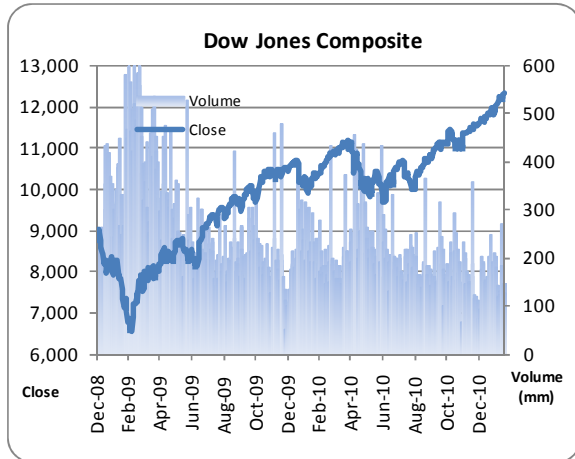
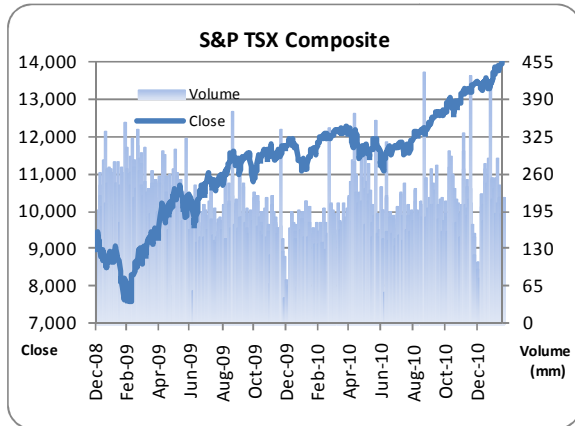


Weekly Market Board



Indice Performance February 18, 2011

| <u>Composite</u> | <u>Close</u> | <u>Weekly %</u> | <u>YTD %</u> |
|--------------------|--------------|-----------------|--------------|
| S&P TSX | 14,123 | 2.59% | 5.06% |
| DJIA | 12,391 | 0.96% | 7.03% |
| S&P 500 | 1,343 | 1.04% | 6.79% |
| NASDAQ | 2,834 | 0.87% | 6.83% |

Source: TriVest Wealth, various market data sources

Market Wrap-up

It was another good week in the markets with the S&P 500 posting a new 2 ½ year high and the Nasdaq reaching a 9 ¾ year high this week. The S&P TSX also breached the 14,000 mark, the first time since July 2008. The S&P TSX, DJIA and S&P 500 all closed up 2.59%, 0.96% and 1.04% respectively.

Gold prices rebounded to a five-week high with speculators driving the price higher on inflation concerns. Crude oil prices rallied this week on news that civil unrest has spread to Libya, Iran, Algeria and Bahrain in addition to reports that Iran has sent two warships into the Suez Canal. Lastly, the Canadian dollar also reached its highest level in nearly three years on the back of stronger commodity prices.

The Positive:

- The Federal Reserve Bank of Philadelphia’s general economic index increased to 35.9 from 19.3 last month, which is its highest level in seven years.
- U.S. housing starts jumped 14.6% to a seasonally adjusted annual rate of 596,000 units, its highest level since September 2010.
- U.K. retail sales increase nearly four times as much as economists forecast in January. Sales gained 1.9% in the month, and are at its highest level in a year.
- Canadian Leading Indicators rose 0.3% in January on a higher equity market and increased consumer spending.
- Canadian home re-sales rose by 4.5% in January to its highest level since April 2010, according to the CREA. The largest gains were in the Vancouver and Toronto markets.

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Negative:

- U.S. retail sales for January were up a disappointing 0.3%, compared to consensus of 0.5%. In addition, December's data was revised down from 0.6% growth to 0.5% growth.
- New building permits in the U.S. dropped 10.4% to a 562,000-unit pace last month.
- U.S. home foreclosures continue their upward trend setting a new high in Q4. <http://ow.ly/3YhyP>
- The U.S. White House is now forecasting that the US deficit for the current fiscal year will climb to a record \$1.6 trillion, up from an earlier \$1.4 trillion estimate.
- Fourth quarter Euro-Zone GDP expanded by 2.0% on an annualised basis and 0.3% over the previous quarter which was slightly below expectations of a 0.4% increase. Japan's GDP contracted by an annualized rate of 1.1% in the fourth quarter, which is a large fall from the 3.3% annualised expansion posted in the previous quarter.
- Fourth quarter OECD real GDP growth came in at 0.4% down from 0.6% in the third quarter and 0.9% in the second. It is now at the weakest pace since the second quarter of 2009.

Outside the Box

"Alberta's oil sands assets are probably one of the best upstream investment opportunities that are now available globally."- Dependra Pathak, director-exploration at India's Ministry of Petroleum and Natural Gas

- **Inflate this.** U.S. core producer prices in January rose by 0.9%, its highest rate in more than two years. Energy prices rose by 1.8% with gasoline prices increasing by a whopping 6.9%. U.S. import prices of food have risen at

a 30% annual rate in the past three months and fuels by 60%, according to economist David Rosenberg.

Internationally, UK consumer prices increased by 0.1% in January and are up 4.0% over last year's levels, which is a two year high and double the Bank of England's 2.0% target. German producer prices rose by the fastest pace of increase in 2 ¼ years and is up 5.7% over last year. Consumer prices in China also continued their upward momentum rising 4.9% in January on a year-over-year basis. More noticeably China's new lending rocketed 18.3% over last year's levels and is the third highest January on record, according to Bloomberg. Not surprisingly, China raised interest rates today for the second time this year. Lastly, Indian inflation came in at 8.23% in January, while consumer prices in Argentina have rocketed 10.6% since January 2010.

- **Getting to the "top" of the bull market.** Investor bullish sentiment on domestic equities has now reached its highest level in nearly 10 years, according to the monthly global fund managers' survey from the Bank of America-Merrill Lynch. The report showed that a net 67% of respondents were overweight equities this month, which is up considerably from the 55% in January. Bond underweight positions expanded to 66%, which is at levels not seen since April 2006. Lastly, cash positions remain quite low at a 9% underweight, a level not seen since January 2002. We recommend the following chart by Barry Ritholtz to add some historical context to the current market rally: <http://bit.ly/fqfQq4>.

- **On the hunt for Canadian energy.** The Calgary Herald reported this week that officials from India's petroleum ministry were in Calgary last week to discuss investments in Canada, specifically the oilsands and unconventional natural gas. Although India has yet to establish a meaningful stake in the Canadian oilpatch,

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this may soon change. According to an article in Platt's, domestic refineries in India have been adding additional coking capacity, thereby allowing the country to source supplies of extra-heavy Canadian crude. The Calgary Herald and Platt's articles can be read at: <http://bit.ly/giS8qn> and <http://bit.ly/ehlqg3>.

• **Oil prices and the nine-year triple.** We highly recommend the Baron's article entitled "Oil Will Hit \$300 by 2020" which can be read at: <http://bit.ly/fgPu68>. It provides an interview with Charles T. Maxwell, an analyst who's been involved in the energy business since 1957. In particular, Mr. Maxwell believes that the higher price of oil will not impede economic growth as it's the "suddenness of change that does that." The longer-term fundamentals for the commodity also remain in-tact for higher pricing, which we would concur. Interestingly, Mr. Maxwell's top picks are Canadian oil sands producers: **Athabasca Oil Sands (ATH:TSX)**, **Cenovus Energy (CVE:TSX)** and **Suncor Energy (SU:TSX)**.

Energy Corner: Managing Risk in the Patch

"Plainview: I do my own drilling and the men that work for me, work for me and they are men I know. I make it my business to be there and see to their work. I don't lose my tools in the hole and spend months fishing for them; I don't botch the cementing off and let water in the hole and ruin the whole lease. I'm a family man- I run a family business."— There Will Be Blood (2007)

We continue to recommend Canadian Energy to be a core part of any investment portfolio however it can at times be overdone especially for those earning a living from the oil patch. This concentration can also at times be compounded during periods of excessive returns being generated by the sector. For example, we're seeing a noticeable uptick in the flow into the Canadian

junior oil and gas sector with what appears to be investors chasing last year's approximate 50% gain. A common response during these times is why would you want to own anything else? However, the answer to this question becomes clearly evident during periods of excessive volatility.

For example, according to our research, many public companies in the Canadian junior oil and gas sector lost on average 80% of their value during the 2008/2009 meltdown in the markets. What we particularly remember is that even some companies with well respected and experienced management teams were not able to make it out of that cycle. This was primarily due to a lack of access to capital thereby forcing a corporate sale at massively depressed levels resulting in substantial losses for investors.

The Calgary Herald takes this a step further in its article entitled "There's more to the market than energy - Putting your eggs in one basket is risky, advisers warn."

"We do get an awful lot of push back. That tendency to invest in what you know is a very common tendency, said Hamilton-Keen, who volunteers with the CFA Institute. For many people, if they're doing it themselves, it becomes their investment, that one stock of the employer that they're working for. Or if they do diversify out, if they work for Encana for instance, well maybe I'll buy a little . . . Pengrowth, I know my buddy works over there and likes his stock option plan. As a result they - end up with a very overly weighted energy portfolio." Calgary Herald article "There's more to the market than energy" by Kim Guttormson.

We always recommend investing in what you know, as long as one takes the time to prudently manage risk. This means staying on top of your energy investments including knowing such particulars as the quality of the management teams, financial strength, capital

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efficiencies, details of the operations, drilling programs, well concentration etc. It is also important to be aware of the overall trends such as commodity exposure, funds flow into and out of the sector and/or company, and access to capital. Therefore in our view it takes a lot of time and diligence to do an effective job of managing investments in the Canadian oil and gas sector. This is especially the case for those taking highly concentrated positions in a sub-sector or individual companies.

That is not to say all investors can't manage their energy investments prudently themselves. We know a lot of CEOs, Presidents, and Directors etc., for example who due to their senior positioning in the sector have done an outstanding job managing their oil and gas investments. That said, we are fortunate to have some of this group as clients who have chosen to preserve a portion of their oil and gas profits/returns by investing in a custom-built non-energy portfolio with us.

For those who don't have the expertise and/or more importantly the time to stay on top of the highly active sector but wanting some exposure we've created custom-built energy portfolios. For these clients, we work diligently to manage the ups and downs of the sector through various means such as our highly successful option overlay process. We are currently undertaking the set-up of a ***Risk-Managed Canadian Energy fund*** that will take over some of this process. It will also allow for more overall participation given its \$100,000 investment minimum versus our \$1 million for our other portfolios.

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Best Regards,

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