A QUARTERLY PUBLICATION FOR OUR INVESTORS

MATCO REPORT

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Cross-Currents

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Market volatility is mainly viewed as the fluctuation in asset values. However, current volatility in world equity markets has been more pronounced in investors' minds due to the conflicting economic, fiscal and political factors that roiled markets last summer. The downgrade of the United States' AAA credit rating, followed by a resurgence of the European sovereign debt crisis, sent weakening markets worldwide into a bear market correction of at least 20% by early October. Yet, economic data and corporate earnings continue to buck the extremely negative sentiment controlling financial markets. Therefore, it's important to separate conflicting market trends and answer major questions about the cross-current of events and our approach to addressing them.

Are we headed for a double-dip recession?

Not in our view. The Canadian economy surprisingly shrank in Q2 on sharp export reductions, but has been resilient throughout the recovery. Economies at the centre of current trouble spots—the United States, the United Kingdom, Germany and France—continue to generate weak, but nevertheless positive economic growth despite downward revisions of their prospects by agencies like the OECD. For 2011, expected GDP for the United Sates is 2.6%, 1.4% for the United Kingdom, 2.0% for the Eurozone led by Germany, 9.0% for China. We view these revisions as a mid-cycle slowdown as the burst of inventory rebuilding coming out of the recession loses momentum.

Is current market volatility any different from past corrections?

Not really. The shock caused by the U.S. downgrade in August sparked an unprecedented four-day swing of at least 400 points or more in the Dow Jones Index. Bearish observers quickly jumped to a worst -case conclusion that somewhere in the string of government debt difficulties a default by a single country like Greece could create a second credit crisis akin to 2008, driving major economies into recession. Yet the actual scale of this summer's volatility, as measured by the S&P 500 VIX Index, is comparable to market fluctuations of 2010 and is basically half of the peak volatility of the 2008 crisis.

Where and when can we expect a resolution of these issues?

Short term, the silver lining in the current market shakeup is that the U.S. downgrade may have accelerated a series of re-ratings and downgrades that will force governments to address debt and spending imbalances. The strict hierarchy of credit ratings dictates that if the United States rates a AA+, then other AAA countries such as Austria and Belgium should come under scrutiny given their burgeoning debt loads. Credit ratings for weaker economies such as Italy and Spain must drop relative to the United States, which is the case with recent downgrades by Fitch Ratings.

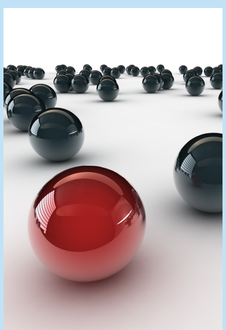
Longer term, France and Germany have some fiscal room to manoeuvre with debt-to-GDP ratios at 80% or less. Weaker EU economies have no choice but to adopt strong austerity measures to slow and ultimately reverse the accumulation of debt and to reassure wary bond investors. Economies like Spain or Italy can't sustain long-term bond yields over 6.0%, which investors are demanding for taking on risk. Given G20 pressure to avoid a Lehman-type shock to the global financial system, EU nations have moved to the next level of instituting a permanent and fully funded financial mechanism to handle the scope of Europe's debt crisis.

OUR CURRENT INVESTMENT STRATEGY (FOR THE PERIOD JUNE 30, 2011 TO SEPTEMBER 30, 2011)

ASSET CLASS	STRATEGY (LONG-TERM)	TACTIC (SHORT-TERM)	ACTIVE BALANCED PORTFOLIO
Cash	Underweight	Unchanged	0.00%
Fixed Income	Underweight	Unchanged	45.00%
Canadian Equity	Overweight	Increasing	40.00%
Global Equity*	Neutral	Unchanged	15.00%

* United States and Europe, Asia and Far East

Cross-Currents continued on page 2



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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

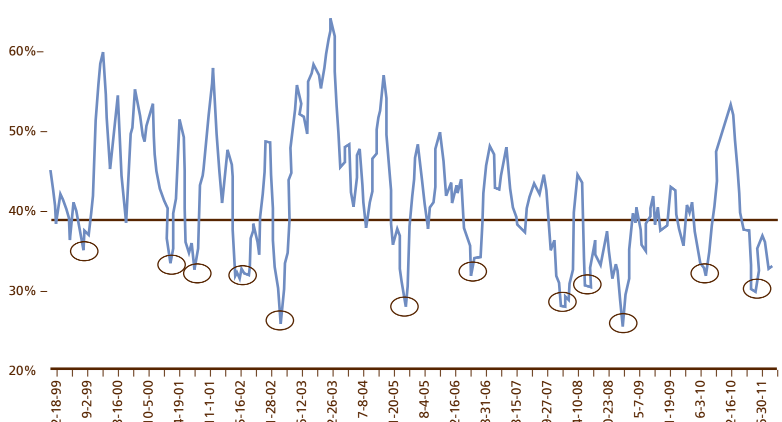
— LEE W. APPLETON, CFA, VICE PRESIDENT & PORTFOLIO MANAGER

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. ■