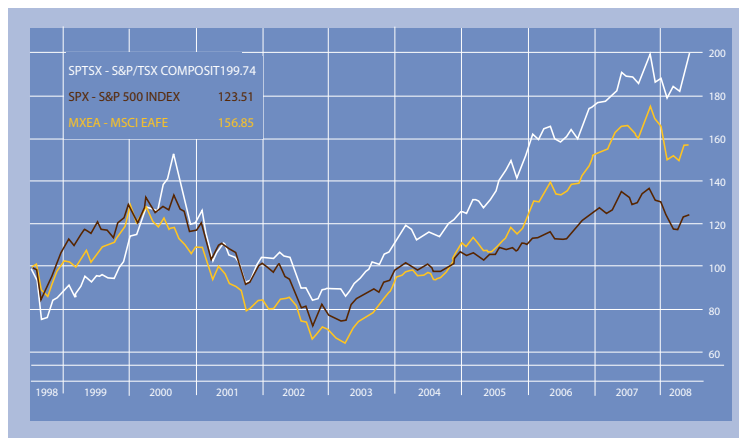


Growing Opportunities in a Shrinking World

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

Next time someone mentions portfolio diversification, consider these few points. First, there's been considerable discussion about globalization for years now, but we think the investment industry is just awakening to some of its emerging effects on traditional investment practices. Second, we believe in this highly interconnected world, the use of geography as a key diversification tool does not provide the same degree of benefit it once did. Third, we believe you now need to go further to find diversification and effective performance. In our view, diversification by sector and bottom-up stock selection is a combination that's increasingly important.



Source: Bloomberg, June 2008.

For years, international investing offered a means of capturing the distinct performance of markets throughout the world. Where one country was lagging, good opportunities could be found in another where the economy was thriving and markets were strong. The market correlation rate among countries was low. However, over the past decade, the differences have been disappearing as globalization has accelerated. As the adjacent graph demonstrates, the correlation rate among markets has increased with the S&P/TSX Composite Index, the S&P 500 Index and the MSCI EAFE Index fundamentally moving in tandem.



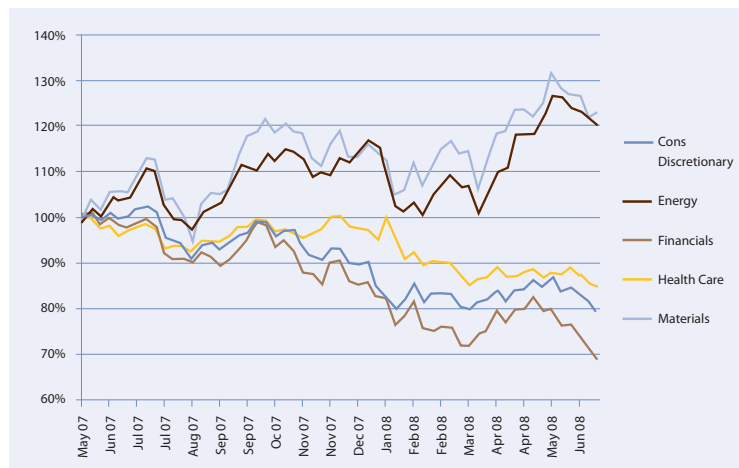
MATCO FINANCIAL INC.

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.**

Alternatively, looking at the global performance of several major sectors over the last year, you'll see diverging paths, setting the stage for investors to benefit from active diversification. For example, look at the Energy, Financials and Health Care sectors and you see distinct avenues of advancement. Add effective bottom-up stock selection and you create room to identify and grow performance.



Source: Bloomberg, June 2008.

Geography remains a definite part of the diversification decision-making mix, but in our view it's not a key driver. Instead, we make sector diversification and bottom-up stock selection priorities. We actively incorporate this approach across our investment platform and expect it will be more widely adopted by the investment industry in the years to come. Right now, it's at work at Matco Financial, producing results for you. ■



Matco Financial Inc.

Emerging Markets Driving Long-Term Trends

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

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

For the first time since the 1970s, the dreaded “S” word, stagflation, crept back into the lexicon of government officials this past quarter as they struggled to harmonize the divergent trends of slowing growth and rising inflation fuelled by energy and food prices. As policymakers worked to stabilize the U.S. economy with a variety of stimuli and interest rate cuts, higher core inflation data suggested a reversal to increase rates. Much of recent debate in financial markets has focused on the decoupling of the global economy from the United States, but attention is now shifting to the threat that emerging economies’ inflationary growth poses to the world economy. Though inflation may create challenges in the short term, we view price spikes and any corresponding correction as a necessary short-term adjustment in a fundamental trend of ongoing global growth.

Clearly, emerging economies are the incubator for global inflation. Vietnam, for example, recently raised its benchmark interest rate to 14% to bring its 27% annual inflation rate under control. Taiwan, India, China and Indonesia have raised rates or bank reserve requirements to curb growth. Economic growth in those countries is down year-over-year, and Asian stock markets have sold off dramatically with the Shanghai Index off 49% at the end of June. However, the cumulative savings of emerging economies is generating a level of domestic demand independent of global factors. With economic growth rates still in the healthy 6% to 7% range, leaders of these countries are just as concerned with maintaining price stability for their citizens without stifling growth.

Canada stands in an enviable position with natural resources adequate to meet our needs plus increased worldwide demand. Energy has become the dominant story as even marginal demand growth from emerging middle classes is straining global supply. Gains for agricultural commodities have been equally breathtaking as the rise in corn prices matches that of oil. Given such a desirable position, it’s hard for Canadian consumers to accept a higher cost of living. Yet, the source of our problem is the source of our prosperity—emerging economies. The fact that a major percentage of the world’s population is approaching near middle class status will boost the world economy for years to come. This is not an overnight phenomenon, but the volatility that accompanies adjustments to current economic relationships always clouds the long-term picture and creates anxiety for investors.



Taking Action

Our major investment themes have come to fruition over the past year. Global growth has withstood the drag of a slowing U.S. economy, but that unfortunately has been accompanied by pervasive inflation. Inflation bodes poorly for bonds and so we remain underweight in that asset class. In view of our emerging markets thesis, we’ve increased our overweight position in Canadian equities based on the strength of commodities. Likewise, we continue to fine-tune our International holdings, adding emerging market exposure during periods of market weakness. We’ve reduced U.S. equities to underweight as credit and housing issues continue to delay a general economic recovery. Moving into the second half of 2008, markets continue to produce returns reflecting a very narrow part of the overall economy, presenting serious challenges for the balanced investor. ■

OUR CURRENT INVESTMENT STRATEGY (for the period June 30, 2008 to September 30, 2008)

ASSET CLASS	STRATEGY (LONG-TERM)	TACTIC (SHORT-TERM)	ACTIVE BALANCED PORTFOLIO
Cash	Neutral	Unchanged	1.00%
Fixed Income	Underweight	Increasing	36.50%
Canadian Equity	Overweight	Increasing	38.00%
U.S. Equity	Underweight	Decreasing	12.00%
International Equity	Neutral	Decreasing	12.50%

When Does Less Really Mean More?

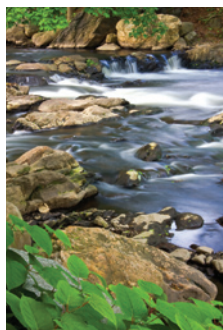
— LEE W. APPLETON, ANALYST

Russel Metals is hardly a top-of-mind name these days as a few enterprises continue to lead the market and dominate the news. Yet, we believe it's exactly this type of company that can help investors work their way through the challenges of the current narrow market—challenges such as avoiding chasing the stars, yet finding performance beyond the Energy sector, or the conundrum of finding healthy income flow in the current environment where mid-term bonds, for instance, are at 25-year lows.

Russel Metals is one of 30 companies from across Canada that continue to earn a spot in the Matco Equity Income Portfolio. Our disciplined approach to selecting assets for this defensive, lower volatility portfolio is based on several key characteristics: profitability, yield, valuations, defensiveness and having a catalyst for ongoing growth. We choose those companies that are more profitable. This means a strong dividend stream for investors and companies that are more able to reinvest excess earnings back into growing their business, setting the stage for ongoing positive performance.

From a portfolio management perspective, we focus on paying a lower price-to-earnings (P/E) multiple than the S&P/TSX Composite Index benchmark on an absolute, and industry relative basis. Assets in our portfolio must have strong, sustainable top and bottom line growth, and consistently outperform analysts' expectations. Russel Metals meets those criteria.

A select performer is one thing, but how does the portfolio measure up against the S&P/TSX Composite Index? As the table below highlights, the Matco Equity Income Portfolio equals or exceeds the benchmark as measured by any number of angles (a more detailed version is available).



	S&P/TSX COMPOSITE INDEX	MATCO EQUITY INCOME PORTFOLIO	RELATIVE TO THE BENCHMARK
PROFITABILITY, GROWTH AND INCOME			
Return on equity (ROE) using forward earnings per share (EPS)	18.0%	22.6%	4.6%
Dividend yield	2.6%	3.7%	1.1%
Reinvestment rate using forward EPS	11.1%	12.1%	1.0%
PREDICTABILITY & DEFENSIVENESS			
Five-year price beta vs. S&P/TSX Composite Index	1.00	0.89	89% of TSX
Reported earnings variability	12.1%	11.0%	-1.2%
Percentage agreement of analysts' expected EPS	11.1%	8.0%	-3.1%
VALUATIONS			
P/E ratio using forward EPS	15.0 x	12.6x	84% of TSX
Industry relative P/E using forward EPS	1x	0.8x	81% of TSX
CATALYST			
Earnings surprise—reports vs. expectations	1.0%	2.2%	1.2%
Quarterly earnings momentum	6.5%	9.2%	2.7%
Analysts' EPS estimate revision over 90 days	8.4%	15.5%	7.1%

In managing the Matco Equity Income Portfolio, we focus on paying less for more. We select companies that: present stronger profitability, pay a higher dividend income stream and have a catalyst for further growth. Source: Computerized Portfolio Management Services (CPMS), June 2008.

The Matco Equity Income Portfolio is constructed to perform well during broad markets and provide an avenue forward during riskier times such as those we are currently experiencing. The growing track record of the portfolio is based on our highly disciplined approach to selecting stocks and maintaining the investment style that drives the management of the portfolio. This discipline in selection and style will remain consistent over the short and long term.

Given its defensive stance, we expect the Matco Equity Income Portfolio to generate enhanced relative performance through choppy markets and we know the portfolio's structure means it is well-positioned to capture the gains of a broader market as it returns. It's a quiet option for these noisy market times. ■

Matco Financial Inc.

Writing our Version of the Montney Play

— DANIEL S. CHENG, CFA, ANALYST

Topping \$10,000 per acre, May's record-setting land sale prices in the unconventional Montney shale gas play raised the temperature on a story that has been bubbling up over the last year. To provide some perspective, unconventional gas plays in the United States have been online for some time; however, they're a relatively recent development in Canada. The combined forces of high commodity prices, technological innovation and a highly developed Western Canada Sedimentary Basin are driving the exploration of such unconventional resources. Though there are other names such as the Utica shale in Quebec and Horn River in northeastern British Columbia, it's the Montney that's capturing the spotlight. This is because certain areas of the play present superior economics to any other unconventional gas play in North America, including the Johnson County and Tarrant County sweet spots of the Barnett shale in East Texas.

Covering 35,000 square miles straddling the northern Alberta/British Columbia border, the Montney's geology is complex with varying reservoir characteristics and quality. However, Ross Smith Energy Group (RSEG) reports and industry research show the magnitude of the prize is potentially enormous. EnCana Corporation, for example, estimates it has 60 trillion cubic feet of original gas in place on its Montney lands alone—an opportunity on par with its key operations south of the border such as the Barnett, Piceance and emerging Haynesville shale gas plays.

Though news of the Montney shale play may be relatively recent to many investors, it's a story that has been part of our investment program since opportunities began quietly unfolding. Over the past year, for instance, we've invested in premier names involved in the Montney play—companies such as Duvernay Oil Corporation, ARC Energy Trust, Galleon Energy Inc. and EnCana. These holdings, which are playing a role in some individual portfolios and the MFi Energy Fund, have all appreciated significantly in 2008.

The thinking behind this early move rests with our investment team and our exclusive relationship with RSEG. Our commitment is consistent with our long-term energy investment themes: unconventional natural gas plays, light oil, and long life oil sands reserves.

With a core investment in place, we've begun the very selective process of investing in junior companies with prime land positions in the Montney play and experienced management teams such as Twin Butte Energy.

From our perspective, unconventional natural gas plays are a key, long-term theme in our energy investing and we expect the Montney to remain a core position. It's an opportunity where we've had an early start and continue to build what we consider a long-term advantage in our energy portfolio. ■



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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.

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