.1%. As previously highlighted, the index against which we measure portfolio performance is dominated by Financial stocks which represented a 71% weighting as of the end of Q3. Although we did add further exposure to this sector during the quarter, the portfolio remains underweight relative to the benchmark. During Q4 the dividend index lagged the broader market as would be expected when Financials underperformed.

Outperformance by the portfolio during the quarter can be attributed to both the lower exposure to Financials but more importantly to positive contributions made in other holdings across several sectors. Pipeline holdings **Enbridge Inc.** and **TransCanada Corp.** increased 17% and 9% respectively during the period; both stocks benefited from solid Q3 earnings results, an analyst meeting held by **Enbridge** that revealed a better than expected outlook, and a number of target price upgrades by analysts as these energy infrastructure stocks with safe and growing dividends are becoming increasingly attractive to investors. Shares of **BCE Inc.** increased 10% during the quarter, first on the late October announcement that the CRTC had rejected Globalive, one of the new wireless industry entrants, as a valid participant on the grounds their ownership structure does not meet Canadian ownership rules (this decision was reversed by the federal government in December), and latterly by the earlier than expected launch of **BCE's** new network that allows them to offer **Apple's** iPhone among other services. Note that Globalive launched their new "WIND" wireless offering late in December and the market subsequently rallied all the incumbent carriers' stocks as the competitive offering was not seen as a serious threat; **Rogers Communications** shares increased 8% in the month. **Shaw Communications** rallied 12% after a number of announcements reflecting the repurchase of 4.5 million shares by the company.

### Changes

In November we made a switch out of **Inter Pipeline Fund** due to its price appreciation and higher valuation, and into **National Bank of Canada**. **Inter Pipeline** units were trading at more than 14x EV/EBITDA, which is excessive for companies in this sector. The risk/reward trade-off of continuing to own the position in this defensive portfolio dictated that a sale was warranted so we decided to lock in profits and redeploy the proceeds in another investment that will benefit from the economic recovery while also providing greater upside potential.

**National Bank of Canada (NA)** is the sixth largest Canadian chartered bank and a leading financial institution in Quebec. The bank offers a full suite of banking services including corporate and investment banking. The addition of another bank holding is consistent with our investment strategy for this portfolio whereby we had been seeking greater exposure to the Financial sector. Scotia Capital bank analyst Kevin Choquette upgraded his investment recommendation on **NA** in August after the company reported Q3 earnings that exceeded estimates while demonstrating improved credit quality and significantly, record results contributed by the wholesale part of the business. Dividends for Canadian banks remain safe and **NA** shares trade at a current yield of 4.1%. Since adding this position to the portfolio, **NA** reported Q4 results below expectations although underlying earnings were strong and ROE was 16.9%. The shares declined subsequently but recovered somewhat toward the end of the quarter. We remain confident in the holding and think the stock is inexpensive at current levels.

## Exhibit 2: ScotiaMcLeod Income Plus Guided Portfolio

Company	Symbol	Rating	Risk Ranking	Price 31-Dec-09	Target Price	Dividend	Dividend Yield	Potential ROR
<b>Interest Sensitive:</b>								
Bank of Montreal	BMO	1-SO	Low	\$55.85	\$65.00	\$2.80	5.0%	21%
Bank of Nova Scotia	BNS	2-SP	Low	\$49.22	\$55.00	\$1.96	4.0%	16%
BCE Inc.	BCE	3-SU	Medium	\$29.00	\$27.00	\$1.74	6.0%	-1%
Great West Lifeco*	GWO	8-CS	8-CS	\$26.88	\$28.00	\$1.23	4.6%	9%
National Bank of Canada	NA	3-SU	Medium	\$60.24	\$75.00	\$2.48	4.1%	29%
Rogers Communications Inc.	RCI.B	2-SP	Medium	\$32.69	\$39.00	\$1.16	3.5%	23%
Royal Bank of Canada	RY	1-SO	Low	\$56.40	\$75.00	\$2.00	3.5%	37%
Sun Life Financial*	SLF	8-CS	8-CS	\$30.25	\$36.00	\$1.44	4.8%	24%
TELUS Corp.	T	1-SO	Medium	\$34.11	\$37.00	\$1.90	5.6%	14%
Toronto Dominion Bank	TD	8-CS	Medium	\$65.96	\$80.00	\$2.44	3.7%	25%
<b>Consumer Products:</b>								
Shaw Communications	SJR.B	2-SP	Low	\$21.67	\$22.00	\$0.88	4.1%	6%
Thomson Reuters Corp.	TRI	1-SO	Low	\$33.95	\$45.00	\$1.18	3.5%	36%
<b>Resource:</b>								
Enbridge Inc.	ENB	1-SO	Low	\$48.63	\$57.00	\$1.70	3.5%	21%
TransCanada Corp.	TRP	1-SO	Low	\$36.19	\$45.00	\$1.52	4.2%	29%

\*Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital; Bloomberg.

# ScotiaMcLeod U.S. Core Guided Portfolio

Stephen Uzielli - Portfolio Manager, Portfolio Advisory Group

## Performance Update

U.S. equities staged a solid fourth quarter to finish a strong 2009, delivering the best investor returns since 2003 as investors became increasingly confident in the continuation of equity market strength at least for the first half of 2010. Nine out of the ten broad economic sectors increased in value with only the Financial sector suffering a price decline. Market leadership came from mostly cyclically oriented groups as the top performing sectors during the quarter were Information Technology, Consumer Discretionary, Health Care, and Materials. By the end of the quarter the benchmark S&P500 Index generated a total return of 6.0%, while the U.S. Core Guided Portfolio outperformed while advancing 6.2% including dividends. Outperformance during the quarter can be attributed to a combination of appropriate sector allocation and strong stock selection as portfolio holdings outperformed their respective sector returns in the industries with the heaviest weight within the portfolio. For all of 2009 the Portfolio also outperformed the benchmark while increasing 28.3% on a total return basis compared with the S&P500 Index which posted a 26.5% return for the year.

Only two portfolio positions held for the entire quarter declined during the period, both in the weak Financial sector: **MetLife, Inc.** declined 7% while **State Street Corp.** fell 17%. Both companies reported an “in line” third quarter but many Financials succumbed to selling pressure early in the quarter and the sector never regained positive momentum through the end of the year despite overall strength in equities. Setbacks in these holdings were more than offset by gains in Discretionary, Industrials, and Technology stocks as investor sentiment returned to more economically sensitive names. **Walt Disney Company's** stock rallied 17% during the period in which they released Q4 results ahead of expectations and got a further boost latterly from several successful new movie releases, while **McDonald's Corp.** shares climbed 9%. **United Technologies** shares moved up 14% in the quarter; the company announced a deal to acquire **General Electric's** security business for \$1.8 billion which is expected to be accretive to EPS in 2011. Finally, **Oracle Corp.** advanced 18%; they reported Q2 results ahead of expectations and guidance was also higher than analyst estimates. Management commentary was positive, indicating that the economic recovery was evident in their business and that customers are buying again; in addition, the company remains confident that their pending acquisition of **Sun Microsystems (JAVA)** should close in the New Year.

The market is expected to be choppy in 2010 due to conflicting economic and corporate data likely resulting in a “saw-tooth” trajectory for equities. This will present more aggressive and nimble investors opportunities to trade around core portfolio positions to enhance returns; however, buy and hold investors will still be rewarded as the stock market ultimately moves higher in line with the global economic recovery. Given the unusually high levels of un-invested cash held by both retail and institutional investors combined with the absence of more attractive investment alternatives, the outlook for equities remains decidedly positive.

## Changes

We had previously stated our intention to shift our diversified portfolios toward a more cyclical emphasis to take advantage of the economic recovery. In that vein we reduced the portfolio weight in defensive Health Care by selling **Becton, Dickinson (BDX)** and increased the weight in the Industrials component of the U.S. Core Guided Portfolio by adding a position in **Fluor Corp.** Since the initial investment in **BDX** and up until the release of the company's third quarter earnings at the end of July, the company executed well and **BDX** shares outperformed both the broad market as well as the Health Care sub-index. Accompanying the Q3 results however, the company provided preliminary financial guidance for 2010 that was well below consensus forecasts implying almost flat earnings growth for the next fiscal year. It was concluded that the market was unwilling to grant **BDX** shares a premium multiple in the context of uncertain growth prospects and thus the decision to exit this position as part of the shift in sector allocation.

**Fluor Corp. (FLR)** is a construction and engineering company that also provides design, procurement, maintenance, outsourcing, and project management services to government and industrial customers all over the world. In addition to the oil and gas industry which represents almost 60% of their business, **Fluor's** customer base includes chemicals and petrochemicals, life sciences, manufacturing, mining, telecommunications, power projects, and transportation infrastructure. Broken down by revenue contribution, Industrial and Infrastructure amounts to 15%, Global Services 12%, Power 9%, and Government is the smallest contributor at almost 6%. The addition of **Fluor Corp.** supports our shift to a more cyclical bias and provides an investment in a company that has financial strength, a solid history of profitability, and a revenue mix that is diversified not only by business offering, but also by geography as the company is a multinational with almost half of its revenues coming from outside the United States. **FLR** provides exposure to the increasing demand for global infrastructure which is a recurring investment theme for the future. Current valuation represents a buying opportunity as the stock trades at an attractive P/E multiple of under 14x forward earnings compared to its average over the past 3 years of 28x, or the 10 year average of 24x. Subsequent to the addition of this holding, **Fluor** released Q3 numbers that were in line with consensus estimates but the stock came under selling pressure as the company reduced their financial guidance for 2010; we believe the company is being overly conservative in their guidance and that earnings will actually improve in 2010 as the economic recovery gains momentum.

As part of another shift in sector allocation, we also removed the position in **CVS Caremark** and replaced it with a holding in **Intel Corp. (INTC)**. In early November, the street had punished the shares of **CVS** after their Q3 results revealed some marketing issues related to their Caremark division. Although we believe the price decline was an over-reaction, and the shares had bounced nicely from their then-recent low, the expectation was that the stock would likely move sideways for a few quarters while the company regains the confidence of both customers and investors, and is able to demonstrate they have resolved the problem. We took the opportunity to reduce the portfolio weighting in the defensive Consumer Staples sector by selling **CVS Caremark** and increased the weight in the Information Technology component of the U.S. Core Guided Portfolio by adding a position in **Intel Corp.**

**Intel** designs, manufactures, and sells computer components and related products. **INTC** is the top player in the semiconductor space with about 80% market share for processors used in desktop and notebook computers, as well as computer servers. As the economic recovery gains momentum there should be an uptick in capital spending, particularly in the area of enterprise spending on technology which is expected to drive growth in server demand. The addition of **INTC** provides an investment in a truly global company with a strong balance sheet and an excellent track record of generating significant free cash flow throughout the economic cycle. Current valuation represents a buying opportunity as earnings forecasts have increased substantially over the past several months and the stock trades at attractive P/E multiple of under 14x forward earnings based on consensus estimates, compared to its average over the past three years of 19x, or the 10 year average of 28x.

## Exhibit 3: ScotiaMcLeod U.S. Core Guided Portfolio

Sector	Symbol	Rating	Risk Ranking	Price 31-Dec-09	Target Price	Dividend	Dividend Yield	Potential ROR
<b>Interest Sensitive:</b>								
AT&T Inc.	T	Neutral	Low	\$28.03	\$27.00	\$1.68	6.0%	2%
MetLife, Inc.	MET	Neutral	Medium	\$35.35	\$38.00	\$0.74	2.1%	10%
State Street Corp	STT	Outperform	Low	\$43.54	\$50.00	\$0.04	0.1%	15%
<b>Consumer Products:</b>								
Colgate-Palmolive Co.*	CL	Not Rated	Medium	\$82.15	\$90.00	\$1.76	2.1%	12%
McDonald's Corp	MCD	Neutral	Low	\$62.44	\$69.00	\$2.20	3.5%	14%
McKesson Corporation	MCK	Outperform	Low	\$62.50	\$71.00	\$0.48	0.8%	14%
Nike Inc.	NKE	Outperform	Medium	\$66.07	\$75.00	\$1.08	1.6%	15%
Pfizer Inc.	PFE	Outperform	Low	\$18.19	\$21.00	\$0.72	4.0%	19%
Wal Mart Stores	WMT	Neutral	Low	\$53.45	\$53.00	\$1.09	2.0%	1%
Walt Disney	DIS	Outperform	Medium	\$32.25	\$31.00	\$0.35	1.1%	-3%
<b>Industrial Products:</b>								
Cisco Systems	CSCO	Outperform	Low	\$23.94	\$28.00	\$0.00	0.0%	17%
Fluor Corp.	FLR	Outperform	Low	\$45.04	\$64.00	\$0.50	1.1%	43%
Intel Corp.	INTC	Outperform	Low	\$20.40	\$27.00	\$0.63	3.1%	35%
Microsoft Corp	MSFT	Outperform	Medium	\$30.48	\$33.50	\$0.52	1.7%	12%
Oracle Corp*	ORCL	Not Rated	Low	\$24.53	\$27.00	\$0.20	0.8%	11%
United Technologies Corp*	UTX	Not Rated	Low	\$69.41	\$79.00	\$1.54	2.2%	16%
Waste Management Inc.	WM	Neutral	Medium	\$33.81	\$33.00	\$1.26	3.7%	1%
<b>Resource:</b>								
Freeport McMoRan Copper	FCX	Outperform	Medium	\$80.29	\$95.00	\$0.60	0.7%	19%
Occidental Petroleum	OXY	Outperform	Medium	\$81.35	\$81.00	\$1.32	1.6%	1%
XTO Inc.	XTO	Outperform	Medium	\$46.53	\$51.00	\$0.50	1.1%	11%

\*Currently Credit Suisse does not provide research coverage - target price based on consensus data.

Source: Scotia Capital Credit Suisse; Bloomberg; Value Line

## ScotiaMcLeod North American Core Guided Portfolio

*Stephen Uzielli-Portfolio Manager, Portfolio Advisory Group*

### Performance Update

The ScotiaMcLeod North American Core Guided Portfolio is suitable for growth investors seeking consistent long-term rates of return from a portfolio of high quality Canadian and U.S. companies. The current portfolio holds 25 equal-weighted (4%) positions. Country allocation within the portfolio is determined in a bottom-up, stock-specific fashion as opposed to making any particular country “call.” Generally speaking, but not exclusively, resource holdings will likely come from the Canadian universe, and Health Care, Information Technology, and Consumer stocks will usually be drawn from the United States. Performance of the portfolio is measured against a North American Index which is a composite benchmark equally weighted between the S&PTSX 60 Index (50%) and the S&P500 Index (50%), translated into Canadian dollars.

The U.S. dollar staged a modest rebound of 1.6% against a basket of global currencies during the quarter but still dropped another 2% against the Canadian dollar, mostly due to the strength in the loonie resulting from higher commodity prices. As a result, U.S. stock performance was minimized after currency translation back to Canadian dollars. Canadian holdings increased on average 3% during the period while the U.S. positions advanced an average of 8% in local currency terms, which after translation led to an average increase of only 6%. For the fourth quarter the hybrid benchmark North American Index generated a total return of 3.2% in Canadian dollars, while the North American Core Guided Portfolio outperformed while advancing 5.0% including dividends. For all of 2009 the Portfolio also outperformed the benchmark while increasing 28.8% on a total return basis compared with the benchmark which posted a 20.0% return for the year. **Manulife Financial** and **Sun Life Financial** were the two holdings with the most significant negative moves. The principal contributors to portfolio performance during the period included **McDonald’s Corp.**, **Walt Disney**, **Canadian National Railways**, **United Technologies**, **Oracle Corp.**, and **Teck Resources**, all referenced previously.

### Changes

We also executed a switch in this portfolio during the quarter: out of **McKesson Corp.** and into **Fluor Corp.** **McKesson** was added to the North American Core Guided Portfolio last February as it represented a diversified way to play the defensive pharmaceutical space without specific drug development costs or regulatory risk. The company executed well during the intervening period and the stock performed well, increasing 40% partly in response to fundamentals and also buoyed by the coincident stock market rally. We also wanted to shift toward a more cyclical emphasis in this portfolio; to achieve this goal we reduced the portfolio weight in defensive Health Care by selling **McKesson Corp.** and increased the weight in the Industrials component by adding a position in **Fluor Corp. (FLR)**. **FLR** is described previously in the commentary for the U.S. Core Portfolio where we added this holding.

## Exhibit 4: ScotiaMcLeod North American Core Guided Portfolio

Company	Symbol	Rating	Risk Ranking	Price 31-Dec-09	Target Price	Dividend	Dividend Yield	Potential ROR
<b>Financials:</b>								
Bank of Nova Scotia	BNS	2-SP	Low	\$49.22	\$55.00	\$1.96	4.0%	16%
Brookfield Asset Management	BAM/A	1-SO	Medium	\$23.39	\$31.58	\$0.61	2.6%	38%
Manulife Financial**	MFC	8-CS	8-CS	\$19.33	\$22.00	\$0.52	2.7%	17%
Royal Bank of Canada	RY	1-SO	Low	\$56.40	\$75.00	\$2.00	3.5%	37%
Sun Life Financial**	SLF	8-CS	8-CS	\$30.25	\$36.00	\$1.44	4.8%	24%
<b>Telecommunication Services</b>								
AT&T Inc.*	T	Neutral	Low	\$28.03	\$27.00	\$1.68	6.0%	2%
Rogers Communications	RCI/B	1-SO	Medium	\$32.69	\$39.00	\$1.16	3.5%	23%
<b>Consumer Discretionary</b>								
McDonald's Corp	MCD	Neutral	Low	\$62.44	\$69.00	\$2.20	3.5%	14%
Walt Disney	DIS	Outperform	Medium	\$32.25	\$36.00	\$0.35	1.1%	13%
<b>Consumer Staples</b>								
Colgate-Palmolive*	CL	Not Rated	Medium	\$82.15	\$89.00	\$1.76	2.1%	10%
Shoppers Drug Mart	SC	1-SO	Low	\$45.41	\$57.50	\$0.86	1.9%	29%
<b>Health Care</b>								
Pfizer Inc.	PFE	Outperform	Low	\$18.19	\$21.00	\$0.72	4.0%	19%
<b>Industrials</b>								
Canadian National Railway	CNR	1-SO	Medium	\$57.34	\$66.50	\$1.01	1.8%	18%
Fluor Corp.	FLR	Outperform	Medium	\$45.04	\$64.00	\$0.50	1.1%	43%
United Technologies Corp*	UTX	Not Rated	Low	\$69.41	\$79.00	\$1.54	2.2%	16%
<b>Information Technology</b>								
Cisco Systems	CSCO	Outperform	Low	\$23.94	\$28.00	\$0.00	0.0%	17%
Microsoft Corp.	MSFT	Outperform	Medium	\$30.48	\$33.50	\$0.52	1.7%	12%
Oracle Corp*	ORCL	Not Rated	Low	\$24.53	\$27.00	\$0.20	0.8%	11%
<b>Energy</b>								
Canadian Natural Resources	CNQ	Outperform	High	\$76.00	\$92.00	\$0.42	0.6%	22%
Occidental Petroleum	OXY	Outperform	Medium	\$81.35	\$81.00	\$1.32	1.6%	1%
Suncor Energy	SU	2-SP	Medium	\$37.21	\$44.00	\$0.40	1.1%	19%
Talisman Energy	TLM	1-SO	Medium	\$19.69	\$23.00	\$0.23	1.1%	18%
TransCanada Corporation	TRP	1-SO	Low	\$36.19	\$45.00	\$1.52	4.2%	29%
<b>Materials</b>								
Barrick Gold	ABX	1-SO	Medium	\$41.46	\$61.05	\$0.42	1.0%	48%
Teck Resources Ltd.	TCK/B	1-SO	High	\$36.82	\$52.50	\$0.00	0.0%	43%

\*Currently Credit Suisse does not provide research coverage - target price based on consensus data.  
\*\*Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital Credit Suisse; Bloomberg; Value Line

The Guided Portfolios returns are not calculated according to CFA Institute "Performance Presentation Standards". Returns are calculated on a total return basis (including dividend income). The returns are used to gauge our performance by comparing the returns of the Portfolios to benchmark total return indices such as the S&P/TSX 60 and the S&P 500. Historical performance of the Guided Portfolios is not necessarily indicative of future performance. Each client's return will vary depending on the number of shares purchased, as well as the timing of purchases or sales. The Guided Portfolios themselves should not be used as benchmarks with which to compare our clients' portfolios.

## ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

*Tim Vlahopoulos — Associate Director, Portfolio Advisory Group*

### Investment Objective

The ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio (Core) is designed for investors with a moderate to higher investment risk profile who want to take a more active approach to managing their fixed income assets within a diversified portfolio. The objectives of the portfolio are to provide both a high level of current income, and a reasonable level of return to protect against future inflation. The overall goal for the portfolio is to exceed the performance of the DEX Universe Bond Index or benchmark. Typically, superior returns are not achieved every year but the goal is to achieve these rates of return over the long-term. Approximately 75% of the portfolio is placed in a 10-year bond ladder and 5% is placed in inflation-protected instruments. These comprise the core holdings of the portfolio. The remaining 20% is allocated toward active, value added trade strategies that attempt to outperform the benchmark.

### Current Active Strategies

There was one change made to the active portion of the portfolio during the 4th quarter. On December 8th, the position in Glacier Credit Card Trust (Glacier) 5.027% due February 20, 2013 was sold and the proceeds were used to purchase Wells Fargo Finance Canada (Wells Fargo) 3.97% due November 3, 2014. The Glacier position was purchased on June 3, 2008 and provided a total return of 8.10% while index returned 10.36% over the same period. Wells Fargo was purchased because it is felt that the financial and economic climate for US banks has improved greatly since the spring of 2009 and that US bank bonds denominated in Canadian dollars have lagged the market. There are a number of catalysts, such as increased common equity capital levels, less leverage at US banks, higher reserves, better liquidity, and less exposure to toxic assets, should help US bank paper outperform over the next 3 - 4 quarters. The Ontario Strategic Infrastructure Financing Authority 4.60% due June 1, 2015 remains an active strategy position.

### Performance Update

The Core-Plus Portfolio returned 0.38% outperforming the -0.16% returned by the DEX Universe Bond Index for the quarter ending December 31, 2009. The main factors driving the performance difference were the portfolio's term and sector composition versus the benchmark. The Core Plus is naturally overweight the short-term and mid-term sectors as compared to the index. The Canada sector of the portfolio was really the key driver of performance for the quarter because the portfolio lacks exposure to the long end of the market and it is this sector that lagged this quarter. The Provincial, Municipal, and Corporate sectors basically matched the performance of the index during the quarter.

The active trades had a sub-par performance last quarter. The Ontario Strategic Infrastructure Authority bonds managed to slightly outperform the overall index by 0.05%. It appears that the credit spread, which is the difference between the yield for the security and the yield on a Government of Canada bond with a similar maturity, is no longer showing signs of further tightening. The position will continue to be held until a new trading opportunity presents itself. It is expected that this position will continue to track the index.

The second active position which was initiated on December 8th with the purchase of Wells Fargo Canada Finance has shown a -0.34% return and did outperform the index which returned a -1.42% for the month of December. As noted above, this position is expected to outperform the index over the next 3 - 4 quarters as the US economy and the US banks improve.

As the credit crisis of 2009 moves behind us and the incredible opportunities that presented themselves in 2009 have disappeared, bond markets will provide a challenging environment for clients going forward in 2010. Central banks around the world will continue to keep their key overnight interest rates at all time lows and forecasts call for interest rates to remain at these low levels over the near term. Scotia Economics is forecasting that the Bank of Canada will not begin hiking rates until the third quarter of this year. Under these circumstances, bonds and bond markets will behave in a much more traditional fashion and it will be difficult to reproduce the spectacular returns achieved in 2009.

Exhibit 1: ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio					
Issuer Name	Coupon	Maturity Date	Weighting*	Rate of Return*	Benchmark***
<b>Core Positions</b>					
Export Development Corp.	5.75	1-Jun-11	7.19%	0.27%	
Canada	5.00	1-Jun-14	7.16%	-0.08%	
CMHC	4.35	1-Feb-17	7.03%	-0.94%	
Canada RRB	3.00	1-Dec-36	5.26%	4.91%	
CIBC Fixed Floater	3.750	9-Sep-10	7.10%	0.33%	
Royal Bank Fixed Floater	5.45	4-Nov-13	7.43%	1.04%	
Canadian Tire Corp	4.95	1-Jun-15	7.46%	1.30%	
Metro Toronto	5.60	18-Dec-18	7.75%	-0.47%	
Manitoba	5.25	3-Dec-12	7.23%	0.43%	
Saskatchewan	4.50	23-Aug-16	7.26%	-0.46%	
Quebec	4.50	1-Dec-19	7.44%	-1.24%	
<b>Active Positions</b>					
Wells Fargo Canada Finance**	3.97	3-Nov-14	9.89%	-0.34%	
OSIFA	4.60	1-Jun-15	10.08%	-0.11%	
<b>Total</b>				<b>0.38%</b>	<b>-0.16%</b>
*For quarter ending December 31, 2009					
** Position and returns since December 8, 2009					
*** DEX Universe Bond Index					
Source: ScotiaMcLeod Portfolio Advisory Group					

# Notes

# Notes

The author(s) of the report own(s) securities of the following companies.

**Manulife Financial Corporation, Sun Life Financial Inc., Canadian National Railway Company, Teck Resources Limited, Enbridge Inc., TransCanada Corporation, BCE Inc., Rogers Communications Inc.,**

The supervisors of the Portfolio Advisory Group own securities of the following companies.

**Manulife Financial Corporation, Canadian National Railway Company, BCE Inc., General Electric Co,**

The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of the following issuer(s):

**BCE Inc., Canadian National Railway Company, Enbridge Inc., Manulife Financial Corporation, Rogers Communications Inc., Sun Life Financial Inc., Teck Resources Limited, TransCanada Corporation**

The Portfolio Strategist/Associate, in his/her own account or in a related account, owns securities of the following issuer(s): **National Bank, Sun Life Financial Inc.**

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): **BCE Inc., Enbridge Inc., Inter Pipeline Fund, Manulife Financial Corporation, National Bank, Rogers Communications Inc., Shaw Communications Inc., Sun Life Financial Inc., TransCanada Corporation**

The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): **BCE Inc., Canadian National Railway Company, Rogers Communications Inc., Shaw Communications Inc.**

Within the last 12 months, Scotia Capital Inc. has undertaken an underwriting liability with respect to equity securities of, or has provided advice for a fee with respect to, the following issuer(s): **Canadian National Railway Company, Enbridge Inc., Inter Pipeline Fund, Manulife Financial Corporation, Rogers Communications Inc., Shaw Communications Inc., Sun Life Financial Inc., Teck Resources Limited, TransCanada Corporation**

ScotiaMcLeod is a division of Scotia Capital Inc. ("SCI"). This report has been prepared by SCI on behalf of the Investment Executive. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither SCI nor its affiliates accept liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. SCI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts mentioned herein as principal or agent. SCI and/or its affiliates may have acted as financial advisor and/or underwriter for certain of the corporations mentioned herein and may have received and may receive remuneration for same.

The content may have been based, at least in part, on material provided by Credit Suisse First Boston Corporation ("CSFB"), our correspondent research service. CSFB has given ScotiaMcLeod general permission to use its research reports as source materials, but has not reviewed or approved this report, nor has it been informed of its publication. CSFB may from time to time have long or short positions in, effect transactions in, and make markets in securities referred to herein. CSFB may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any company mentioned in this report.

This research and all the information, opinions and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without in each case the prior express consent of SCI. SCI is a wholly owned subsidiary of a Canadian chartered bank. SCI is a member of The Securities and Futures Authority Limited.

® Registered trademark used under authorization and control of The Bank of Nova Scotia. ScotiaMcLeod is a division of Scotia Capital Inc., Member CIPF.

Comparative Canadian Bank Information				
Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	1-Sector Outperform	Low	\$65.00
Bank of Nova Scotia	BNS	2-Sector Perform	Low	\$55.00
CIBC	CM	3-Sector Underperform	Low	\$75.00
National Bank	NA	2-Sector Perform	Low	\$75.00
Royal Bank	RY	1-Sector Outperform	Low	\$75.00
Toronto-Dominion Bank	TD	2-Sector Perform	Low	\$80.00

## ScotiaMcLeod

ABBOTSFORD (604) 864-3750	MARKHAM (905) 947-0933	SOUTH GRANVILLE (604) 731-7744
BARRIE (705) 725-0300	MEDICINE HAT (403) 529-6565	ST. CATHARINES (905) 641-7700
BELLEVILLE (613) 968-6459	MISSISSAUGA (905) 848-1300	ST. JOHN'S (709) 576-1305
BRAMPTON (905) 796-2424	MONCTON (506) 867-0700	SUDBURY (705) 674-8558
BRANDON (204) 729-3362	MONTRÉAL (514) 287-3600	THUNDER BAY (807) 626-5180
BRIDGEWATER (902) 543-8293	MONTRÉAL Capital Branch (514) 287-2900	TORONTO – Scotia Plaza 11th Floor (416) 862-3110
CALGARY (403) 298-4000	NEW GLASGOW (902) 755-8509	TORONTO – Scotia Plaza Head Office Branch 15th Floor (416) 863-7272
CAMBRIDGE (519) 740-4300	NEW LISKEARD (705) 647-2044	TORONTO – Scotia Plaza 48th Floor (416) 945-4048
CHARLOTTETOWN (902) 566-3225	OAKVILLE – Church St. (905) 377-6301	TORONTO – Eglinton (Uptown) (416) 945-4840
COMOX (250) 890-3570	OAKVILLE – Kerr St. (905) 842-9000	TORONTO Personal Inv. Management Group (416) 865-6400
COMOX II (250) 890-3579	OTTAWA (613) 563-0991	TORONTO – North Toronto (416) 226-9505
CORNER BROOK (709) 637-4747	OWEN SOUND (519) 371-6496	TRURO- (902) 896-7741
EDMONTON (780) 497-3200	PETERBOROUGH (705) 876-1373	VANCOUVER (604) 661-7400
FREDERICTON (506) 450-6465	POINTE CLAIRE (514) 428-8400	VANCOUVER – North (604) 981-7600
GRAND PRAIRIE (780) 513-3505	PRINCE GEORGE (250) 614-2080	VANCOUVER – West (604) 913-7000
GUELPH (519) 763-0371	QUEBEC – Montreal Immigrant Investor Program (514) 287-4504	VERNON (250) 549-3411
HALIFAX (902) 420-2220	QUEBEC (418) 686-8666	VICTORIA (250) 389-2110
HAMILTON (905) 570-7960	QUEBEC – Rive-Sud (450) 463-5500	WELLAND (905) 732-7200
KANATA (613) 271-6600	REGINA (306) 352-5005	WHITBY (905) 444-4500
KELOWNA (250) 868-5500	RICHMOND (604) 713-7888	WHITE ROCK (604) 531-3500
KENTVILLE (902) 678-0777	ROSDALE (416) 335-6340	WINDSOR (519) 258-1050
KINGSTON (613) 531-6300	SAINT JOHN (506) 634-8021	WINNIPEG (204) 944-0025
KITCHENER (519) 571-3700	SALMON ARM (250) 804-2125	YARMOUTH (902) 742-0040
LAVAL (450) 680-3100	SASKATOON (306) 665-5300	
LETHBRIDGE (403) 317-4835	SCARBOROUGH (416) 296-0043	
LONDON (519) 660-3214	SIDNEY (250) 389-2125	