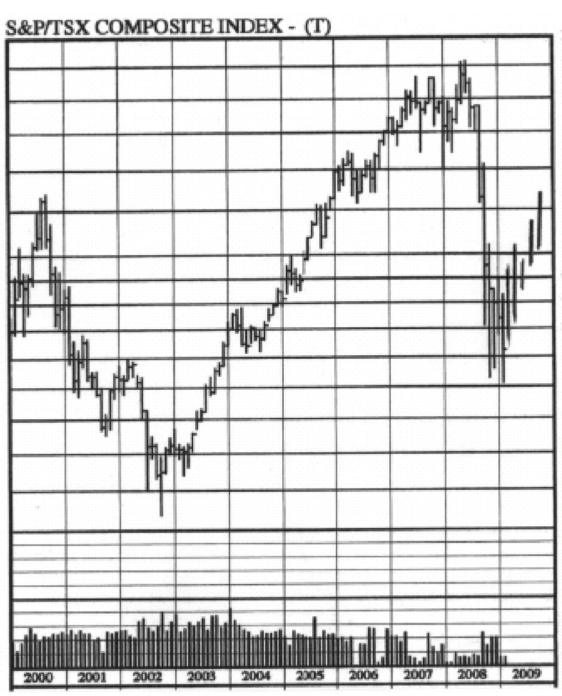
HOWSON TATTERSALL
PRIVATE ASSET MANAGEMENT

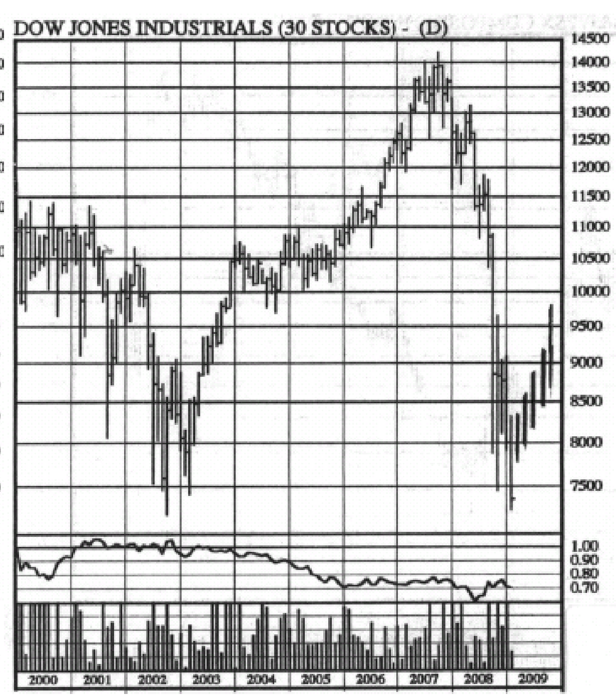
September 2009 REPORT

Enclosed, please find your portfolio valuations and transaction summaries for the month of September.

The rebound in stock prices in Canada and other major markets around the world continued in September with the S&P/TSX Composite posting a monthly gain of 5.1%. The Index, for the first time in many months, is now in positive territory on a one-year basis. It stands 0.5% above its level of last September.

The Fixed Income markets also moved ahead with a 0.9% monthly return. It was approximately a year ago that the credit crisis began to deepen with the demise of Lehman Bros. It was at this point that the monetary authorities began to add liquidity to the world's financial system. One result was a decline in both short- and long-term interest rates. This helped returns in the fixed income markets dramatically, resulting in the PC Bond Index posting a 10.3% one-year return. With interest rates as low as they are now our expectation is that we won't see double digit returns in the Canadian bond market for many years.





Source: Graphoscope

It appears we are at an inflection point for equity markets. Since we are still below the peak market levels of March - June 2008, most Canadian investors continue to feel nervous and uncertain about the future. Some feel that there is significant potential for markets to make a retest of the March lows. Given both the precipitous fall in equity prices from June 2008 to March 2009 and the (hopefully) once-in-a-lifetime shocks to both the financial system and the real economy, that concern is completely understandable.

We have a somewhat different outlook which warrants some explanation.

Firstly, it is interesting to note that the 50% advance the S&P/TSX Composite has experienced since early March to early October is in line with the previous fastest recovery, after the 1980-1982 bear market. It seems reasonable to us that, if we weren't on the right track in terms of a recovering economy, the advance to date would not have been so robust.

Most of the concerns about a significant relapse in equity markets surround the strength of the economic recovery, specifically in the United States. Certainly the excesses that built up in the U.S. housing market over many years will take time to unwind completely. As well the U.S. and Canadian auto industry have recently closed down sizeable chunks of capacity and eliminated brands. This has negatively impacted all parts of the value chain, from parts manufacturers, to auto workers, to dealers and their employees. These lost jobs will not be coming back. Their replacement jobs will take years to be created. Both of these developments, though, argue for a slower-than-normal recovery, not a relapse.

It is important to remember that monetary policy is still very loose, with interest rates at very low levels. As well, in contrast to what politicians would have us believe, large scale government spending takes time to ramp up and there is plenty more spending to be done. With both substantial monetary and fiscal stimulus still supporting economic growth, a relapse in the economy is highly unlikely.

We have pointed out in numerous client letters that we felt the key driver of the equity market in the last eighteen months had been the developments we have seen in the debt markets. It's our view that the widening experienced in corporate bond spreads in the second half of last year was at least as important as the economic contraction in driving stock prices down. Conversely, as corporate bond spreads have narrowed in 2009 it has both driven and justified higher stock prices.

Since, in our view, the past bear market was a function of both an economic downturn as well as a credit crisis, a major stock market relapse would most likely require that the economy go into a stall and that the financial system cease working as it did in the second half of 2008. We can never see the future clearly, but most signs in the financial world now are positive. Every day we are seeing a wider range of bond issues by companies that were frozen out of the market one year ago. Equity issues are also being done and there is a significant increase in merger and acquisition activity, indicating increasing confidence on the part of lenders.

Slow economic growth is a possibility and a setback in stock prices after such a substantial rise from early March is, of course, normal. All things are possible but the odds of a return to the stock market lows of earlier this year would require a lot of things to get much worse than we can see today.

After such substantial rise in equity prices off the bottom, our job now is to review the stocks we hold to see which ones have become expensive and to scan the stocks we do not own to see which ones unjustifiably have been left behind and now represent good purchasing opportunities.

If you have any questions about either our investment strategy or your portfolio specifically, please contact Brian Smith at your convenience.

Sincerely,

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