

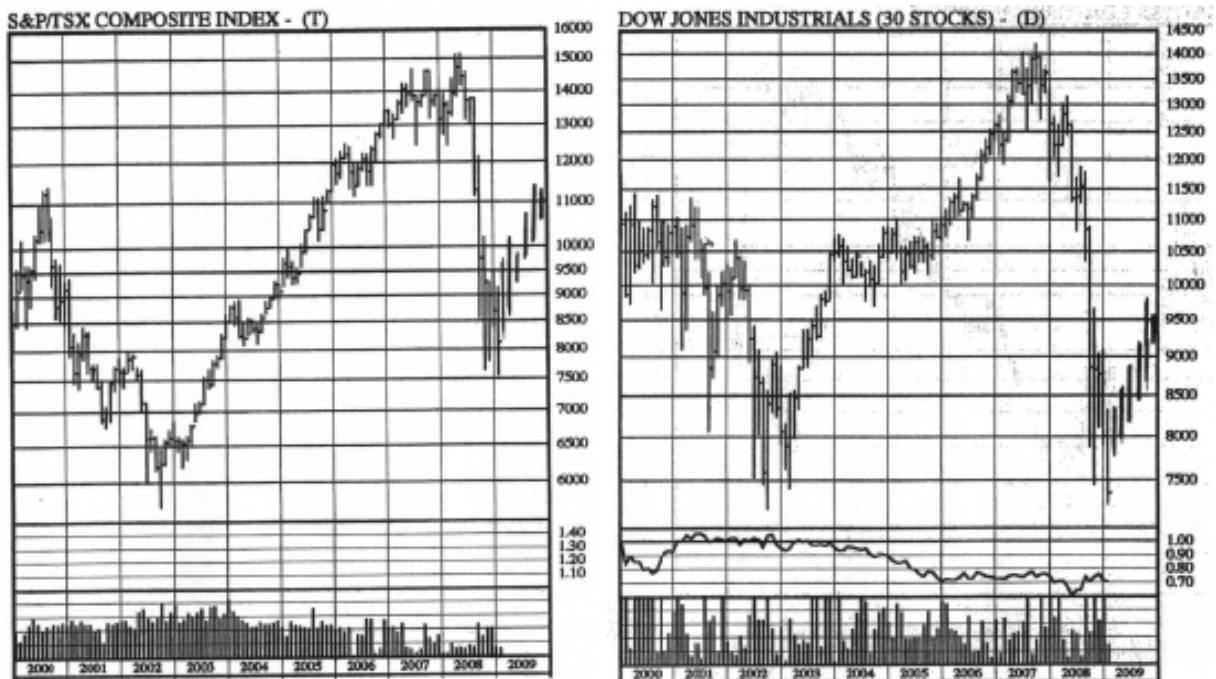
October 2009 REPORT

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

The monthly rate of change for the S&P/TSX Composite Index in October was -4.0%. This represented the first monthly decline since February, breaking a 7-month rally in stock prices which, from the bottom in early March, saw the Stock Index gain an impressive 55.7%.

The pessimists will note the Canadian stock prices are still well off the peak levels of mid-2008. The optimists will observe that our stock prices are now 15.7% above where they were one year ago and that Canadian equity investors are faring better than investors in most other countries. For example the S&P 500 Index returned 9.8% in the past year to U.S.-based investors. For Canadian-based investors, the returns were considerably weaker, -1.8%, as the Canadian dollar's rise hurt foreign returns.

Fixed income investors also saw their bull market take a breather in October with the PC Bond Index falling 0.1%. The massive stimulus provided by Central Banks around the world since the beginning of the credit crisis has driven interest rates down and produced an 11.2% total return for Canadian bond investors over the past twelve months.



North American markets appear to be in a pause period, characterized by a declining U.S. dollar, rising gold prices and contradictory economic indicators. At times like these there are always persuasive arguments why the equity markets are overpriced and equally persuasive arguments why the strong rebound to date will continue.

There is little disagreement that the U.S. economy has some significant long-term challenges ahead relating to high debt loads. If the U.S. consumer responds by raising his rate of savings for a number of years, it will definitely result in a sub-par economic recovery south of the border.

It is certainly true that the U.S. is a major trading partner of Canada's, so a slow U.S. recovery will constrain our domestic economic growth. Canadian investors, though, will be making an error if they draw a direct connection between U.S. economic growth and the performance of our stock market.

The different lies primarily in the structure of our key stock index: the S&P/TSX Composite Index. The Table below shows the weightings accorded to each of the ten Groups that make up the Index.

S&P/TSX Composite Group Weightings

<u>Name</u>	<u>% Weight in the Index</u>
Financials Index	30.4
Energy Index	27.4
Materials Index	20.2
Industrials Index	5.5
Telecom Services Index	4.3
Consumer Discretionary Index	4.2
Info Tech Index	3.3
Consumer Staples Index	2.7
Utilities Index	1.5
Health Care Index	<u>0.5</u>
	100.0%

Source: Bloomberg

It is interesting to see that, while we live in a first world well developed country, nearly 30% of the Index is made up of Energy related companies. If we include Materials, made up of Mining, Gold, and Forest Product companies, the total rises to nearly 50%. Industrial and Consumer oriented companies represent only 12.4% of the S&P/TSX Composite Index. Our economy of course is much more industrialized than is implied by the structure of the Index. The difference is that much of the industrial and consumer portions of our economy are either privately held or are owned by international public companies. Think General Motors, IBM and Kraft.

We point this out because the profitability of energy and materials related companies is primarily driven by commodity prices. While the U.S. economy is an important consumer of the world's commodities, China and India are rapidly gaining ground as major commodity consumers. Consequently the growth of the total world economy, not

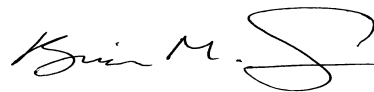
just the U.S. economy, will increasingly drive the direction of commodity prices. Since our stock index is heavily commodity oriented and the prospects for economic growth outside of the U.S. are stronger than they are within the U.S., there are good reasons to be positive about the S&P/TSX Composite Index.

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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