RBC Dominion Securities

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WHERE WE ARE NOW

Equity markets have surged, but on relatively low volumes. Investors are grappling with mixed economic data: hopeful that a global economic recovery will take hold during the second half of 2009 but also wary, concerned that they will be caught if the economy stalls and markets fall back sharply. It is commonly said that markets are moved by fear and greed. However, it would be more accurate to say that today's investors are being driven by their fears and needs, that is, for safety and cash flow.

Where we are going

The greatest challenge confronting investors today is uncertainty. We are experiencing a fragile recovery driven by massive government intervention with unknown consequences. Markets are rising in very different circumstances than in the heady pre-Lehman days. The economy is improving, but even the most optimistic predict that significant job losses will continue for many months. Cuts in spending by businesses trying to reduce costs and by governments heavily in debt jeopardize the gains already made.

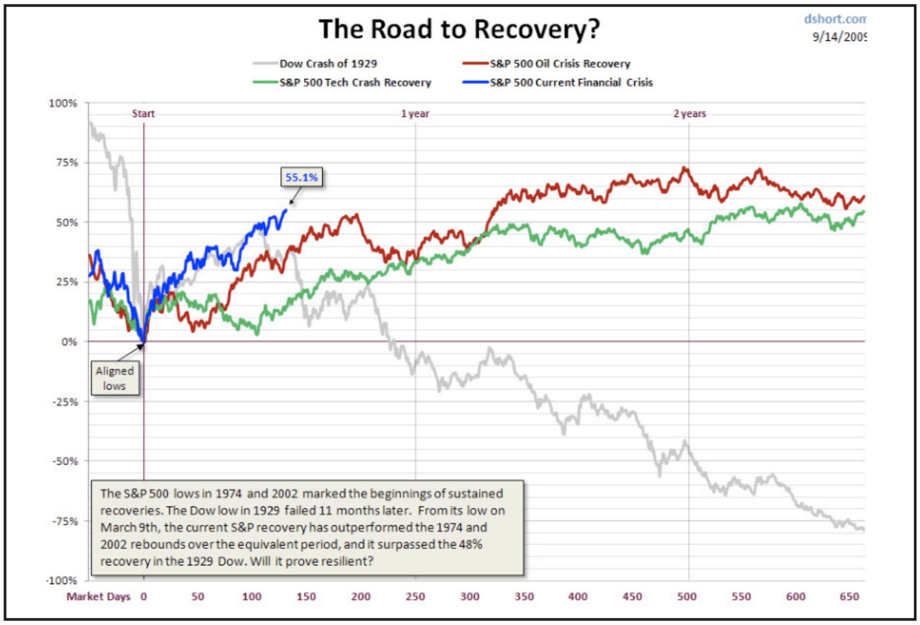
Markets are forward-looking and have been rising in anticipation of a recovery. Anticipating recovery, however, has different implications for investors than a return to steady growth. The recovery might not happen, or if it does, might not be sustainable. Government policies are fraught with danger: possibly insufficient to sustain recovery or too powerful and inflationary. Even if they work, many argue that the cost of taxes and regulation will drain economic vitality for years into the future.

Today the bears and the bulls are arguing. The bears insist that recent valuations cannot be sustained by the weak economy. The bulls retort that markets have turned and are being propelled upwards by the stimulus and growing confidence. At this time, however, investors need to recognize that the recession is statistically over and that markets have indeed made a significant recovery. The recession began in 2007 and has therefore been long by historic standards. The demise of Lehman Brothers last year was not the beginning, but the final act in the credit crisis.

The Plan

While declines in the economy and shocks in the markets were felt around the world, the pattern of recovery is less uniform. Some countries, sectors and companies are doing better than others. Markets are not so much bouncing back as moving on: clean air, innovative technologies, goods and services for aging populations will play an increasingly large role in the investment story going forward. Those with time on their side or a long-term view should consider investing in growth companies and growth economies aligned with the forces of globalization: food, fertilizer, communications, ETFs of Brazil and China and a basket of small companies.

The big move off the bottom has already occurred. The sector to watch now are those that will respond the most dramatically as the economy strengthens. In the financials, Thomson Reuters and Brookfield Asset Management should outperform the banks; in the transportation sector, consider railways. Technology companies that survived the crisis are positioned for a solid performance in the second half of the year: look at big names such as RIM and small companies such as Sandvine to outperform earnings estimates. Many clients have asked about purchasing gas companies trading at depressed prices. Normally speculators



the weakest companies for the greatest gains, however, the natural gas glut may be here for a long time. Survival is the first imperative and speculators should concentrate on the strongest players. Finally, a number of blue chip companies were clobbered last year by their involvement in risky financial products. Many of these businesses are fundamentally strong and will prosper as problems are cleaned up – thinking of the future, think General Electric, Bank of America, 3M and Johnson & Johnson.

After the drama of last year, many investors are reluctant to return to the markets. Those who sat out the recovery have been missing the opportunity to rebuild wealth and secure the high-yielding dividend income they may need in the future. Passive cash holders are at considerable risk in a low-interest-rate environment. Even one or two percent inflation over 10 years can add up to a significant erosion of purchasing power; if you are also drawing down cash savings for living expenses, a short period of time will make a substantial dent in your assets.

Most clients saw their portfolios peak in 2007 and bottom in March 2009. They are benchmarking from their all-time highs and won't consider that markets have recovered until these numbers are surpassed. Some have asked if we will ever see those highs again. Capital markets are structurally designed to identify potential and send money toward the companies with the greatest prospects. Recovery is not simply a matter of old companies bouncing back but also of productive new companies whose rising stock values will in time drive the indexes higher. Meanwhile, a lackluster recovery lends support to an ongoing policy of low interest rates, which usually bodes well for stock markets.

In the face of uncertainty, it is important for investors to be resilient. The economy, real estate markets, bond markets and the stock markets are moving on. Summer vacations are over and volumes are rising. Welcome back.

Regards,

L. Leib Zeisler, Vice-President
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