

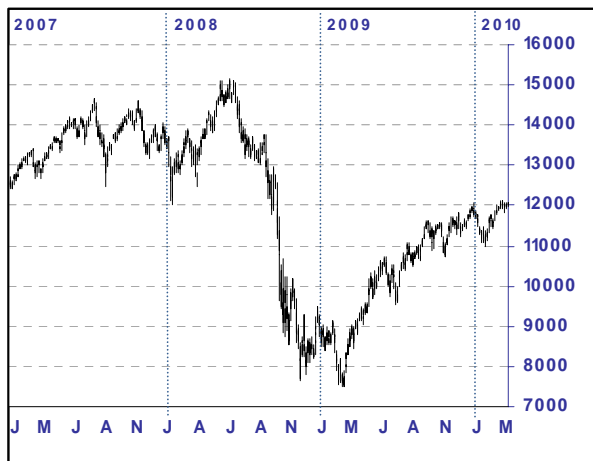


MARCH 2010 | REPORT

The bull market in common stocks in both Canada and other major industrialized nations continued in March. The S&P/TSX Composite Index gained 3.8% for the month and produced a twelve-month return of 42.2%. The Canadian equity market hit bottom in early March 2009 so the one-year comparison this month is about as good as we think it will get. As the months progress our one-year comparisons will be against higher and higher levels. We are optimistic about the prospects for stocks in general for the remainder of the year but we expect the twelve-month rates of return to fall significantly going forward.

Not unexpectedly, the fixed income markets did not fare as well as equities this past month. The PC Bond Index fell 0.7% in March and the one-year return was 5.1%.

S&P/TSX A COMPOSITE INDEX



STANDARD & POOR'S 500 INDEX



Source: Yahoo Finance

As we have noted many times, the 2008-2009 bear market in stocks, and also in bonds, was exacerbated by a withdrawal of liquidity. The bull market since March 2009 has been supported by excess liquidity supplied by the world's major central banks. Good examples of this liquidity support have been the U.S. central banks' policy of keeping short-term interest rates at close to zero as well as its announced major purchases of residential mortgages, which have kept U.S. mortgage rates lower than they otherwise would have been.

Both the Bank of Canada and the Federal Reserve Board have been very open about their plans to remove the excess liquidity although they have been coy about the exact timing. It is likely they will wait until the unemployment rate has turned and is on a definite decline and economic growth is firmly in place. This will have its greatest impact on financial markets in the form of rising short-term interest rates.

In fact, there has been so much discussion in the media about the eventual withdrawal of excess liquidity, we have to assume that it is partially built into stock and bond prices. Since the monetary authorities are likely to change course only after the expansion is firmly in place, we expect it will occur at a time that corporate earnings are rising strongly. All other things being

equal, rising corporate profits should soften the negative impact that rising rates may have on stock prices later this year.

We find the market commentators' emphasis on the negative aspects of rising interest rates interesting because it ignores the positive economic developments which must be occurring at exactly the same time. This is a good example of viewing the glass as half empty, not half full, and it indicates that the mood is still one of caution. From our point of view, this is a positive.

When we pick individual stocks we look for those trading at low valuations because it usually means investors have built low expectations into the prospects of a company trading at low price to earnings, price to cash flow or price to revenue ratios. Thus, a positive development is likely to come as a surprise and therefore have a positive impact on the stock price. So it is when looking at the market as a whole.

When the newspapers are filled with economic stories that have a negative tilt like Greece's financial problems or the negative impact that the Obama healthcare reform will have on fiscal deficits, markets are looking on the negative side of things. This is not to say that these issues are not serious or that, if they come to pass, they won't be negative events. It is simply that the markets are aware of the negative aspects of something that may happen in the future and have already built something into the current level of stock prices.

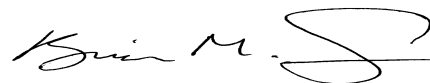
So we remain positive on the prospects for stock with the proviso that, as the market moves from a liquidity-driven stimulus to an earnings growth stimulus, the rate of growth will highly likely be significantly lower than we have experienced over the last year.

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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