

Cross-Currents - Taking Action

Despite market gyrations, returns year to date are recovering. Even with snowballing concerns of U.S. political gridlock, China's slowing economy, and sovereign debt, the market downturn has been mostly reflected in Europe. While the bloom quickly came off the Canadian market this summer, the drop in commodity demand was consistent with China's efforts to slow their economy. Given the correction, we've taken the opportunity to increase our Canadian equity weight while selectively adding growth-oriented names. With the concentration of sovereign debt problems, we've hollowed out our European holdings, maintaining exposure to Asian growth companies while adding U.S. exposure in Kraft Foods and Honeywell International. Corporations worldwide continue to successfully navigate the global recovery as 75% of Canadian and U.S. corporate earnings for Q3 have beat expectations. While the accumulated debt of nations cannot be erased overnight, as we move through Q4, we're seeing solutions emerge that will avoid another systemic shock to global financial markets. As that threat diminishes, stock markets will receive the green light to resume their recovery.

Contrary to Popular Belief

— LEE W. APPLETON, CFA, VICE PRESIDENT & PORTFOLIO MANAGER

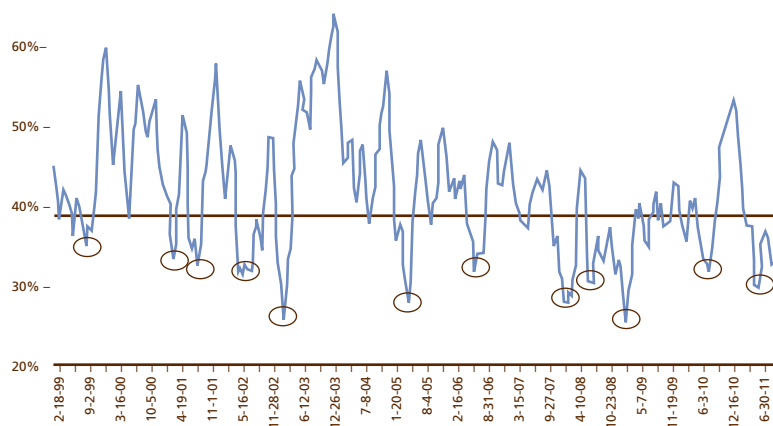
As a number of macro themes continue to evolve in the world today, it's clear negative news cycles are influencing ultrasensitive, emotionally driven markets. For some investors, ongoing negative sentiment is prompting the question: Do I sell my Canadian equities now, or is this actually a time to consider buying into the market? Here's a perspective on why we think now's the time to strategically participate in Canadian equities and not the time to "rush the exits."

The American Association of Individual Investors produces a Bullish Sentiment Indicator that provides a worthwhile glimpse at the last decade. We can see the peaks and downward spikes as measured on the sentiment survey index and the path is punctuated by the last few years, where it appears bull sightings have been scarce. Yet, go a step further and look at the forward percentage change at the end of each downward spike (as indicated by the circles). The table below, based on S&P/TSX Composite Index performance, translates the results achieved in post- "circle" periods. Over time, investors who chose to assume a contrarian position and defy negative sentiment have been well-rewarded as indicated by the average +11.9% change during the six months following downward spikes. While sentiment indicator information reflects individual investors' attitudes in the United States, history demonstrates the opportunity that exists in Canadian markets after each negative spike.

Are we saying it's time for a broad-based shopping spree? No, however, as stock selections on page three demonstrate, we advocate a highly disciplined approach to owning companies with strong fundamentals—high-quality companies that have a long history of dividend growth and are reasonably priced.



BULLISH SENTIMENT INDICATOR



Source: American Association of Individual Investors

Date of Down Spike	S&P/TSX Composite Forward % Change		
	1-month	3-month	6-month
9-23-99	3.6%	22.8%	46.7%
4-5-01	5.9%	1.5%	-9.0%
9-13-01	0.0%	8.0%	13.1%
8-15-02	-0.9%	-1.5%	0.1%
3-6-03	1.7%	11.3%	20.7%
5-12-05	5.4%	14.5%	13.9%
7-20-06	5.9%	5.0%	10.8%
2-14-08	0.3%	10.7%	4.0%
7-31-08	-2.2%	-28.2%	-36.0%
3-5-09	18.2%	38.5%	45.6%
8-26-10	4.6%	10.6%	21.3%
6-9-11	-0.6%	-6.5%	TBD
Average	3.5%	7.2%	11.9%
Median	2.6%	9.3%	13.1%

Source: S&P/TSX Composite Index

The graph above shows the cyclical nature of investor sentiment in the United States. As the graph spikes down, we see a shift from neutral to very negative emotions towards equity markets. The table above demonstrates the connection between downward spikes and S&P/TSX Composite Index returns one, three and six months after those downward spikes, suggesting potential gains as the spring of negativity releases. ■