

What's the Future Cost of Tax Savings?

— JASON VINCENT, PFP, TEP, CHIEF OPERATING OFFICER AND VICE PRESIDENT, MULTI-FAMILY OFFICE

Taxes or future returns. Which should lead your investment decisions? It may seem a minor question given the obvious market issues of the first quarter. However, it's this very environment that puts investors face-to-face with the issue. Given expectations for ongoing volatility, as compared to recent historic levels, we believe strategically taking profits and repositioning your portfolio for future returns will be important for the balance of 2008. Our view is consistent with the transition that's been underway since 2007, when after seven years of systematically achieving increases, portfolios began to decline and gains began to wither.

These are different times where holding off addressing built-up capital gains may save on taxes now, but cost significantly in future returns. For instance, consider that by overemphasizing tax savings, you may be inadvertently implementing a passive buy-and-hold strategy. This approach may cause a gap between your portfolio's construction and our current stock and portfolio recommendations. This gap may detract from performance.

Alternatively, investors in mature pooled options (mutual funds) should be aware you may continue to receive excess capital gains during a period when your capital is not appreciating. How so? This is due to the selling and repositioning of securities within mutual fund portfolios as managers address the evolving market path. In addition, mature funds tend to hold a significant amount of built-up capital gains that will at some point be distributed to all unit holders (regardless of how long you've participated in the fund). We observed this in 2007 and expect it may continue to a greater extent in 2008. We recommend taking a proactive approach to this fund distribution situation, re-evaluating your investment strategy and addressing taxes now so as not to sacrifice future performance. You may, for instance, wish to purchase an individual stock or fixed income portfolio or take advantage of new funds as a means of paying tax on only those gains in which you participate.

We all know after-tax returns are the ultimate goal. In the coming months, we expect overly focusing on minimizing taxes may very well hinder future returns. Alternatively, taking profits and repositioning your portfolio in a strategic and disciplined fashion opens the door to positive gains over the long term.



MATCO FINANCIAL INC.

We are a wealth management office that believes a comprehensive approach to living well with money simply makes sense.

The result is strategies that help you shape what comes next, now and for generations. Strategies that integrate the investment portfolios, trust, estate and tax plans developed exclusively for you. Strategies that can be implemented seamlessly by our group or in concert with your advisors. Finally, consolidated reporting that gives you a comprehensive view of your wealth—raising hidden weaknesses and new opportunities. **This is what we do.**

As a private company, we have a personal stake in your success. We believe the most valued relationships are built one-on-one over time. We believe you judge risks and opportunities as much by the people involved as by the numbers on the page. **This is who we are.**

Matco Financial's Investment Management Group Grows

Our analyst team has two new members:

- Daniel Cheng, CFA, is an energy sector specialist bringing seven years of experience to Matco Financial. Formerly with Tristone Capital and Ross Smith Energy Group, Daniel focuses on client portfolios and the energy holdings within the MFi Energy Class Fund.
- Lee Appleton has seven years of research experience with Computerized Portfolio Management Services Inc., one of North America's leading independent equity research funds. His extensive research and technical analysis capabilities are focused primarily on the Matco Focused Growth and Matco Equity Income portfolios. ■



Matco Financial Inc.

Finding Opportunity Despite Market Realities

— BILL K. DICKIE, CFA, PRESIDENT AND PORTFOLIO MANAGER

— JERRY A. OLYNUK, LLB, CFP, CFA, VICE PRESIDENT AND PORTFOLIO MANAGER

Global financial markets experienced a distinct form of decoupling in the first quarter of 2008. In the United States, the S&P 500 Index continued its negative slide, finishing the quarter down 9.9% (USD). Despite the burgeoning problems of our largest trading partner, the Canadian stock market recorded a lesser 2.8% decline on the strength of gold, materials and energy stocks. Given ongoing foreign demand for Canadian commodities, surprisingly the international MSCI EAFE Index finished down 13% (USD). From a domestic perspective, the world's ongoing appetite for commodities is bolstering our markets. Yet, based on MSCI EAFE Index results, that demand seemingly disappears. We believe the commodity run—the only real source of investment returns of the last six months—remains intact, but is masked by longstanding realities of international markets.

The majority of companies listed on the MSCI EAFE Index remain oriented to U.S. consumer markets and service-based industries. Turning to emerging markets, a slowing U.S. engine is affecting economies such as Vietnam and South Korea. During the past quarter, the MSCI Emerging Markets Index and the BRIC countries underperformed developed country indices.

Clearly, world markets remain substantially tied to the direction of the United States. In our view, international markets are not providing the level of diversification expected during economic downturns. Nonetheless, we've identified a narrow band of opportunity in the strength of commodities—opportunity that demands a tactical approach as investors continue to pile into gold, materials and energy as a hedge against the declining U.S. dollar, artificially pushing up prices.

This approach is reflected in our investment strategy, where our commitment to Canada remains unchanged. We continue to augment our core managers with additional commodities exposure through the Bissett Focus Fund and the MFi Energy Fund, which have outperformed the S&P/TSX Composite Index. We also remain overweight in international markets, which feature significant exposure to oil and gas, and materials. The Mutual Discovery and Templeton International equity funds have been capturing this exposure, outperforming the MSCI EAFE Index with holdings such as Brazil's mining giant Companhia Vale do Rio Doce and China Coal. Over time, we expect the emergence of non-resource-based companies such as consumer and telecommunications firms in BRIC and other emerging economies will tip the balance in international markets away from the dominating concerns of Europe and the United States. However, that tipping point has not quite arrived. ■



CURRENT INVESTMENT STRATEGY (for the period March 31, 2008 to June 30, 2008)

ASSET CLASS	STRATEGY (LONG-TERM)	TACTIC (SHORT-TERM)	ACTIVE BALANCED PORTFOLIO
Cash	Neutral	Unchanged	0%
Fixed Income	Underweight	Unchanged	36.00%
Canadian Equity	Overweight	Unchanged	36.75%
U.S. Equity	Neutral	Unchanged	2.50%
International Equity	Overweight	Unchanged	14.75%

Matco Focused Growth Portfolio Answers Complexity with Opportunity

— LEE APPLETON, ANALYST

Recent events such as economic and banking woes south of the border, increased market volatility, and three sharp market sell-offs in the past six months, have left many institutional and private investors “shell-shocked.” As investors continue looking for growth opportunities, does the current environment preclude committing to small and mid cap growth stocks? Not in our opinion. Not if you have an option that answers the current complexity of the environment with sound opportunity.

We’re introducing the Matco Focused Growth Portfolio, a multi-dimensional growth mandate blending the substyles of aggressive growth, growth and defensive growth. Our premise: Facilitate the common goal of buying growth stocks by diversifying the portfolio across the spectrum of the traditional growth style. We believe this diversification sets the stage for favourable performance through strong and weak markets. From a tactical perspective, it enables us to remain fully invested during strong markets thus helping to avoid “timing” the deployment of large cash reserves following weak ones.

At its simplest, a growth company is defined as one that reinvests excess earnings back into the company to grow its assets. Under the scrutiny of in-depth analysis, we believe this definition falls short of maximizing the opportunities that exist.

Instead, we broaden our analysis to include a multitude of factors and then prioritize companies based on each of the three growth substyles.

In constructing the portfolio, we use in-depth market, macro and risk analysis to help guide the process of allocating assets among the dimensions of growth. At the market and macro level, we focus on market multiples, market profitability levels, aggregate earnings growth, global economic growth and trends as well as monetary policy. Simultaneously, we incorporate risk considerations such as individual stock betas and correlations, overall portfolio beta and sector concentrations.

At work, the portfolio’s scope allows us to respond to the changing environment. For example, as market signals warn of challenges, we can adjust allocations more towards defensive growth while reducing the weighting of aggressive growth assets. This multi-dimensional growth approach involves true style diversification, reduces risk and ensures a comprehensive approach to different types of growth companies.

What’s paramount to all investment analysis is that we have a distinct and replicable sell discipline. Fundamentally, we purchase stocks that exhibit certain attributes. When those stocks no longer exude those characteristics, we sell them. Period.

Given the uniqueness of our approach, we employed backtesting to stress test our mandate. The process assumed we had been using this approach since December 1986. While we constructed some assumptions, the results are nonetheless compelling. Though we temper our enthusiasm with a dose of the financial world’s famous caveat

“historic results may not be repeated,” our process-driven analysis will ensure a Focused Growth Portfolio whose characteristics are consistent, measurable and communicable. It’s a portfolio that presents an avenue forward amid market uncertainty. ■



MATCO FOCUSED GROWTH PORTFOLIO BACKTEST RESULTS

Initial Portfolio Value:	\$100,000
Final Portfolio Value:	\$14,889,970
Sharpe Ratio:	1.05
Annualized Returns	
Matco Focused Growth Portfolio	26.9%
Nesbitt Burns Small Cap Index	9.2%
Net of Benchmark	17.7%

Results Source: CPMS Backtest

In the Right Place for the Right Play

— JERRY A. OLYNUK, LLB, CFP, CFA, VICE PRESIDENT AND PORTFOLIO MANAGER

While fundamentals such as price-to-cash flow and debt-to-equity play a role in analyzing oil and gas companies, recent trends in North America remind us of the foundation for success in this industry. That's understanding oil and gas geology and having the ability to unlock geologic formations containing the resource. For investors looking to the next cycle of profitable investments, it's critical to understand emerging exploration opportunities. We see several trends prompting Canadian and U.S. companies to refocus their spending and exploration efforts on a regional basis:

1. Extensive delineation of the Western Canada Sedimentary Basin, the U.S. Mid-Continent and the Alaska North Slope make the discovery of other "elephant" fields unlikely.
2. In Western Canada, per well drilling costs have increased faster than the amount of recoverable gas, to the point where most prospects were uneconomical given recent prices. Conversely, U.S. producers have enjoyed a significant cost advantage that has allowed them to drill at a record pace even as gas approached \$6.00 per thousand cubic feet (mcf).
3. As conventional reserves decline, exploration is focusing on unconventional sources such as shale gas, tight gas and coal bed methane. Commercially productive shale plays in the United States include the Antrim (Michigan basin), New Albany (Illinois basin), Ohio (Appalachian basin), Fayetteville/Woodford (Arkoma basin), and Barnett (Fort Worth basin). Although the United States has seen the majority of unconventional drilling activity, the Montney play, straddling the B.C./Alberta border, could alone contain as much as 17 trillion cubic feet of gas.¹
4. Technological improvements in horizontal drilling and well completion are enhancing the recovery of existing reserves, while unlocking new reserves in established fields. Discovered in the 1950s, the Bakken formation in southeastern Saskatchewan is enjoying a resurgence of activity as lower zones in the formation yield commercial oil deposits.

The MFi Energy Fund is North American focused and oriented to capitalize on these exploration trends. We address regional and geologic plays by investing in companies enjoying a competitive advantage due to dominant land positions or pioneering technology and engineering practices. Holdings such as SouthWestern Energy, Chesapeake Energy and Quicksilver Resources are examples of companies active in U.S. shale gas plays. These stocks recently hit all-time highs as the price of natural gas approached \$10/mcf. In Canada, Peerless Energy, a top performing stock in the MFi Energy Fund, was acquired by Petrobank Resources in January as the company sought to consolidate its oil properties and production in the Saskatchewan portion of the Bakken formation. The widely debated provisions of the "Alberta Royalty Review" have pushed exploration activity into the Montney formation of northeastern British Columbia. Two major holdings of the Fund, Arc Energy and Duvernay Oil and Gas, are well-positioned to exploit this region.

The investment potential of these plays is already being marketed to individual investors. Beyond the publicity, however, investing in the MFi Energy Fund provides you with the thorough analysis and strategic selection required to realize the true investment potential of the companies involved. ■

¹ "Shale Gas Overview," *The Energy Investment Handbook*, Ross Smith Energy Group Ltd., August 2007.



For your information:

MATCO FINANCIAL INC. is a privately owned and independent wealth management office. The material presented in the *Matco Report* is intended to provide information to Matco Financial clients, contacts and affiliates. Readers should not act on this information without first consulting their investment advisor, tax advisor, financial planner, or lawyer. This communication does not constitute an offer or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

Management fees, commissions, and expenses may be associated with investment management services and mutual fund investments. Before investing please read the applicable information such as the prospectus, which contains detailed investment information and is available from your advisor. Most marketable securities such as mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated. All statements that look forward in time or include anything other than historical information are subject to risks and uncertainties, and are not guarantees of future performance. Investors should not rely on forward-looking statements. Actual results, actions or events, could differ materially from those set forth in the forward-looking statement.

Matco Financial Inc.

400, 407 - 8th Avenue SW, Calgary, Alberta T2P 1E5

phone 403.539.5740 fax 403.539.5744 website www.matcofinancialinc.com