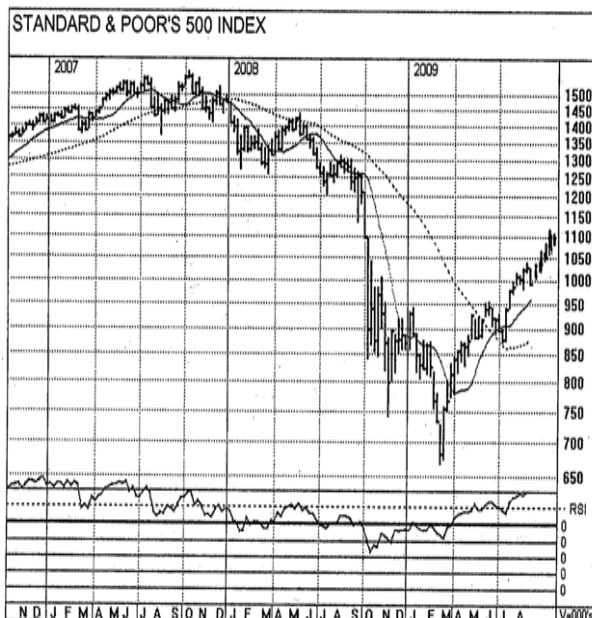
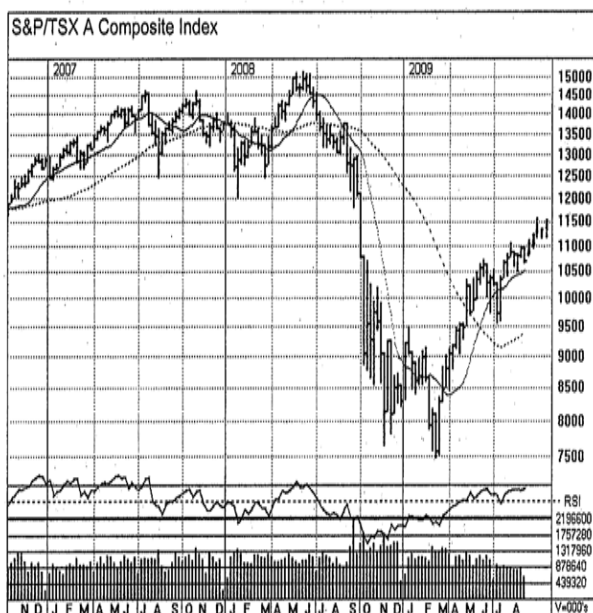


## November 2009 REPORT

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

After only one negative month in October, Canadian stock prices re-established the bull trend with a monthly advance in November of 5.2%. On a one-year basis the S&P/TSX Composite Index is now up a strong 27.8% compared with its level of one year ago. Perhaps putting this year's bull market in a better perspective, the Canadian stock index has regained about 52% of the value lost in the June 2008 – March 2009 bear market.

Canada's fixed income markets also performed well in November with a 1.3% total return. For the full year ended November 2009 the PC Bond Index has produced a total return of 10.0%. It is worthwhile to remember that slightly more than half of this total return was in the form of capital gains. Slightly less than half came in the form of income. The capital gains portion was so significant because monetary authorities acted quickly, in the midst of the credit crisis, to lower interest rates which, in turn, drove bond prices higher, producing capital gains. More on this later in this letter.



Source: Independent Survey Company

At Howson Tattersall our value-oriented equity investment style is focused on constructing portfolios using a bottom-up process. In other words, we select stocks based on their individual prospects and valuation characteristics rather than having a top-down view of the world and then picking stocks that fit that view. That doesn't mean

that we aren't aware of major trends in the economy and society in general, just that those views have their impact as we look at each company individually.

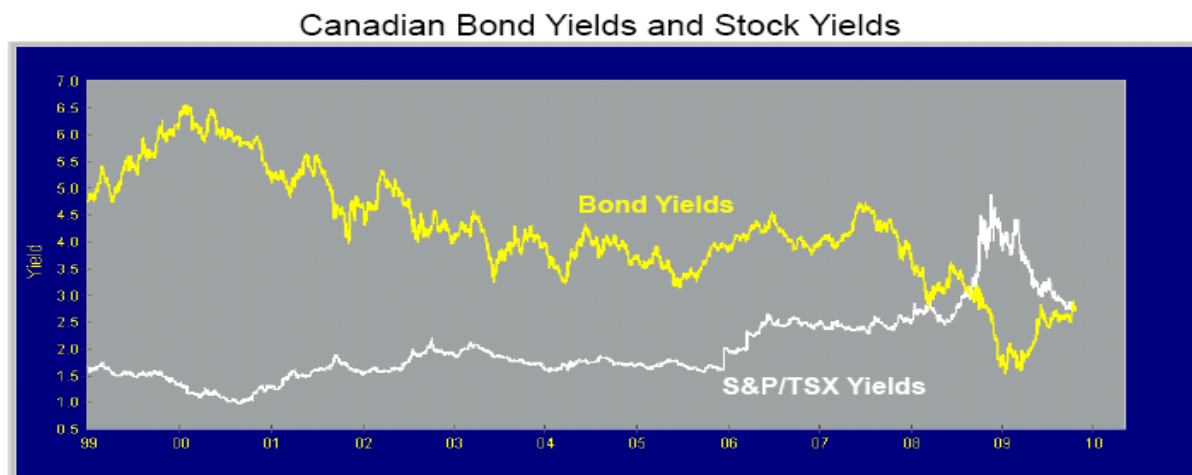
Recently we came across some interesting statistics which provide some confirming evidence on which parts of the financial markets may be close to a top and others that may still represent good value.

The assets invested in bond funds by individual investors in Canada represent about 9%-10% of total mutual fund assets. Equity funds, both domestic and global, represent the major mutual fund investment category of Canadian investors. In the early part of 2008 domestic bond funds were taking in approximately 5% of the net money being put into mutual funds. At that time the equity markets in Canada were flying high and mutual fund investors were piling into stock funds.

Since then the trend has changed dramatically: currently, domestic bond funds are taking in 75% of the new investment dollars, if we include Global and High Yield Funds. It seems clear that, after the credit crisis/bear market of 2008-2009, many mutual fund investors have become much more risk-averse.

We can't see into the hearts of investors but we can speculate that most investors are both driven by emotion as well as overly influenced by recent history. While we have a significant rebound in stock prices since March, it appears that most investors are still traumatized by the 50% rapid price decline which began in Canada in June of last year. They are moving assets from the category that has had poor returns recently and are moving to the category that has provided solid returns through the bear market in stocks. Are they making the right decision?

One very informative statistic which can help illustrate relative valuation in both the bond and stock markets is yield – bond yields and stock yields. The accompanying chart below shows the long-term trends from 1999 to date for both the yield on the STP/TSX Composite Index and Government of Canada bond yields. For most of the period shown we can see two things about bond yields: firstly, they have been heading down over the whole period and, secondly, for most of the last ten years, bond yields have been higher than stock yields.



Source: Bloomberg

The impact of the credit crisis is easily seen since plummeting stock prices produced the highest stock yields in the past ten years. As investors retreated to the safer investment – government bonds – their prices rose and yields fell. We can see that, recently, as the credit crisis has eased, stock yields have edged slightly lower but are still at their highest level of the last ten years.

This chart is telling us that, based on the history of the past decade, bonds with their relatively low yields are likely expensive, while stocks with their relatively high yields look to be cheap. One valuation measure, in this case bond and stock yields, never tells the whole story, but it appears to us that Canadian mutual fund investors are buying the sector that has performed better in the recent past. They are not looking ahead to buy the sector that has the greater chance of performing well.

How are we at the Howson Tattersall responding to this adjustment in relative yields between bonds and stocks? Primarily at the level of individual holding. For example, approximately one year ago our fixed income team felt that massive monetary stimulus by the monetary authorities in both the US and Canada would cause interest rates to fall. They then shifted weightings to more long-term bonds to take advantage of capital gains as interest rates fell. They now see long-term interest rates as being about as low as they are likely to go in this economic cycle so they are shortening our bond maturities to be more conservative.

Another recent change in the fixed income portfolios is to reduce our heavy overweight position in high quality corporate bonds after that sector has significantly outperformed other sectors of the bond markets. We are still overweight in corporate bonds but we have reduced the overweight.

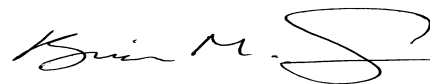
This will be the last report you will receive from us before the year-end so we want to take this opportunity to wish you and your family happy holidays and a healthy 2010.

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

Sincerely,



Richard D.W. Howson, CFA  
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Howson Tattersall  
Private Asset Management



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