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Executive Summary

2010 Summer Outlook

Stewart Hunt — Managing Director, Portfolio Advisory Group

As we reach the halfway point of 2010 we have definitely witnessed our fair share of market activity. Equity markets began the year slowly, moving into positive territory, only to see the sell off in May and June. After closing out 2009 with positive economic growth from inventory restocking, bond yields moved higher in anticipation of central banks removing the stimulus of low interest rates. While the Bank of Canada has raised rates with the Canadian economy growing, the Federal Reserve has maintained its federal funds rate near zero as they still see the US economy struggling to grow. Concerns about the impact of weak economic growth in the US and Europe has supported the ‘sell in May and go away’ approach to the equity market and the peaking of interest rates in the spring. If these investment and market philosophies do play out, then anticipate equity markets and interest rates to trend lower over the summer. We believe the Canadian and US equity markets will continue to trade in a range prompting active investors to buy the bottom of the range and sell the top. However, based on the Scotia Economics forecast of slowing growth in 2011 we would be looking at increasing our exposure to defensive stocks. The forecast also anticipates lower to flat long-term interest rates suggesting clients move out of cash and extend the term of their bond investments. While these are more of the general view of our team of experts, the articles in the Summer IPQ will provide you with more detail and specific ideas to guide you with your investing.

Here are some of the highlights of the Summer 2010 IPQ:

- Scotia Capital Portfolio Strategist Vincent Delisle continues to stress his move to normalization of reducing equity exposure from a significant overweight position in 2009 to an equity weighting closer to the norm.
- Scotia Capital Economists Derek Holt, Gorica Djeric and Karen Cordes Woods, provide an update of the economic themes they have been presenting over the past year and to which they still subscribe.
- In this edition of IPQ we have provided two feature articles. One, by our Canadian Equity Advisor Geoff Ho on ‘weathering market volatility’ by focusing your investments on companies with strong balance sheets and dividends. Our second feature article written by Justin Kusinskis and Carolyn Tsai in our Fund Research Group provides a very interesting look at the investment pitfalls and opportunities of replacing the psychology of investing with discipline.
- Gareth Watson, Canadian Equity Advisor, provides his outlook for the Canadian equity markets with the economic outlook slowing down, the Bank of Canada raising rates and the inevitable removal of fiscal stimulus. Watson sees returns as positive, but not excessive, and highlights a more active approach towards managing your equity holdings.
- Paul Danesi, U.S. Equity Advisor, provides support to the thesis presented by Geoff Ho in our feature article of focusing on investing in companies with strong balance sheets, good cash flow and a history of dividend payments or share buy backs - all corporate actions that reward shareholders. Danesi provides an impressive list of companies to consider for investment.
- Joey Mack and Amy Billingham from our Fixed Income Group provide some ideas for investors who are sitting on cash on ways they may be able to enhance their returns above the rate of inflation. With the potential of higher interest rates, Mack and Billingham highlight the investment merits of floating rate notes which regularly adjust their coupon to reflect the prevailing interest rate environment.

- Tara Quinn, Preferred Share Trading and Sales Advisor, provides her review of the preferred share market and discusses the merits of the Rate Reset Preferred Shares which have dominated the new issue market over the past year.
- In conclusion, Steve Uzielli and Tim Vlahopolous provide their quarterly review and commentary on the performance of the Equity and Fixed Income Guided Portfolios.

As we reach the mid-point of the year this is a great time to talk to your ScotiaMcLeod advisor and review your portfolio and its holdings.

Stewart Hunt

Portfolio Strategy

Strategy Update – Summer 2010

Vincent Delisle, CFA — Portfolio Strategist, Scotia Capital

Normalization Wave Closer to Shore

After a strong start to the year (the S&P 500 was up 8% up to April 23), global equities entered the “twilight zone” in May and June. The MSCI AC World index tumbled 12.7% in Q2 (the worst quarter since Q4/08) as euro debt worries, slowing Chinese growth, and stumbling U.S. consumer and housing data weighed heavily on investor sentiment. Exhibits 1 and 2 offer a recap of Q2 and YTD performances for major equity indices.

Supported by the recent tsunami of bad news, long-term bonds posted their best quarter since Q4/08 and U.S. 10-year yields declined from 4% at the start of April to 2.93% at the end of June. The U.S. yield curve (10-2) has flattened 47 bp in Q2.

The flight to quality was also beneficial to the U.S. dollar with the greenback advancing 6.2% in the last three months. Gold (+11.6% in Q2) easily outperformed industrial commodities such as copper (-17.9%) and oil (-10%) in the second quarter.

Exhibit 1: Global Economic Forecasts

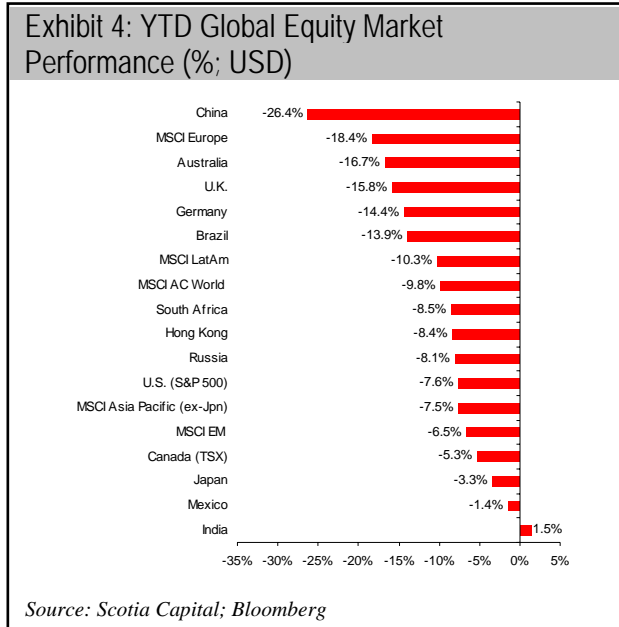
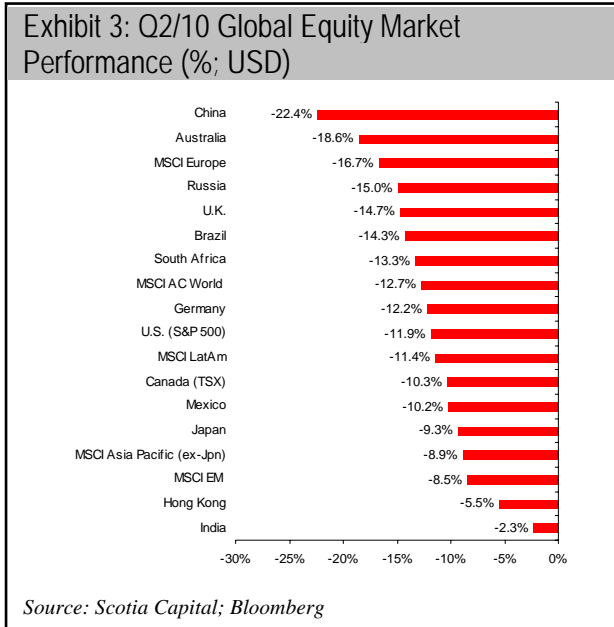
	<i>Real GDP (annual % change)</i>			
	2000-2008	2009	2010E	2011E
World	4.0%	-0.6%	4.2%	4.3%
Americas				
Canada	2.6%	-2.5%	3.4%	2.6%
U.S.	2.4%	-2.4%	3.2%	2.6%
Mexico	2.8%	-6.5%	4.8%	3.5%
Brazil	3.3%	0.5%	7.0%	5.0%
Europe				
U.K.	2.4%	-4.9%	1.1%	1.1%
Euro-zone	1.9%	-4.1%	0.8%	1.0%
Germany	1.4%	-4.9%	1.4%	1.2%
France	1.9%	-2.8%	1.3%	1.3%
Asia				
Japan	1.4%	-5.2%	2.2%	1.3%
China	10.1%	9.1%	10.0%	9.0%
India	7.3%	6.7%	8.0%	7.0%

Source: Scotia Economics; IMF

Exhibit 2: Scotia Capital Financial Forecasts

	2008	2009	2010 E	2011 E
Equity				
S&P/TSX	8,988	11,746	12,300 ↓	
EPS	950	600	750 ↓	825 ↓
S&P 500	903	1,115	1,225 ↓	
EPS	49.50	57.03	78.00 ↓	82.00 ↓
Mexico Bolsa	22,380	32,120 (A)	34,800 ↓	
EPS	1,539	1,770	2,100 ↓	2,400 ↓
Interest Rates				
BoC	1.50%	0.25%	1.25%	2.75%
CA 10-Yr	2.68%	3.61%	3.85%	4.10%
Fed Funds	0.25%	0.25%	0.25%	2.25%
US 10-Yr	2.21%	3.84%	4.10%	4.40%
Currencies & Commodities (Yearly Average)				
CAD (USD/CAD)	1.07	1.14	1.02	0.98
EUR-USD	1.47	1.39	1.23	1.23
USD-YEN	103	93.59	93	99
USD-MXN	11.2	13.50	12.6	13.0
WTI	99.92	61.92	79.00	80.00
Natural Gas	8.90	4.17	4.75	4.75
Copper	3.15	2.36	3.10	3.10
Gold	872	974	1,200	1,275

Source: Scotia Capital estimates, Scotia Economics

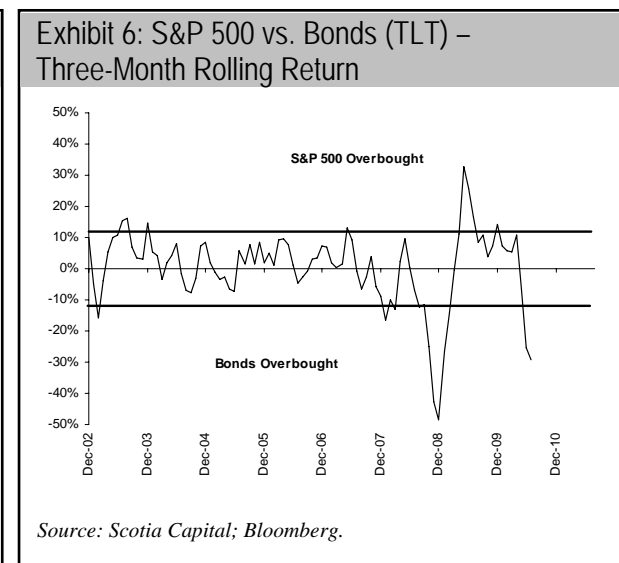
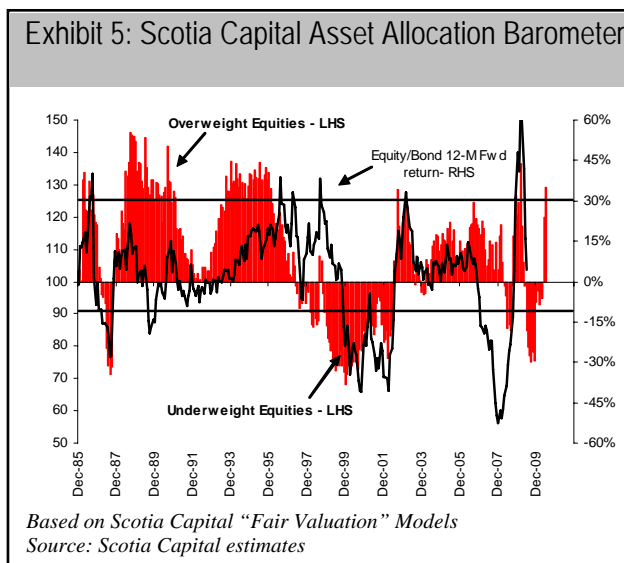


2010 Strategy Stance: Where We Stand

Our 2010 game plan has been centered on “gradually taking risk off the table” following last year’s cyclical recovery. We lowered our recommended equity weighting at the end of Q1/10, raising our cash and bond allocations. In our sector strategy, we have been reducing exposure to Financials and Discretionary since Q4/09 and increasing Telecom and Staples. Still, we were not defensive enough and the intensity of the Q2 selloff surprised us. In retrospect, “taking risk off the table” was a good idea, but doing it “gradually” was not.

However, with the material Q2 reversal in the equity-to-bond risk-reward profile (see our asset allocation barometer in Exhibit 5), we are back in equity-friendly territory. Our models peg fair value at 3.35% for U.S. 10-year bonds (3% overvalued versus current yield of 2.98%) and 1,300 for the S&P 500 (21% undervalued), pointing to a favourable potential +24% spread for the S&P 500. This level was last visited in Q1/09 and marks a complete 180° turnaround from the bond overweight signal this asset mix model had been sending in Q1/10.

In addition, our tactical asset mix indicator (S&P 500 vs. long-term bonds three-month rolling return) is back to levels last visited in Q4/08 (Exhibit 6). Our recommended asset mix remains unchanged with an equity overweight bias.



Assessing the Potential Damage to Profits

While there is no shortage of worrying factors right now as the global economic recovery encounters major challenges, it is imperative to monitor the potential impact on profitability. Our base case scenario is for slowing profit growth heading into 2011, but we do not foresee an outright contraction in earnings. Although it is not our base case forecast, a scenario of a contracting S&P 500 remains a possibility. Exhibit 7 highlights historical S&P 500 earnings recessions dating back to 1929.

The median S&P 500 earnings recessions is -22% and lasts approximately seven quarters. The magnitude of the 2008/09 equity bear market (S&P 500 index was down 57% peak-to-trough) was correlated to the violent contraction in corporate profits (S&P 500 EPS also declined 57% from Q2/07 to Q3/09).

During the double-dip recession cycle of the early 1980s, the total peak-to-trough profit correction amounted to 19% and the earnings slide was back-end loaded.

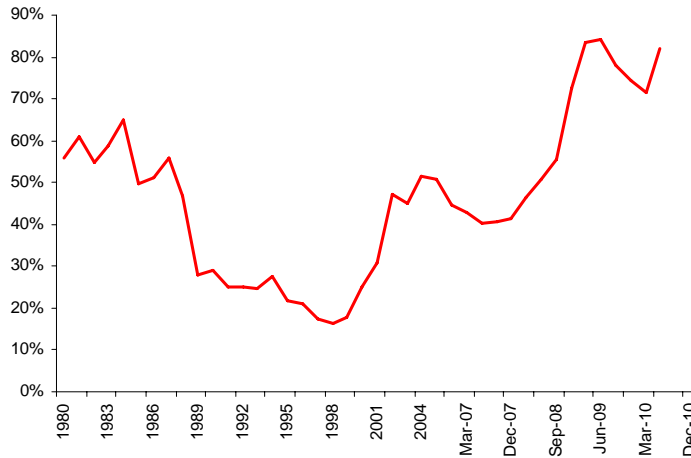
Exhibit 7: S&P 500 Earnings Recession (1929-2010)					
Peak EPS		Trough EPS		Duration (Quarters)	Change (%)
Date	Level	Date	Level		
Dec-29	1.61	Dec-32	0.41	12	-75%
Sep-37	1.22	Sep-38	0.62	4	-49%
Sep-41	1.19	Jun-46	0.84	19	-29%
Dec-50	2.84	Jun-52	2.34	6	-18%
Mar-56	3.69	Sep-58	2.88	10	-22%
Sep-59	3.43	Jun-61	3.03	7	-12%
Sep-69	5.89	Dec-70	5.13	5	-13%
Sep-74	9.11	Sep-75	7.76	4	-15%
Dec-81	15.36	Mar-83	12.42	5	-19%
Dec-84	16.64	Jun-87	14.42	10	-13%
Jun-89	25.53	Dec-91	19.30	10	-24%
Dec-00	56.13	Dec-01	38.85	4	-31%
Jun-07	91.47	Sep-09	39.62	9	-57%
Median				7	-22%

Source: Scotia Capital

S&P 500 “quarterly” earnings are currently trending near the US\$20 level (US\$80 annual pace). A 20% earnings correction would bring quarterly/annual earnings near the US\$16/US\$64 level. Under that scenario, we would expect the S&P 500 find a floor near the 950 level with 1,200 representing the upper end of the trading range.

Admittedly, a pending earnings recession cannot be ruled out, but with near-record-high corporate cash levels relative to the S&P 500 benchmark index (Exhibit 8), the next stumble in earnings could be milder. Based on the relationship between leading indicators/ISM and S&P 500 earnings, it appears premature to turn outright negative on earnings, in our view.

Exhibit 8: Healthy Balance Sheets: Cash Levels Relative to S&P 500 Index



Source: Scotia Capital; S&P

Big Picture Outlook & Asset Mix

The current consensus is looking for U.S. GDP growth of 3.2% this year and 2.9% in 2011. For China, growth forecasts stand at 10.1% in 2010 and 9.3% in 2011. In our opinion, these forecasts will be revised lower. In our earnings models, we are using average U.S. real GDP growth of 3.4% this year and 2.7% next year.

The global economy will likely continue to suffer from fiscal austerity, but we do not expect much in terms of monetary tightening in the near term. Hence, short- and long-term interest rates could marginally move higher over the next 12 months. Jobless claims levels of 450,000 (this year's average) should equate to 3.4% in U.S. 10-year yields.

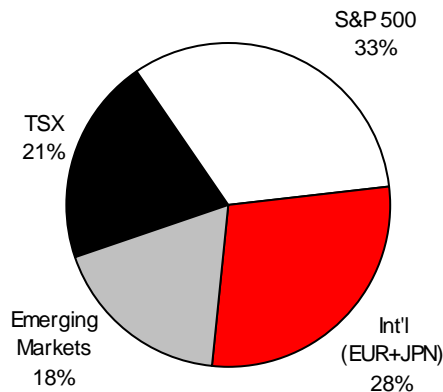
We forecast S&P 500 earnings of US\$78 (+37% YOY) in 2010 and US\$82 (+5% YOY) in 2011. TSX and Bolsa earnings estimates are respectively reduced to \$750 and MNX2,100 in 2010, and to \$825 and MNX2,400 in 2011. Our 12- to 18-month price targets are lowered to 1,225 (S&P 500), 12,300 (TSX), and MXN34,800 (Bolsa).

Our 12- to 18-month total return outlook hovers at 15%-20% for equities, 3% for bonds, and below 1% for cash.

Exhibit 9: Scotia Capital Equity Mix – Summer 2010

Benchmark:

- S&P/TSX: 20%
- S&P 500: 30%
- Int'l (EUR+JPN): 30%
- EM markets: 20%



Source: Scotia Capital; Bloomberg

Economic Outlook

Reviewing Our Top Macro Themes

Derek Holt, M.A., M.B.A., CFA - Vice-President, Scotia Capital Economics

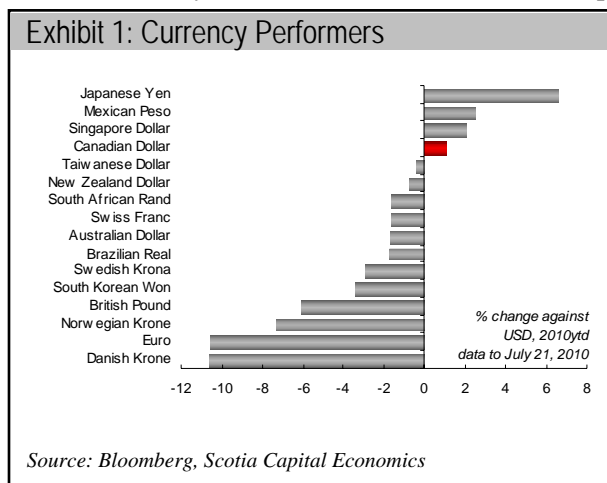
Gorica Djeric, MFE – Financial Markets Economist, Scotia Capital Economics

Karen Cordes Woods, MA – Financial Markets Economist, Scotia Capital Economics (presently on maternity leave)

We take this opportunity to collect and update some of the key macro themes that we have discussed with clients in the recovery phase over the past year since they are still reflective of our current views coupled with a few recent additions. While nailing near-term data volatility is a challenge at best, we hold true to the spirit of holding ourselves accountable for thematic views and updating them.

1. Over-Weight Canada in Global Portfolios

No one has benefitted from global safe haven flows more than the USD since equities began sliding, but Canada has also been deserving of an over-weight status in global portfolios. As one example, consider the outperformance of CAD against the USD cross so far this year compared to the majority of other currencies (Exhibit 1). The same chart can be crafted for the performance of the TSX against global equity benchmarks to yield the same conclusion of out-performance. Out-performance means doing so on the

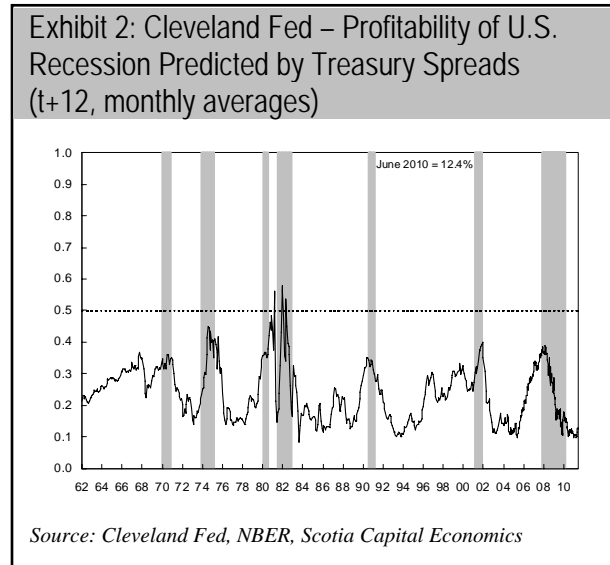


downside of global markets as much as it does on the upside of the risk trades, and Canada has done well in both directions. Our advice to over-weight the country over the past year has worked well, and we continue to adhere to it. Why? As we've written before, Canada deleveraged in the painful 1990s on both government and corporate balance sheets and thus was well situated going into the crisis during which much of the rest of the world first discovered the process of deleveraging. When confronted by several of the challenges we flag below, Canada offers fewer relative worries than elsewhere. Lagged mandate shifts by global portfolio managers and central banks are likely to retain trend strength in CAD relative to most currencies.

2. Global Growth Deceleration

We remain of the view that global growth will wane materially later this year into next after the temporary 'V' that has mostly run its course now. There are four reasons for this. One is that the 'V'-shaped recovery in global industrial production that has been driven by automatic inventory and production cycle stabilizers is coming to a close. That does not mean that growth will go away; it means it will continue slowing. Two is that we believe even more than ever that the next several years will be marked by a variety of rolling fiscal shocks that are unpredictable in their timing and exact evolution, but that will depress global growth through risk aversion and the direct fiscal exit pains on growth. Three is that we do not believe that global housing markets are out of the woods as yet, as U.S. housing still faces structural problems, and markets like China and Canada are likely to see cooling housing markets emerge over the rest of the year and into next. Lastly, Basel III and its possible implementation by 2012 will indeed depress growth by raising capital and liquidity standards that may assist long-run stability, but challenge loan growth.

3. No U.S. Double Dip in the Near Term



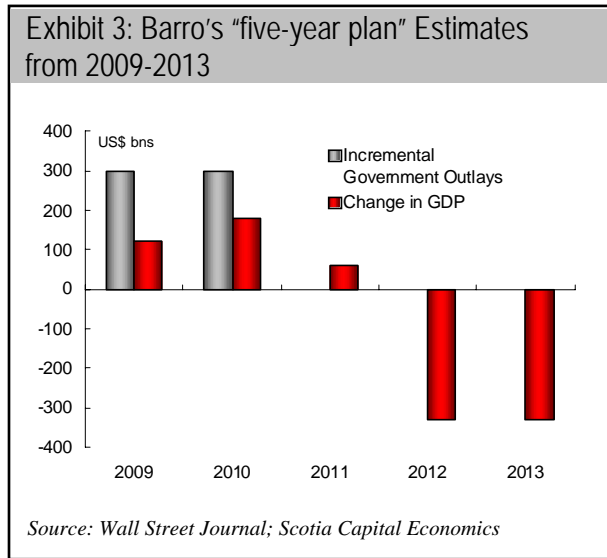
Markets are gyrating between optimistic bottom feeding and concerns about a double dip in the U.S. economy. Part of this is based on what the slope of the U.S. yield curve is telling us (more in a moment), and also on the ECRI's weekly leading indicator of U.S. growth that has been falling since the beginning of June. Be wary of this gauge, however, in that it also fell sharply right after October 1987 but without being followed by a recession. In fact, several of its components are financial-market driven, and they have recently turned back upward such that this gauge may itself witness a return to growth. The key point is to recognize that after having gone down so abruptly, and then back upward so sharply over the past two years, many leading growth indicators are now likely to go through a volatile consolidation phase that remains supportive of mild growth.

On balance, we don't think a double dip is needed in the near term to cause concern, as a sharp disappointment on growth at still positive but waning and lackluster rates is enough to do it. That said, there is some controversy over what the slope of the yield curve is saying about the one-year forward growth outlook. A recently released paper from the Cleveland Fed that was picked up by media outlets threw some controversy into the fray (Exhibit 2). It says the probability of recession one year from now has gone up from 7% in April to 10% in May and now 12.4%. Big deal. As the last chart in the link shows, their probit equation for converting the curve slope to a probability of recession has never really gone below predicting a 10-15% probability of recession in past cycles, even in the best of boom times. Contrast this to the New York Federal Reserve's probit equation that says the likelihood of a recession over the next year is zero. Our own update of their model shows that it still predicts a zero chance. The discrepancy may arise from differences in estimates of probit coefficients and the time period used in estimation. Also, the New York Fed uses secondary market rates for the three-month yield, while the Cleveland Fed uses Treasury Constant Maturity. Nevertheless, what the Fed New York's model calls zero chance in current and past cycles, the Fed Cleveland model calls 10-15%, as the two carve out different floors on probability readings over full cycles. Thus, both models are saying that a recession is highly unlikely, and some media outlets exaggerated the results. That said, we're still sticking to our view of the past year that after a short-lived 'V', growth will slow abruptly in 2010H2 onward and set itself up for a possible outright retrenchment by 2012 just in time for a presidential election.

Upon further surveying four leading economic indicators – one market determined and three constructed – it appears that the likelihood of a U.S. downturn in the next six to twelve months is remote, at least for now, supported by capital investment, inventory contributions and a mild pace of consumer expansion.

4. But Downsides to U.S. Growth in 2012

Scotia Economics is forecasting that U.S. growth will slow to a two handle q/q annualized pace later this year and into next. That's out of line with what a number of the risk trades had priced, and that's part of the reason for the current repricing we've experienced since late Spring and that we had flagged as a risk coming into the year. But sharper concerns exist come 2012. That's when the current fiscal exits facing the U.S. economy start to be confronted. Harvard economist Robert Barro argues that this would shave several hundred billion dollars off of U.S. GDP in each of 2012 and 2013 (see Exhibit 3). That represents a shock to U.S. growth on the order of about 3 percentage points in each year. To absorb that without a renewed period of flat to declining U.S. GDP would require private demand to grow at a 5-6% pace and



thus barely squeezing out 2ish range GDP growth. That would be a particularly strong rate of growth in private demand that far into recovery, and particularly considering that fiscal exits will eat away at private demand itself through higher taxes and or less spending and transfers. At this point, it is not clear that the U.S. Treasury market and the USD will retain their safe haven status at that time. If fiscal stimulus is enhanced, we think that only creates a higher short-lived peak from which to fall much harder thereafter.

As for state and local governments, event risk will remain high. It is encouraging that State governments have experienced a return to uneven but positive revenue growth, but expenditure pressures will make for challenges in state finances for years to come.

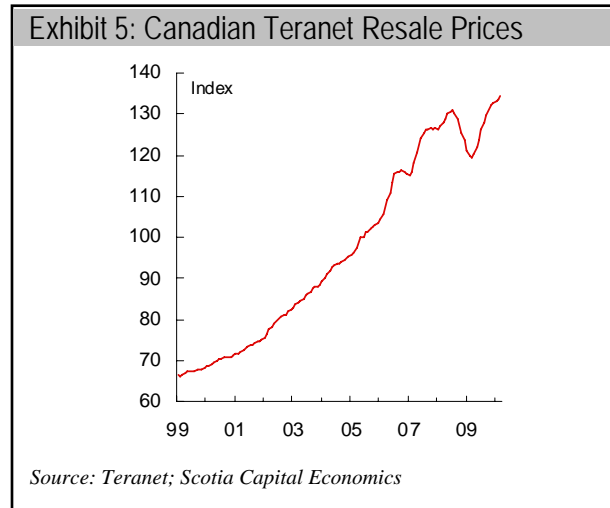
5. U.S. Housing Not Out of the Woods Yet



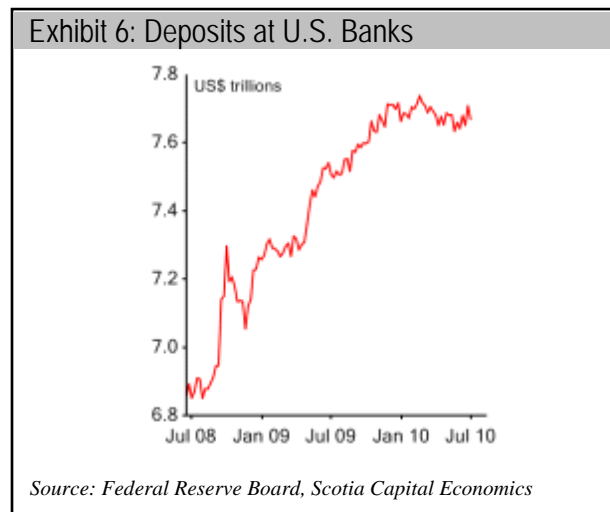
The extent to which housing incentives have brought forward demand is one reason why the U.S. faces renewed housing downsides. The second reason is the enormous amount of sidelined shadow housing inventories that easily double the true months' supply metric compared to the fictitious measure that only includes listed product (Exhibit 4). As banks face increasing pressure to conform to higher standards for capital adequacy and liquidity, it is likely that the years ahead will see this record level of sidelined inventory come back into the market. Virtually flat prices for years is a base case scenario, but the risk of renewed downside moves in house prices is material. Either way, there will be no material wealth effect for main street U.S. consumers in this cycle.

6. Canadian House Price Downsides

Canadian house prices are at a record high practically any way you slice it. Exhibit 5 depicts the Canadian equivalent to the repeat-sales S&P Case Shiller measure used in the U.S. Over the past decade, this measure of Canadian house prices has doubled, just as the U.S. did over 2000-06. We think housing markets cool off over the remainder of the year, and modest downsides to prices are possible. But we continue to believe that



the macroeconomic and microeconomic nature of the Canadian mortgage market is so distinctly different than the U.S. that Canadian credit markets will remain insulated from the effects of a modest retrenchment. But what will exert downside risks to prices going forward are the return of supply through expansion of resale listings and new home construction, the exhaustion of previous pent-up demand, mortgage rule changes, the Harmonized Sales Tax that arrived on Canada Day and that dings new homes, waning housing stimulus, rate increases, and a flattened equilibrium on product adoption rates for newly introduced mortgage products since rules were liberalized in early 2007.



7. Sustained U.S. Consumer Recovery

A gentle sustained recovery in U.S. consumer spending is reasonable to expect. It will remain below the rates of past cycles, but positive into next year. High cash and near-cash balances on household balance sheets are gradually being redeployed by consumers (Exhibit 6) after having been run up sharply through the crisis phase. The positive liquidity effect on spending is trumping the negative wealth effect and driving trend growth in consumer spending and a lower saving rate.

If we're right on jobs (see Theme #8 below), then that liquidity effect on incomes should carry the ball forward on a sustained but soft consumer recovery into next year.

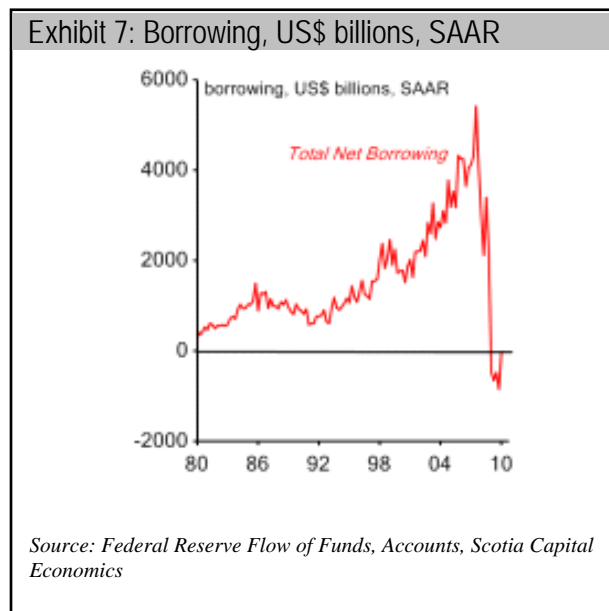
8. Two Million U.S. Jobs in 2010

One theme that may be in trouble, but that we're not prepared to abandon as yet, is our view that 2+ million jobs would be created in the U.S. economy this year. If we ignore the entire public sector given Census distortions that add jobs in 2010H1 but drop them all over 2010H2, then just private payrolls are up by almost 600,000 so far this year from January to June. To hit two million over the remaining seven months would require the ex-Census job figures to rise by a monthly average of roughly 230,000. Waning productivity growth, continued hiring of temp workers, and expanding hours worked are all consistent with continued trend job growth. We remain optimistic that our forecast can be reached.

9. On Track for Record Job Growth in Canada During 2010?

At the start of the year, we forecast that Canada would create a quarter-million jobs in 2010. At the time, it was a fairly bullish call and a key part of our view that the Canadian consumer would outperform those in many other markets and therefore justify continued BoC rate hikes. Well, a half-year into the forecast and Canada has already generated 308,000 jobs (no, that's not annualized). Yes, we're embarrassed, but pleasantly so. Since the Labour Force Survey began in 1976, the strongest annual gain for Canadian jobs was in 2002 when about 580k jobs were grown. We may be on pace to break this record for the year as a whole, especially if employer expectations as captured in the Bank of Canada's *Business Outlook Survey* are on the mark, but we think even a material trend slow-down in job creation will make this one of the best job creation years in history. Clearly, we were not bullish enough in what we thought at the time to be a dicey call. Canada remains one of the best-performing job markets in 2010 with only Australia and South Korea anywhere close to being in the same league.

10. Crowding in of Treasury Issuance to Continue

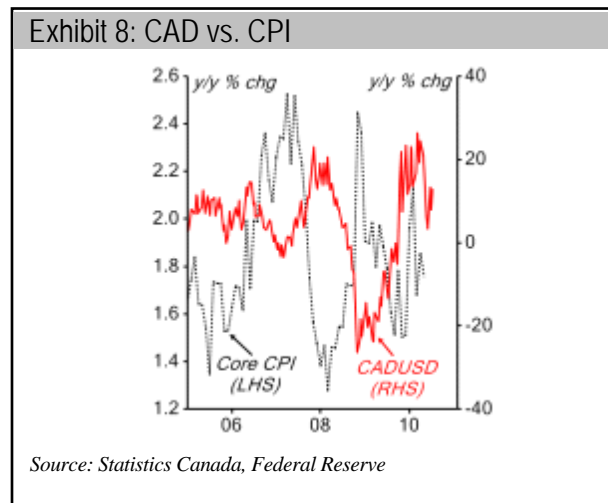


Concerns about high levels of Treasury issuance have often been exaggerated in terms of implications for the curve. Some say the Treasury market is a bubble. But what such concerns have failed to consider is that private credit is so exceptionally weak that high levels of government issuance can occur without impairing the overall curve given little competition for capital. Overall economy-wide borrowing by all sectors of the U.S. economy remains in net debt-retirement mode (Exhibit 7). Thus, Treasury issuance has been crowding in behind debt retirement in other sectors of the U.S. economy. That may start to change into next year as (net) private credit begins a gentle recovery and shadow banking products continue to return, but the result should still be a reasonably well anchored Treasury market particularly in the context of safe haven seeking on Europe's debt troubles and slowing U.S. growth.

11. Bank of Canada Will Continue Tightening

The BoC did the expected on June 1st and July 20th, but has thrown a wrench into the works via a confusing bias that clouds the waters on possible future rate moves. The key to formulating views on where the BoC is headed in future meetings lies in interpreting the bias. Not so much whether it was dovish or neutral, although we think neutral is the best characterization. But why the BoC would have a cautious bias and how much to read into that is key. That neutral bias should not be the foundation for attempts at forecasting future rate moves. It's simply there to keep markets guessing so they don't prematurely tighten ahead of when the BoC is prepared to do so itself. But tighten, the BoC should well do steadily over coming months. Canada faces slower growth than the initial spurt that occurred in the early stages of recovery, but not a return to emergency conditions, and therefore emergency lows for interest rates is no longer warranted. That said, a neutral bias that discourages short-term market yields and the Canadian dollar from pricing in a full cycle of rate hikes is indeed compatible with an incrementalist approach to overnight rate hikes with September 8th next on tap. Indeed, we think the BoC faces a case for hitting rates harder than the bias indicates. Financial innovation in Canada serves the role of blunting the effects of higher rates in this cycle through giving households greater control over principal payment schedules through revolving lines of credit and extended amortization mortgages. Additionally, wage disinflation has stopped in Canada. Further, credit channels have become distorted by a housing boom that has skewed credit growth toward what are often equity-linked products including lines of credit. Combined with a more rapidly closing output gap than

forecast earlier this year, vast improvements in funding conditions, and sticky rates of core inflation, the BoC has all the reason it needs to continue hiking modestly — taking rates off the emergency floor but still preserving a low rate environment to absorb the many challenges that lie ahead with an overnight rate of 2.25% by late next summer. At the end of the day, growth in Canadian GDP has been principally driven by the domestic economy for the past decade while net trade has been a drag on growth through much of this period. We expect that to remain the case such that current concerns about global growth should take a back seat to a vibrant domestic economy that has excellent consumer cash flow drivers ahead of it. Further, while the US is deleveraging, Canada is leveraging higher particularly in the household sector. Canadian money multipliers and the velocity of money in circulation remain strong, while the US is mired in a liquidity trap. If ever there was a case for the Bank of Canada to tighten policy more aggressively than the Fed, then it is today on domestic strengths in the Canadian economy and a fundamentally different debt cycle.



12. CAD's Impact is Over-Stated

What impact will an elevated CAD have upon the economy, markets, and inflation? In a nutshell, the economy has evolved, and so has CAD's role such that growth worries should be sharply lessened while inflation proves fairly unaffected by an elevated currency this time around. That lessens the worry that the BoC should not tighten in advance of the Fed, versus carving out an independent Canadian exit. In fact, core inflation and CADUSD movements have only been correlated over the past 5-7 years (Exhibit 8). This is a new development that did not hold over the much longer term, and the relationship broke down over the past year when core inflation trended up despite an elevated CAD's role on import prices.

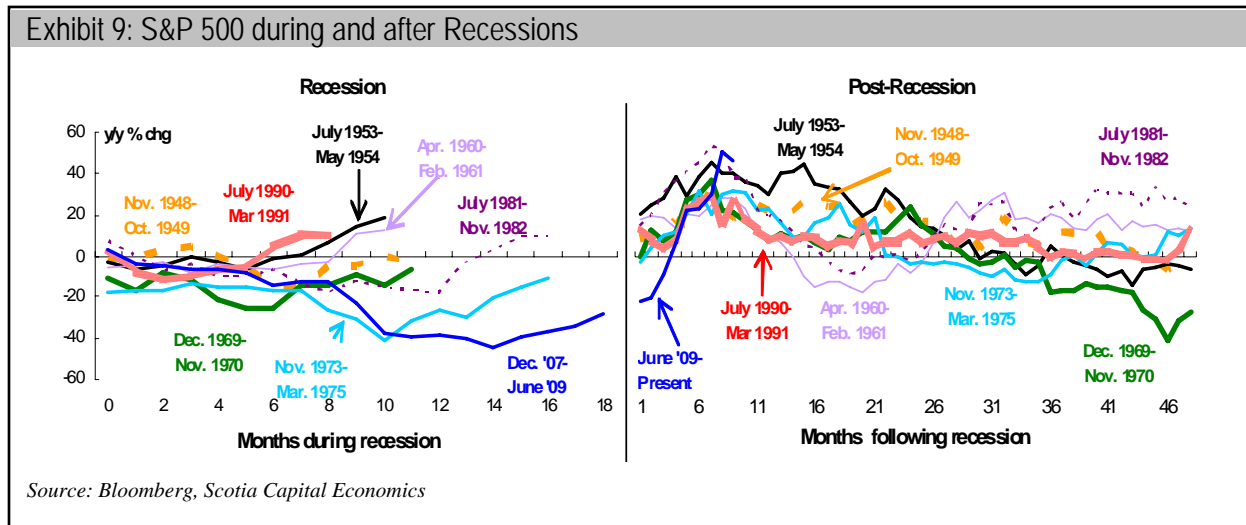
13. Euro Zone Will Remain Intact

Yes, the Euro will likely face renewed weakness as the harshest headlines on growth and austerity measures still lie ahead. But forecasting the demise of the euro zone through abandonment by some members is nonsense in our view. This has always been more about politics since the Treaty of Rome, than economics. Abandoning the euro zone would cause greater problems for those countries that leave than it would solve, and ditto for the ones left behind. In a more general context, we believe that the Euro zone will use its current crisis to advance progress on common capital markets perhaps by embracing Robert Mundell's notion that it could work toward a single U.S.-style Treasury market to address the challenges associated with fragmented capital markets (or perhaps a Euro Brady-style bond), and/or that it will impose greater prudential oversight across the finances of member nations to be expressed on more commonly defined terms. Along this path, Europe has proven its ability to respond to crisis. It retains considerable policy flexibility to address what lies ahead, when its current aid package is properly viewed as dominated by contingent liabilities of which only a fraction have been triggered. Those contingent liabilities will expire and perhaps be replaced by new ones as the crisis evolves. Also, possible debt restructuring among some members is improperly viewed as tantamount to the failure of the Euro zone. The U.S. itself has restructured debts through crisis over the years, yet the US dollar has remained intact.

Yet there's a case to be made to the effect that Europe is confronting fiscal largesse while America sleeps. That's been our off-consensus dialogue with clients for a while now. The near-gleeful talk of Euro break-up in the coverage on this side of the Atlantic ignores the challenges that have been experienced and overcome by currency unions in the U.S. and Canada over time, and utterly neglects U.S. fiscal headaches. The contest between who is postponing the greatest difficulties is on: is it Europe, by delaying needed adjustments, or America, by sitting on its hands only to face a less forgiving climate for the USD into 2011-13? We explored this in Theme #4 on downsides to U.S. growth in 2012.

14. Turning Points

In our December 19, 2008 article titled “Turning Points,” we argued that a bottom hasn’t been reached as yet in the risk trades but that the recession would end by the end of 2009 and a substantial rally in the risk trades would likely start 6-9 months prior. That turned out to be partly on the mark. The timing and direction were roughly right, but the magnitude of the gains was greater than expected. Does that mean the next leg is sustainably down on a higher-than-expected starting point? We can’t offer anything from past cycles that would say that this is obviously going to happen. Exhibit 9 compares past cycles in the S&P 500. Past rallies of a comparable magnitude to what this one offered usually did not face sharp corrections within a year to a year-and-a-half after the end of the recession. But there were two exceptions: the recessions of April 1960-February 1961, and July 1981-November 1982. In both cases, however, they were buy-on-dip arguments that then unfolded. The recession of November 1973-March 1975 was another example and the S&P generally remained in a muted environment starting less than two years after the end of the recession. That said, we’ve never witnessed fiscal exits of such global magnitudes as today, coupled with still-strong negative wealth effects in a number of economies.



Feature Article

Geoff Ho, CFA — Director, Portfolio Advisory Group

Weathering Market Volatility: Focus on Strong Balance Sheets & Dividends

Reminiscent of 2008 and early-2009, extreme volatility in global equity markets have resurfaced over the past few months as a result of rising concerns over fiscal situations throughout the European region, signs of decelerating economic growth in China, and also fear of potential conflicts in Korea and the Middle East. Coupled with relatively stagnant labor markets in the U.S., the culmination of this has led to questions over the prospects of the global economic recovery and the sustainability of the year-long rally in equity markets that began in the spring of 2009.

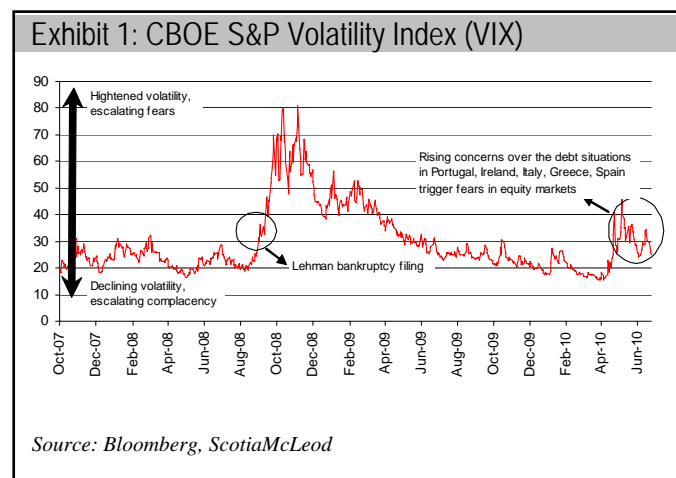
The Portfolio Advisory Group had been encouraging investors to trim their equity exposure since April when equity markets in North America were trading near 52-week highs and as the emerging risks outweighed possible rewards at those levels. Over the near term we maintain that cautious stance as we believe that the extreme market volatility will persist. The credit crunch in Europe is far from over and other risks such as a possible relapse of the U.S. housing market present valid risks. Accordingly, we continue to recommend investors remain nimble and tactical in this precarious market and would advise investors to place particular emphasis on sustainable yields and strong balance sheets over the next several months. By no means are we forecasting a market plunge to the lows reached in March 2009 (which would mean a fall of ~40% from current levels on the S&P) given strong corporate balance sheets in North America but nonetheless, it is important to be mindful of the above risks and the related impact on economic growth and a material earnings recovery.

Looking longer term, we are of the view that the global deleveraging process will weigh on economic growth but at the same time, will continue to encourage accommodative monetary policies. Despite what may be lackluster earnings growth and economic activity, low interest rates will certainly be supportive for equity markets. Equity returns will be more attractive than many other asset classes in an environment of perpetually low rates.

With that as a backdrop, we address the following points in this report:

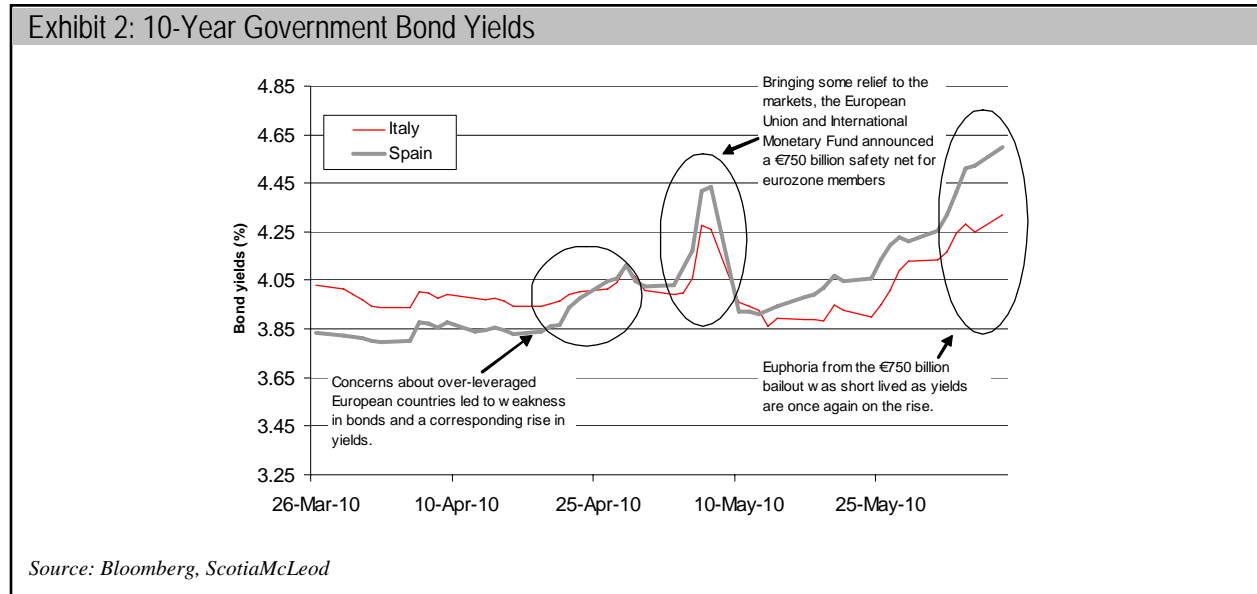
- Risk/reward profile improving, and volatility (or fear) is escalated...but not quite there yet.
- Low rates, stronger balance sheets will ultimately support equity markets.
- List of companies trading on S&P/TSX that have regularly increased dividends since 2008.

Risk/reward profile improving, and volatility (or fear) is escalated...but not quite there yet

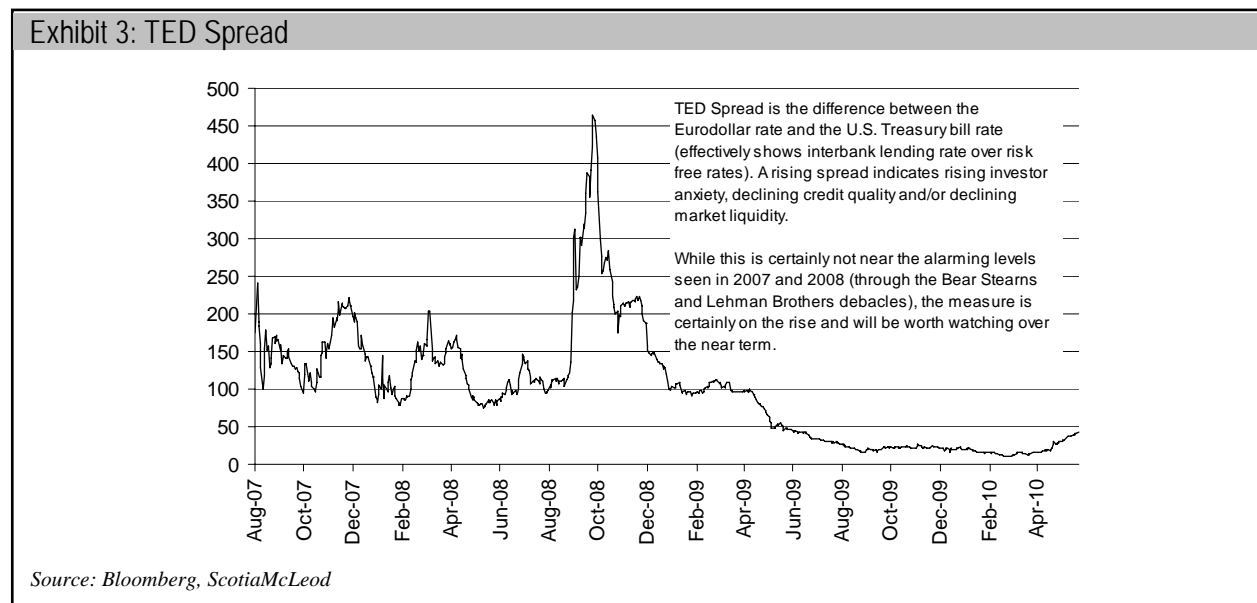


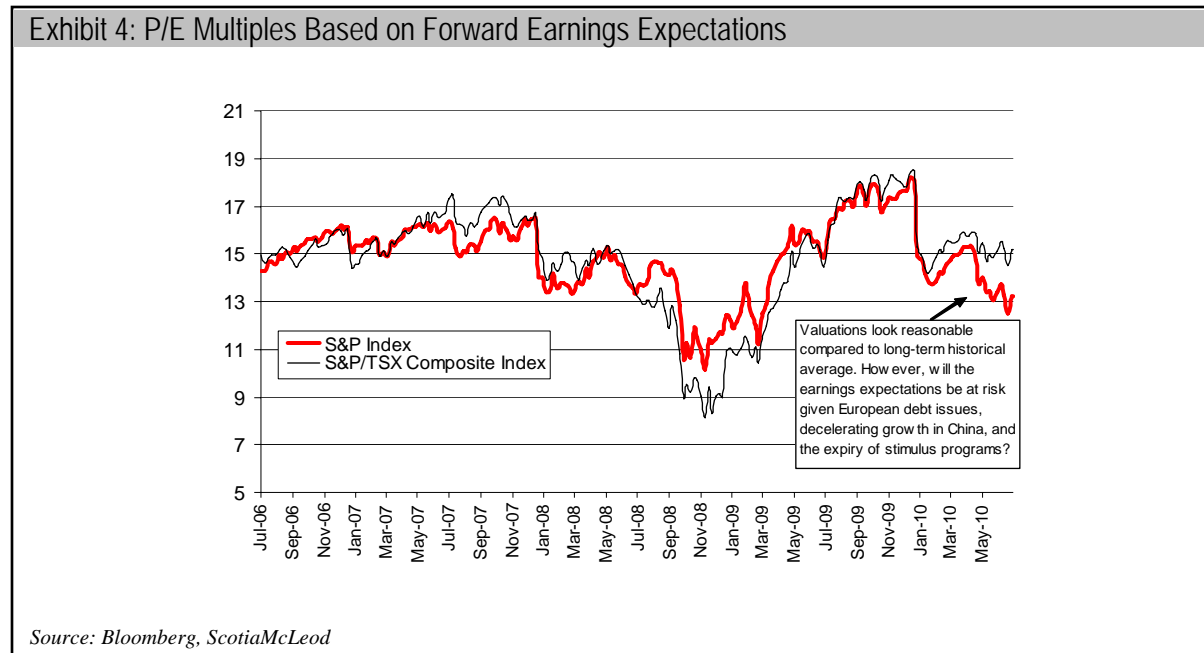
The VIX Index which is often used as a proxy for market volatility (based on options activity on the CBOE) has climbed to levels not seen since Lehman Brothers filed for bankruptcy back in September 2008. Concerns over public finances throughout the Euro zone, moot economic data, and slowing activity in emerging markets has certainly shaken investor confidence in recent months.

Indeed, the equity market's risk/reward profile has improved markedly over the past few months with the S&P 500 correcting approximately 12% and the S&P TSX Composite Index falling close to 6% below the 52-week highs set in April 2010. Currently, based on forward earnings expectations, investors are valuing the S&P 500 Index at 13.2x EPS and the S&P/TSX Composite Index at 15.2x; this compares to the long-term historical average of 14.9x on both indices.



Despite this market pullback and current valuations, however, there continues to be a number of potential headwinds that could serve as an overhang on the market including the possibility of contagion with regards to the European debt crisis (could possibly spread to other countries and further impact the banking system as a whole; also the possibility of defaults, in our opinion, are real possibilities), the upcoming expiry of various government stimulus programs and incentives, and the possibility of a relapse of the U.S. housing market. With regards to the first issue, we note that government bond yields in Europe have been on the rise recently despite the €750 billion 'safety net' announced by the European Union and the International Monetary Fund. Also, reminiscent of the dire crisis within the U.S. banking system that occurred last year, it is also worth mentioning that the usage of the ECB's overnight deposit facility remains elevated (over €350 billion in early-June).





Accordingly, from a fundamental perspective, we remain cautious on the market in the near term and recommend investors remain nimble until some of the uncertainties are addressed (ie. more defined and stringent fiscal policies in Europe, job creation in the U.S., stabilization in the Chinese market and correspondingly, the Shanghai stock market), the volatility has subsided, and the risk/reward proposition skews more in favor of the investor. Once again, we emphasize that this is not an apocalyptic forecast that sees equity markets testing the lows reached in March 2009, but nonetheless, it is important to be mindful of the above risks and the related impact on economic growth and a material earnings recovery. The current forward P/E ratios could be at risk if earnings power erodes. Accordingly, we would advise investors to focus on sustainable yields and strong balance sheets over the next several months.

Low rates, stronger balance sheets will ultimately support equity markets

In our opinion, these risks and the possibility of muted economic growth over the near-to-medium time horizon ultimately translates into an extended period of low interest rates as central banks will continue to focus on reflating the global economy. Alongside the fact that many corporations have shored up their balance sheets over the past 12 months through numerous debt and equity issuances, these two factors should serve as key support for markets. Accordingly, we believe that this near-term volatility should be used as a due diligence period focused on developing a list of core holdings that investors should have in their portfolio once the market settles.

List of S&P/TSX companies that have regularly increased dividends since 2008

Consistent with the theme of focusing on sustainable yields and strong balance sheets over the next several months, we have updated the table of Toronto-listed companies that have increased dividends since 2008. We continue to believe that dividend increases are often a good indicator of management's and board of directors' confidence in the strength of the company's capital position and operating outlook. Companies that have consistently done so are likely a good place to start when looking for places to weather out the volatility and for the leaders once the economic growth resumes.

At this stage and at current valuations, here are some of the strategies and views that we would like to share pertaining to the list of companies that have increased dividends over the past two years:

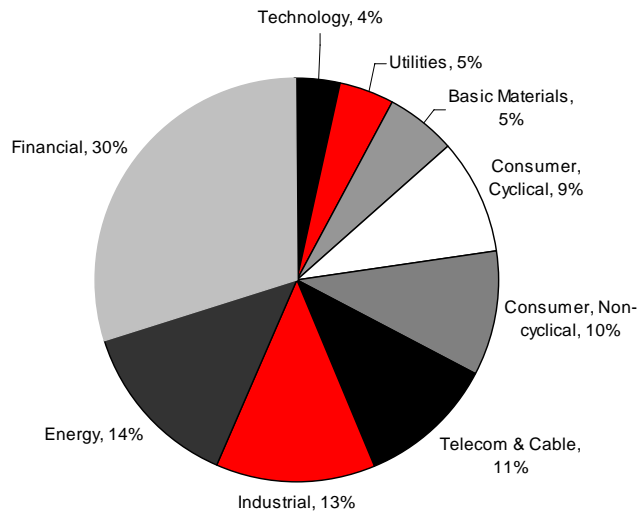
Exhibit 5: Consistent Dividend Growers		
Ticker	Company	# of dividend increases since 2008
CMG	Computer Modelling	5
HCG	Home Capital Group	5
EMA	Emera Inc.	4
HLF	High Liner Foods	4
PNG	Pacific Northern Gas	4
ACO.X	Atco Ltd	3
GBT.A	BMTC Group	3
CTY	Calian Technologies	3
CCL.B	CCL Industries	3
CNQ	Cdn Natural Resources	3
CU	Cdn Utilities	3
CNR	CN Railway	3
CSU	Constellation Software	3
ENB	Enbridge	3
FFH	Fairfax Financial	3
FTS	Fortis	3
IFC	Intact Financial	3
MRU.A	Metro Inc.	3
PSI	Pason Systems	3
RCI.B	Rogers Comm.	3
RGL	Royal Gold	3
SJR.B	Shaw Communications	3
SNC	SNC Lavalin	3
TRI	Thomson Reuters Corp	3
THI	Tim Hortons	3
TRP	TransCanada	3

Source: TSX, Bloomberg, ScotiaMcLeod

- We caution that the list includes a number of companies that have a small market capitalization and may therefore be illiquid. As well, there are a number of companies on the list that are more cyclical and/or commodity-related in nature (14% energy, 14% industrial, 9% consumer discretionary, 5% basic materials) and as such, we would not necessarily expect to see stable dividends over a longer-term period. Notwithstanding these potential exceptions, the list identifies a number of large capitalization stocks that have an excellent track record of operational performance and that have increased dividends over the past year. By no means will any of these companies necessarily continue to increase dividends in the near term (in fact, depending on economic outlook and commodity prices, there may even be a risk of dividend cuts) but nonetheless, this list should help to identify some of the stronger companies that could be added to a portfolio depending on risk tolerance, time horizon as well as sector and asset allocation.
 - Overall, 37 companies raised their dividends in Q1 2010. Alimentation Couche Tard (ATD.B) was the only new addition to the list this recent quarter, having raised its quarterly dividend to \$0.40 from \$0.35 per share.
- As listed, there have been 26 companies that have consistently increased dividends three or more times since the beginning of 2008. Some of our preferred names on this list at current prices include Canadian Natural Resources (CNQ), SNC Lavalin (SNC), and TransCanada (TRP).
 - Corresponding to our investment thesis stated at the beginning of this report, we would prefer more stable, less economically- and market-sensitive stocks in this environment.
 - Our preferred investment within the financial sector is Great-West Lifeco (GWO) given the company's conservative operating practices, strong Minimum Continuing Capital and Surplus (MCCSR) ratio of 202% and attractive 5% yield.
 - Another group that presents excellent earnings visibility with reasonable valuations and attractive yields are pipelines and utilities. Our order of preference currently stands at TransCanada (TRP), TransAlta (TA), Enbridge (ENB), and Fortis (FTS).

- For patient investors, we also believe that a number of names within the energy sector present compelling value. Certainly, this sector will likely remain rather volatile in the near term but for the most part, a number of these companies offer attractive and sustainable distributions. The sector provides good leverage to an eventual economic recover and in the mean time, investors are effectively ‘getting paid to wait’. One of the higher yielding energy names that appear on the list is Husky Energy (HSE). The company is a conservative way to play the energy sector with its modest growth and pristine balance sheet. Another name worth highlighting at current levels is Canadian Oil Sands Trust (COS.un). The trust has maintained somewhat of a variable distribution policy, having raised distributions in Q3 and Q4 in 2009 and most recently in April 2010 on the back of stronger commodity prices. Scotia Capital believes that the current distribution level is sustainable through 2011, after which distributions are likely to fall as the company becomes taxable and looks to reduce leverage in advance of potentially large capital expenditures for expansion. Despite the chance of a reduction in distributions over the medium term, we believe that COS.un is a great way to gain exposure to oil sands (which we view as a core, unconventional resource).
- The ScotiaMcLeod Canadian Income Plus Guided Portfolio serves as a good reference point for investors seeking income-oriented investment ideas to enhance returns and to capitalize on the tax advantages of dividends. We note that 11 of the 15 holdings in the ScotiaMcLeod Income Plus Portfolio have increased their dividends since the beginning of 2008.

Exhibit 6: Toronto Listed Companies That Have Increased Dividends Since 2008 – Sector Breakdown



Source: Bloomberg, ScotiaMcLeod

Exhibit 7: Companies That Have Increased Dividends Since 2008 (page 1 of 2)

ScotiaMcLeod Income Plus Portfolio			Quarterly Dividend Rate								Implied Yield (July 9, 2010)	Sector	
			Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2 '09	Q3 '09	Q4 '09	Q1 '10		
BOS CN Equity	BOS	Airboss of America	0.0125	0.0125	0.0125	0.0125	0.0125	0.0125	0.02	0.02	0.02	1.5%	Basic Materials
ABX CN Equity	ABX	Barrick Gold	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.9%	Basic Materials
CCO CN Equity	CCO	Cameco	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.07	1.1%	Basic Materials
FNV CN Equity	FNV	Francis Nevada	0.06	0.06	0.06	0.06	0.07	0.07	0.07	0.07	0.07	0.9%	Basic Materials
K CN Equity	K	Kinross	0.02	0.02	0.02	0.02	0.02	0.02	0.025	0.025	0.025	0.6%	Basic Materials
MX CN Equity	MX	Methanex	0.14	0.155	0.155	0.155	0.155	0.155	0.155	0.155	0.155	3.0%	Basic Materials
RGL CN Equity	RGL	Royal Gold	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.09	0.09	0.8%	Basic Materials
AAH CN Equity	AAH	Aastra Technologies	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.15	0.20	3.1%	Communications
BCE CN Equity	BCE	BCE Inc.	0.37	n.a.	n.a.	0.365	0.385	0.385	0.405	0.405	0.405	5.1%	Communications
CCA CN Equity	CCA	Cogeco Cable	0.10	0.10	0.10	0.12	0.12	0.12	0.12	0.14	0.14	1.6%	Communications
CGO CN Equity	CGO	Cogeco Inc.	0.07	0.07	0.07	0.08	0.08	0.08	0.08	0.10	0.10	1.4%	Communications
CJR/B CN Equity	CJR,B	Corus Entertainment	0.14	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	3.1%	Communications
GLN CN Equity	GLN	Glentel Inc.	0.0825	0.0825	0.0825	0.0825	0.0825	0.09	0.09	0.09	0.09	2.3%	Communications
MHR CN Equity	MHR	McGraw-Hill Ryerson	0.23	0.24	0.24	0.24	0.24	0.255	0.255	0.255	0.255	1.9%	Communications
MXK CN Equity	MXK	MKS Inc.	0.10	0.10	0.10	0.10	0.10	0.125	0.125	0.15	0.15	5.1%	Communications
RCI/B CN Equity	RCI,B	Rogers Comm.	0.25	0.25	0.25	0.25	0.29	0.29	0.29	0.29	0.32	3.5%	Communications
SJR/B CN Equity	SJR,B	Shaw Communications	0.18	0.18	0.20	0.20	0.21	0.21	0.21	0.21	0.22	4.4%	Communications
T CN Equity	T	Telus	0.45	0.45	0.45	0.475	0.475	0.475	0.475	0.475	0.475	4.6%	Communications
TRI CN Equity	TRI	Thomson Reuters Corp	0.27	0.27	0.27	0.27	0.28	0.28	0.28	0.28	0.29	3.0%	Communications
ATD/B CN Equity	ATD,B	Alimentation Couche Tard	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.035	0.04	0.8%	Consumer, Cyclical
GBT/A CN Equity	GBT,A	BMTC Group	0.0425	0.0425	0.045	0.045	0.045	0.045	0.05	0.05	0.0525	1.1%	Consumer, Cyclical
CTC/A CN Equity	CTC,A	Cdn Tire Corp	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	1.5%	Consumer, Cyclical
PJC/A CN Equity	PJC,A	Jean Coutu	0.04	0.04	0.04	0.04	0.04	0.045	0.045	0.045	0.045	2.1%	Consumer, Cyclical
CTU/A CN Equity	CTU,A	Le Chateau	0.13	0.15	0.175	0.175	0.175	0.175	0.175	0.175	0.175	5.7%	Consumer, Cyclical
LNR CN Equity	LNR	Linamar	0.06	0.06	0.06	0.06	0.03	0.03	0.03	0.03	0.06	1.3%	Consumer, Cyclical
RCH CN Equity	RCH	Richelieu Hardware	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.09	1.4%	Consumer, Cyclical
SC CN Equity	SC	Shoppers Drug Mart	0.215	0.215	0.215	0.215	0.215	0.215	0.215	0.215	0.225	2.5%	Consumer, Cyclical
THI CN Equity	THI	Tim Hortons	0.08	0.09	0.09	0.09	0.10	0.10	0.10	0.10	0.13	1.5%	Consumer, Cyclical
UNS CN Equity	UNS	Uni-Select	0.1075	0.1075	0.1075	0.1075	0.1165	0.1165	0.1165	0.1165	0.1165	1.7%	Consumer, Cyclical
ADW/A CN Equity	ADW,A	Andrew Peller	0.075	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	0.0825	3.8%	Consumer, Non-cyclical
CTY CN Equity	CTY	Calian Technologies	0.12	0.15	0.15	0.15	0.15	0.17	0.17	0.17	0.20	4.5%	Consumer, Non-cyclical
EH CN Equity	EH	Easyhome	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085	0.085	4.0%	Consumer, Non-cyclical
EMP/A CN Equity	EMP,A	Empire Co	0.17	0.175	0.175	0.175	0.175	0.185	0.185	0.185	0.185	1.4%	Consumer, Non-cyclical
HLF CN Equity	HLF	High Liner Foods	0.05	0.05	0.055	0.055	0.055	0.0625	0.07	0.08	0.075	2.8%	Consumer, Non-cyclical
LAS/A CN Equity	LAS,A	Lassonde Industries	0.13	0.215	0.215	0.215	0.215	0.27	0.27	0.27	0.27	2.0%	Consumer, Non-cyclical
MRU/A CN Equity	MRU,A	Metro Inc.	0.13	0.13	0.13	0.13	0.1375	0.1375	0.1375	0.1375	0.17	1.6%	Consumer, Non-cyclical
PTO CN Equity	PTO	Pareto Corp.	0.00	0.00	0.00	0.00	0.015	0.015	0.015	0.015	0.02	5.6%	Consumer, Non-cyclical
RBA CN Equity	RBA	Ritchie Bros	0.08	0.08	0.09	0.09	0.09	0.09	0.10	0.10	0.10	2.1%	Consumer, Non-cyclical
SAP CN Equity	SAP	Sspulo	0.12	0.12	0.14	0.14	0.14	0.145	0.145	0.145	0.145	1.8%	Consumer, Non-cyclical
TCLA CN Equity	TCLA	Transcontinental	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.09	2.8%	Consumer, Non-cyclical
BNE CN Equity	BNE	Bonterra Oil & Gas	0.67	0.77	0.96	0.78	0.40	0.38	0.42	0.48	0.54	6.3%	Energy
CNQ CN Equity	CNQ	Cdn Natural Resources	0.05	0.05	0.05	0.05	0.0525	0.0525	0.0525	0.0525	0.075	0.8%	Energy
ENB CN Equity	ENB	Enbridge	0.33	0.33	0.33	0.33	0.37	0.37	0.37	0.37	0.425	3.3%	Energy
ECA CN Equity	ECA ²	Encana	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.20	0.20	2.3%	Energy
ESI CN Equity	ESI	Ensign Energy	0.0825	0.0825	0.0825	0.085	0.085	0.085	0.085	0.0875	0.0875	2.8%	Energy
HSE CN Equity	HSE	Husky Energy	0.33	0.40	0.50	0.50	0.30	0.30	0.30	0.30	0.30	4.5%	Energy
IMO CN Equity	IMO	Imperial Oil	0.09	0.09	0.10	0.10	0.10	0.10	0.10	0.10	0.10	1.0%	Energy
NXY CN Equity	NXY	Naxen Inc.	0.03	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.9%	Energy
PNG CN Equity	PNG	Pacific Northern Gas	0.22	0.22	0.22	0.22	0.23	0.23	0.25	0.25	0.28	4.4%	Energy
PSI CN Equity	PSI	Pason Systems	0.05	0.05	0.06	0.06	0.06	0.07	0.07	0.07	0.07	2.5%	Energy
SCLA CN Equity	SCLA	Shawcor Ltd.	0.06	0.065	0.065	0.065	0.065	0.07	0.07	0.07	0.07	1.1%	Energy
SU CN Equity	SU	Suncor	0.05	0.05	0.05	0.05	0.05	0.10	0.10	0.10	0.10	1.2%	Energy
TLM CN Equity	TLM	Talisman Energy	0.05	0.05	0.05	0.05	0.0525	0.0525	0.0525	0.0525	0.0525	1.4%	Energy
TRP CN Equity	TRP	TransCanada	0.34	0.36	0.36	0.36	0.38	0.38	0.38	0.38	0.40	4.5%	Energy
ZCL CN Equity	ZCL	ZCL Composites	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	3.4%	Energy
ACD CN Equity	ACD	Accord Financial	0.055	0.055	0.065	0.065	0.065	0.065	0.065	0.065	0.065	4.6%	Financial

Dividend increase
Dividend decrease

1. For companies that pay dividends on an annual or semi-annual basis, we have pro-rated the amount to quarterly data.
2. Encana's lower dividend starting in Q4 2009 relates to the spin off of Cenovus Energy (therefore should not be considered a dividend cut).
Source: Bloomberg, ScotiaMcLeod

Exhibit 8: Companies That Have Increased Dividends Since 2008 (page 2 of 2)

ScotiaMcLeod Income Plus Portfolio	Company	Quarterly Dividend Rate								Implied Yield (July 9, 2010)	Sector	
		Q1 '08	Q2 '08	Q3 '08	Q4 '08	Q1 '09	Q2 '09	Q3 '09	Q4 '09			Q1 '10
ACD CN Equity	ACD Accord Financial	0.055	0.055	0.065	0.065	0.065	0.065	0.065	0.065	0.065	4.6%	Financial
AGF/B CN Equity	AGF.B AGF Mgmt	0.20	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.26	7.4%	Financial
AD CN Equity	AD Alaris Royalty	0.00	0.00	0.00	0.24	0.31	0.21	0.21	0.21	0.22	9.0%	Financial
BNS CN Equity	BNS Bank of Nova Scotia	0.47	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.49	3.8%	Financial
BOX-u CN Equity	BOX.un BPO Properties	0.15	0.15	0.15	0.15	0.15	0.15	0.30	0.30	0.30	6.2%	Financial
BAM/A CN Equity	BAM.A Brookfield Asset Mgmt.	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	2.1%	Financial
CWB CN Equity	CWB Canadian Western Bank	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	1.8%	Financial
CSF CN Equity	CSF Cash Store	0.03	0.03	0.03	0.065	0.065	0.065	0.065	0.10	0.10	2.6%	Financial
CIX CN Equity	CIX CI Financial	0.54	0.49	0.51	0.34	0.00	0.260	0.15	0.16	0.16	3.8%	Financial
DW CN Equity	DW DundeeWealth	0.02	0.02	0.02	0.02	0.02	0.02	0.035	0.035	0.07	2.1%	Financial
EFH CN Equity	EFH EGI Financial	0.06	0.06	0.06	0.06	0.07	0.00	0.00	0.00	0.00	0.0%	Financial
EDV CN Equity	EDV Endeavour Financial	0.05	0.05	0.06	0.09	0.03	0.00	0.00	0.00	0.00	0.0%	Financial
FFH CN Equity	FFH Fairfax Financial	1.25	1.25	1.25	1.25	2.00	2.00	2.00	2.00	2.50	2.4%	Financial
GS CN Equity	GS Gluskin Sheff	0.11	0.11	0.11	0.12	0.12	0.12	0.12	0.125	0.125	2.9%	Financial
GWO CN Equity	GWO Great-West Lifeco	0.2925	0.2925	0.3075	0.3075	0.3075	0.3075	0.3075	0.3075	0.3075	5.0%	Financial
GCG CN Equity	GCG Guardian Capital	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	0.0375	1.8%	Financial
HCG CN Equity	HCG Home Capital Group	0.12	0.12	0.13	0.13	0.13	0.14	0.15	0.16	0.16	1.5%	Financial
IGM CN Equity	IGM IGM Financial	0.4875	0.4875	0.5125	0.5125	0.5125	0.5125	0.5125	0.5125	0.5125	5.2%	Financial
IAG CN Equity	IAG Industrial Alliance	0.225	0.225	0.245	0.245	0.245	0.245	0.245	0.245	0.245	2.9%	Financial
IFC CN Equity	IFC Intact Financial	0.31	0.31	0.31	0.31	0.32	0.32	0.32	0.32	0.34	2.9%	Financial
IAM CN Equity	IAM Integrated Asset Mgmt	0.02	0.02	0.02	0.02	0.02	0.00	0.00	0.00	0.00	0.0%	Financial
LB CN Equity	LB Laurentian Bank	0.32	0.32	0.34	0.34	0.34	0.34	0.34	0.36	0.36	3.2%	Financial
MFC CN Equity	MFC Manulife Financial	0.24	0.24	0.26	0.26	0.26	0.26	0.13	0.13	0.13	3.4%	Financial
MKP CN Equity	MKP MCAN Mortgage	0.23	0.23	0.25	0.25	0.25	0.25	0.25	0.26	0.26	8.1%	Financial
MRD CN Equity	MRD Melcor Developments	0.13	0.13	0.085	0.085	0.05	0.075	0.075	0.075	0.075	2.6%	Financial
MRC CN Equity	MRC Morguard Corp.	0.14	0.14	0.14	0.15	0.15	0.15	0.15	0.15	0.15	1.5%	Financial
POW CN Equity	POW Power Corp.	0.24	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29	4.4%	Financial
PWF CN Equity	PWF Power Financial	0.31	0.34	0.34	0.35	0.35	0.35	0.35	0.35	0.35	4.9%	Financial
QC CN Equity	QC Quest Capital	0.03	0.05	0.05	0.05	0.00	0.00	0.00	0.00	0.00	0.0%	Financial
SLF CN Equity	SLF Sun Life Financial	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36	0.36	5.1%	Financial
TD CN Equity	TD TD Bank	0.57	0.59	0.59	0.61	0.61	0.61	0.61	0.61	0.61	3.4%	Financial
WFC CN Equity	WFC Wall Financial	0.125	0.125	0.075	0.075	0.075	0.075	0.10	0.10	0.10	4.0%	Financial
WES CN Equity	WES Western Financial	0.01	0.01	0.0107	0.0107	0.0107	0.0107	0.0107	0.0107	0.0107	1.7%	Financial
ALC CN Equity	ALC Algoma Central	0.35	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	2.4%	Industrial
CAE CN Equity	CAE CAE Inc.	0.01	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	1.2%	Industrial
CCLB CN Equity	CCLB CCL Industries	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.16	0.16	2.2%	Industrial
CP CN Equity	CP Cdn Pacific Railway	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	0.2475	1.7%	Industrial
CNR CN Equity	CNR CN Railway	0.23	0.23	0.23	0.23	0.2525	0.2525	0.2525	0.2525	0.27	1.7%	Industrial
ET CN Equity	ET Evertz Technologies	0.05	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	2.3%	Industrial
ETC CN Equity	ETC Exco Technologies	0.0175	0.0175	0.0175	0.0175	0.0175	0.0175	0.0175	0.0175	0.02	2.5%	Industrial
FTT CN Equity	FTT Finning International	0.10	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	2.3%	Industrial
MLX CN Equity	MLX Marsulex	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	5.6%	Industrial
SDC CN Equity	SDC Seaciff Construction	0.00	0.00	0.00	0.00	0.05	0.05	0.05	0.05	0.06	1.4%	Industrial
SNC CN Equity	SNC SNC Lavalin	0.12	0.12	0.12	0.12	0.15	0.15	0.15	0.15	0.17	1.5%	Industrial
SJ CN Equity	SJ Stella Jones	0.08	0.08	0.09	0.09	0.09	0.09	0.09	0.09	0.09	1.2%	Industrial
TIH CN Equity	TIH Toromont Industries	0.14	0.14	0.14	0.14	0.15	0.15	0.15	0.15	0.15	2.5%	Industrial
WFI CN Equity	WFI WaterFurnace Energy	0.17	0.18	0.18	0.18	0.18	0.19	0.19	0.19	0.19	2.9%	Industrial
CMG CN Equity	CMG Computer Modelling	0.10	0.10	0.12	0.14	0.15	0.18	0.18	0.18	0.18	4.1%	Technology
CSU CN Equity	CSU Constellation Software	0.045	0.045	0.045	0.045	0.054	0.054	0.054	0.065	0.065	0.6%	Technology
ESL CN Equity	ESL Enghouse Systems	0.025	0.025	0.025	0.025	0.03	0.03	0.03	0.03	0.04	1.9%	Technology
TCS CN Equity	TCS TCSYS Inc.	0.01	0.01	0.01	0.01	0.01	0.01	0.0125	0.0125	0.0125	2.5%	Technology
ACO/X CN Equity	ACO.X Atco Ltd	0.24	0.24	0.24	0.24	0.25	0.25	0.25	0.25	0.265	2.2%	Utilities
CU CN Equity	CU Cdn Utilities	0.3325	0.3325	0.3325	0.3325	0.3525	0.3525	0.3525	0.3525	0.3775	3.2%	Utilities
EMA CN Equity	EMA Emera Inc.	0.2375	0.2375	0.2375	0.2525	0.2525	0.2525	0.2725	0.2725	0.2825	4.3%	Utilities
FTS CN Equity	FTS Fortis	0.25	0.25	0.25	0.25	0.26	0.26	0.26	0.26	0.28	4.0%	Utilities
TA CN Equity	TA TransAlta Corp.	0.27	0.27	0.27	0.27	0.29	0.29	0.29	0.29	0.29	5.6%	Utilities

Dividend increase
Dividend decrease

1. For companies that pay dividends on an annual or semi-annual basis, we have pro-rated the amount to quarterly data.
2. Encana's lower dividend starting in Q4 2009 relates to the spin off of Cenovus Energy (therefore should not be considered a dividend cut).

Source: Bloomberg, ScotiaMcLeod

Feature Article

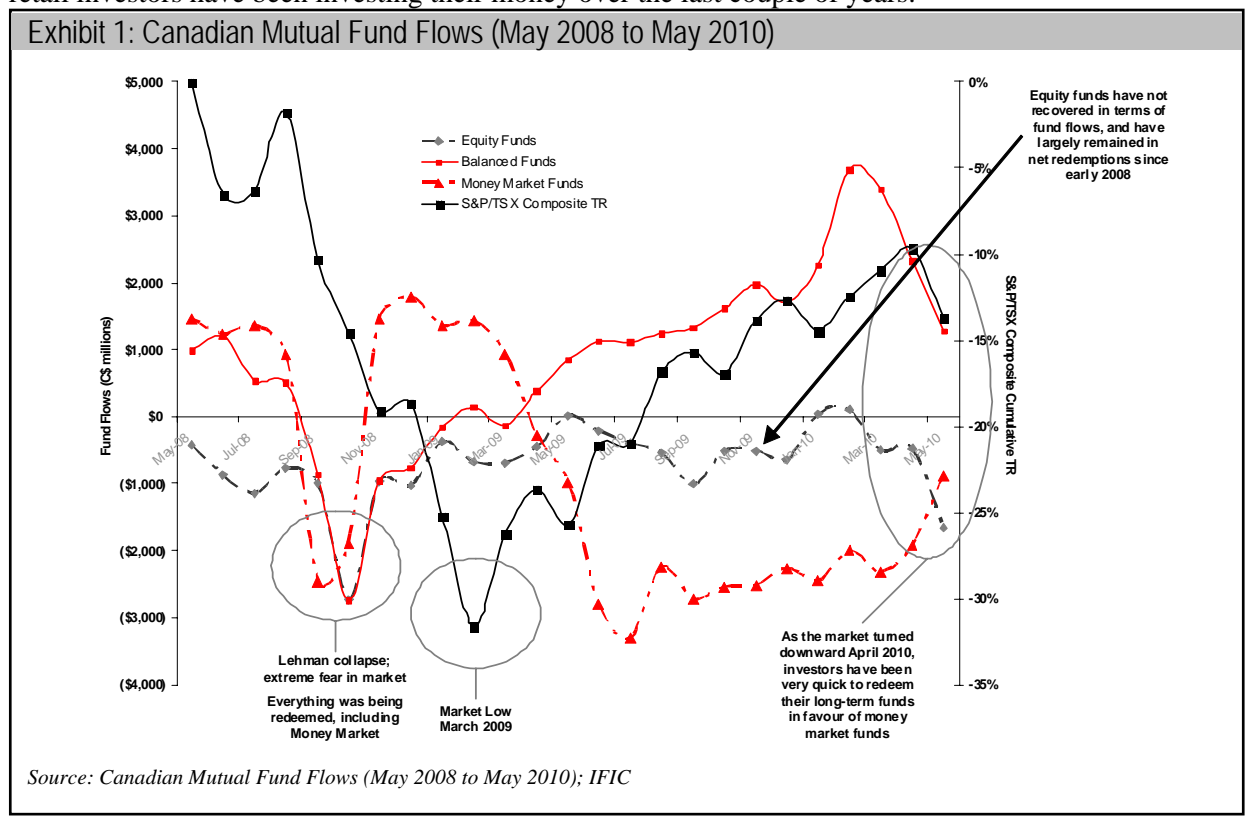
Investment Pitfalls and Opportunities: Replacing Psychology with Discipline

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We continue to live in interesting times – and it seems the times in which we live get more interesting with each passing month. From a high-level perspective, the world (at least economically speaking) is not in great shape. We’ve also seen somewhat of a reversal of fortunes with developed nations saddled with heavy debt loads, while developing economies have fared relatively better in this regard. Indeed, we are facing some interesting challenges, not the least of which is how we should be defining “risk” as the world’s economic future unfolds.

Before we dive into this quarter’s topic, we thought it would be useful to provide a recap regarding where retail investors have been investing their money over the last couple of years.



It’s a busy chart to be sure, but **Exhibit 1** tells an interesting story. Ultimately, investors have largely avoided equity funds over the last two years (as can be seen with the dotted grey line that is below zero, i.e. net redemptions for the last two years). Money market funds were used heavily in mid-2008 then redeemed into the fall like everything else (around the Lehman collapse), and then repurchased again leading into early 2009. As the market recovered, people redeemed their money market funds, but instead of going into pure equity funds, they chose balanced funds and bond funds (not shown) instead. The trend in fund flows appears to be heading to a more conservative position – perhaps due to skittish investors who suffered in the market drop in the fall of 2008.

So what conclusions can we draw from this information?

1. Investors have not had the confidence to return to pure equity funds, even as the market experienced a recovery from March 2009. This is not consistent with previous up markets where investors would pile into equities as the market was rising.
2. Further to conclusion #1 above, the investment choices of balanced funds and bond funds are considered less risky options. Given the significant volume of flows into balanced funds and bond funds over the last two years, investors have clearly indicated they have a reduced appetite for risk compared to previous periods.
3. It seems investors are reacting more quickly to negative market activity, perhaps an indication of suffering with the last market decline in late 2008 and early 2009, and not wanting this to happen again.

With this in mind, we thought it was an appropriate time to discuss the title of our IPQ contribution for this quarter: “Investment Pitfalls and Opportunities: Replacing Psychology with Discipline”.

Standard economic models assume that individuals are rational and will try to maximize their benefits and minimize their costs. However, studies in behavioural finance have shown emotions and psychology do play a role in markets as investors are not always rational. In this edition of IPQ, we will highlight the most common cognitive biases such as loss aversion, herd mentality and availability bias. We will provide examples of the cost of emotional decision-making and discuss ways to avoid such behaviour.

Loss Aversion

Loss aversion is the disproportionately intense emotional response individuals feel towards losses versus gains of equal magnitude. Individuals are motivated to a greater extent by losses than by the possibility of gains and investors instinctively find ways to limit loss or even the possibility of a loss. Why do investors behave in this manner? According to notable behavioural scientists, Daniel Kahneman and Amos Tversky, it is because the pain individuals feel from a loss generally outweighs the pleasure they feel from a gain. Kahneman and Tversky gave their students a survey which asked whether they would accept a variety of bets. They noticed when people were offered a gamble in the toss of a coin in which they might lose \$20, they demanded an average payoff of at least \$40 if they won. They concluded that most people are unwilling to accept a 50-50 bet unless the amount they could win is roughly twice the amount they might lose. Or in other words, individuals feel the pain of a loss approximately two times more than the pleasure generated by a gain.

In a behavioural science experiment led by Antonio Damasio and George Loewenstein, the scientists invented a simple investing game which they played with three different groups of subjects. The first group had suffered damage to some part of their emotional brain, the second group had suffered brain damage in non-emotional parts of the brain and the third group was a control sample of individuals.

In each round, experimental subjects had to decide between two options: invest \$1 or invest nothing. If the participant decided not to invest, he would keep the dollar, and the game would advance to the next round. If the participant decided to invest, he would hand a dollar bill to the experimenter. The experimenter would then toss a coin in which heads meant the participant would lose the \$1 invested and tails meant \$2.50 would be added to the participant’s account. The game stopped after 20 rounds.

Those with an intact emotional brain chose to invest less than 60% of the time due to fear of potential losses. Furthermore, the willingness of people to gamble decreased drastically after they lost a gamble.

With the group that suffered brain damage and could no longer experience emotion, they chose to invest 83.7% of the time. They also proved more resistant to the effects of loss aversion, and gambled 85.2% of the time after losing a coin toss. In the end, this group earned an average of \$25.70 over the other two groups’ average of \$22.80 and \$20.07. Keep in mind, the experiment only consisted of 20 rounds and an initial investment of \$20. Can you imagine what the difference is in real life?

This experiment highlights a common pitfall caused by loss aversion. As with the groups that had their emotional brain intact, we see investors pulling out of the market when they suffer a loss and often times hesitating before re-entering. We witnessed this behaviour in the most recent market downturn as investors sold out of the market quickly and rushed into cash and cash equivalent instruments. We are still seeing the effects of this loss to investors as mutual fund flows into equity funds are still quite timid, or even negative at this time, while cash balances remain high. While sitting in cash and avoiding the markets is psychologically comforting, this “comfort” comes with a significant opportunity cost. Investors must realize that staying invested is crucial in helping them meet their long-term financial goals.

Another symptom of loss aversion behaviour is the tendency of investors to realize gains quicker than losses. Hersh Shefrin and Meir Statman coined the term “disposition effect” which they amusingly suggest is shorthand for “predisposition toward get-evenitis”¹. Since it is difficult for investors to accept their losses, they tend to sell their winners too soon and hold on to their losers too long. They want to at least get even despite the fact that the original rationale for purchasing the stock no longer appears valid. In the long run, this strategy has a high probability of being unprofitable because the investor is effectively limiting upside while allowing downside potential to continue². Even portfolio managers may be susceptible to this bias which is why we place just as much importance on a manager’s sell discipline as their buy discipline.

Herding

Herding can be defined as the tendency of individuals to follow others rather than deciding independently on the basis of their own information. Keynes conceived herding as a response to uncertainty and an individual’s perception of their own ignorance; people may follow the crowd because they think the crowd is better informed².

Symptoms of herding:

- Making investment decisions frequently³;
- Investing in hot stocks/funds because they’re “popular” and selling them when they’re “out of favour”⁴ (also known as “buying high, and selling low”);
- Basing investment decisions solely on the opinions of others.

It is easy to get caught up with a particular investment opportunity, particularly when people see friends/relatives making a lot of money on a particular stock or fund. The idea that the individual is “missing out” on the opportunity can be too much to bear, causing them to buy the investment while (more often than not) it is expensive.

Herding is not the most effective investment strategy, in fact, for multiple reasons it is probably one of the worst investment approaches to take (as we will illustrate later).

Availability Bias

Availability bias occurs when investors add more weight to more recent and readily available information. Investors experiencing availability bias will make investment decisions based on their reaction, or in many cases, overreaction to the latest news headlines.

¹ Source: “Pitfalls to Avoid”, Alfred Rappaport and Michael Mauboussin (2001)

² Source: “More than You Know – Finding Financial Wisdom in Unconventional Places”, Michael Mauboussin (2006)

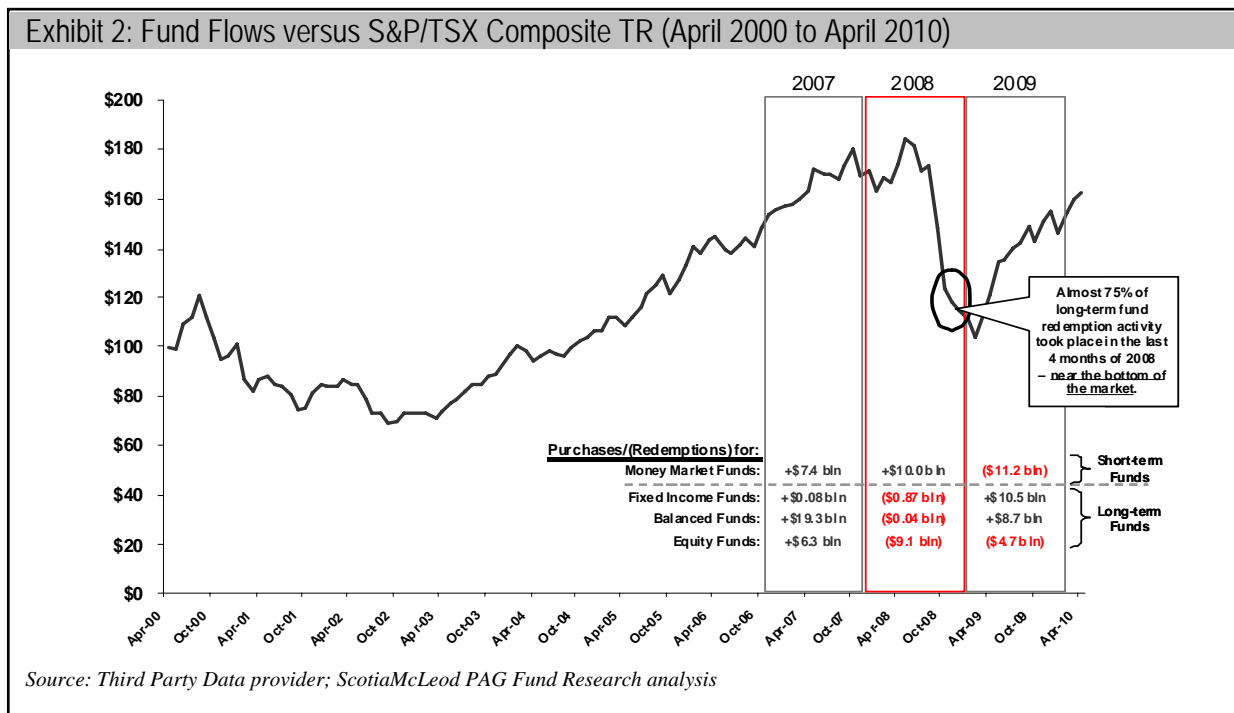
³ Source: “A Treatise on Money”, Keynes, J.M. (1930)

⁴ Source: “Why smart people make big mistakes and how to correct them: lessons from the life-changing science of behavioural economics”, Gary Belsky and Thomas Gilovich (2009)

Symptoms of availability bias:

- Choosing mutual funds that are heavily advertised or stocks of companies that are frequently in the news;
- Overreacting to good/bad news;
- Believing an “opinion” to be factual.

We see the evidence of herding behaviour and availability bias in looking at the performance of the S&P/TSX Composite versus equity and money market fund flows (**Exhibit 2** below). As we can see in the Exhibit, market peaks tend to coincide with very high equity fund purchases, a classic case of investors not wanting to “miss out” and buying when the market is expensive. We also see the huge outflows in December 2009 reflecting investor panic at or near the depths of the market downturn – or in other words, investors selling low.



So how can we avoid being our own worst enemy?

It all goes back to the old adage of staying invested and being disciplined. In this section, we’ll explore the investment approaches and results of three very different investors using a combination of the psychological profiles outlined in the pages previously.

First off, we have our “**Loss Averse Investor**”. The Loss Averse Investor exhibits behaviours that are a combination of *loss aversion* and *availability bias* (outlined previously).

The next investor is the “**Herd Follower**”. This one is pretty self-explanatory – someone who has a tendency to follow the herd for fear of missing opportunities and/or because they feel the crowd is somehow better informed than they are, and so follows blindly along with their investment decisions.

Our third investor is the “**Disciplined Investor**”. The Disciplined Investor doesn’t fall into any categories/behaviours outlined above, but rather, executes a very systematic investment process utilizing the same instruments as the Loss Averse Investor, and the Herd Follower.

It is important to note that we set our parameters for this research study (as we do with all of our research studies), prior to knowing the actual results. The outcome was what we expected, however, we were surprised by the magnitude of the difference that resulted with each of the three investors.

Below, we outline the assumptions we've made for our study.

Assumptions for all three investors:

- Initial investment amount: \$100,000
- Initial investment date: May 31, 2005
- Investment period end date: May 31, 2010
- Each investor used one or a combination of *only* the following three instruments:
 - 1) Broad Canadian Equity ETF;
 - 2) Broad Canadian Bond ETF; and
 - 3) Money Market Mutual Fund
- Dividends and/or other distributions from the investments were not reinvested, but rather, were paid to each investor's account. Therefore, the resulting return for each investor is a function of the price return plus the accumulation of the dividends and/or distributions.

Assumptions for each individual investor:

Loss Averse Investor:

- Fully invested on May 31, 2005 in a 60% Equity / 40% Bond portfolio, but did not rebalance.
- Sold equity and bond investments and purchased the Money Market Fund near the trough of the market (consistent with Exhibit 1 where the majority of redemptions occurred near the bottom of the market).

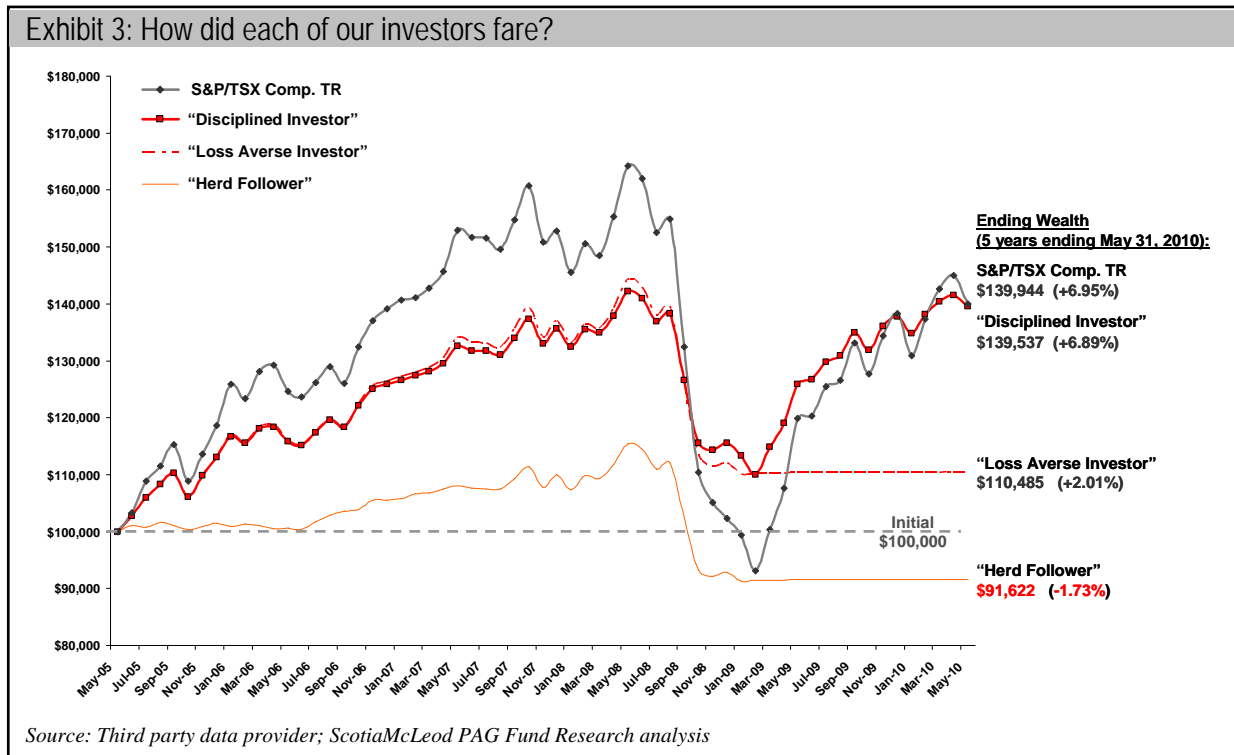
Herd Follower:

- On May 31, 2005, the portfolio consisted of 30% in pure cash, and 70% in bonds.
- As equity returns were rising (i.e. more expensive), used 30% pure cash to buy equities.
- Equity returns continued to rise (more expensive), sold bonds (\$10k) to buy more equities.
- Equity returns rose further still (more expensive), sold bonds (\$20k) to buy more equities.
- As the markets turned sour, and they couldn't bear the possibility of losing any more money, the Herd Follower sold all equity and bond holdings and purchased the Money Market Fund (similar to our Loss Averse Investor above).

Disciplined Investor:

- Fully invested on May 31, 2005 in a 60% Equity / 40% Bond portfolio and systematically rebalanced to the 60/40 mix on December 31 of each year.
- Stayed invested throughout the five years in the 60/40 mix.

The Results



Key results and findings (from Exhibit 3)

As mentioned earlier, we were surprised at the results of this study. More specifically, we were surprised at the magnitude of the outperformance experienced by the Disciplined Investor versus the other investors. *The key point to remember with our assumptions is each investor could only use one, or a combination of the same three instruments. The dramatic difference in the results was due to how each person approached their investment in these instruments.*

Here are some of the more salient points resulting from our study (by investor):

Loss Averse Investor:

Ending wealth value: \$110,485 (5-year annualized return of +2.01%)

By not rebalancing, and more importantly, not staying invested and selling at or near the bottom of the market, our Loss Averse Investor fared quite poorly, generating an annualized return over 5 years of only 2.01%. At least the return was positive – but even then, after inflation, there isn't much left.

Herd Follower:

Ending wealth value: \$92,622 (5-year annualized return of -1.73%)

Our Herd Follower fared the worst of the three investors. Plagued with fear and a small/medium dose of greed, this investor was caught chasing returns which resulted in an ending wealth value that was less than their initial investment. With no investment plan, no rebalancing, and continuing to buy when the market became increasingly expensive, they fell into the classic “buying high and selling low” trap. The exact opposite of what logically should happen (i.e. buying low, and selling high).

Disciplined Investor:

Ending wealth value: \$139,537 (5-year annualized return of +6.89%)

Our Disciplined Investor had the best performing portfolio by far. This investor established what their appropriate asset mix should be at inception (i.e. 60% Equity/40% Bonds), stayed invested throughout the five years, and systematically rebalanced once per year back to the same mix. As an example, in one of the years, equities might have appreciated in value to make up 66% of the portfolio, with the bond side of the portfolio comprising 34%. In this example, at rebalancing time, the investor would sell the overweight in equities (selling while equities were higher), and use that capital to purchase more bonds (buying while bonds were comparatively lower), to bring the portfolio back to 60/40. Over time, the Disciplined Investor systematically was buying low and selling high.

One other interesting point with our Disciplined Investor is they were able to generate virtually the same return as the market with about half the volatility (given the 60/40 mix as opposed to the market's 100% equity weighting) – the result – better risk-adjusted returns.

Summary

Ultimately, most of us are aware of the benefits of disciplined investing. Numerous historical studies by notable academics have been well-documented, and more times than not, have supported the employment of disciplined investment processes. Unfortunately, human nature can be a powerful inhibiting force to sound logic.

Through the field of behavioural science, it has been proven that investors are susceptible to biases that can undermine the quality of their decisions. The fear of taking losses, following the latest trend, and reacting to the latest headline, are behaviours which have proven to be detrimental to long-term portfolio performance. As exhibited by our study involving three different types of investors, following a disciplined investment strategy will help remove emotions from the decision-making process and should prove to be more beneficial in the long run.

Our advice: Do your homework up front by establishing an appropriate asset mix consistent with your investment objectives, select high quality investments consistent with the asset mix (ScotiaMcLeod's Mutual Fund Recommended List is a great place to start), and systematically rebalance at regular intervals. Revisit your objectives on a regular basis, and try not to get caught up with shorter-term performance – use times of weakness and uncertainty to add value to your portfolio.

We hope you found this article useful, and we also hope it helped to reinforce the benefits of disciplined investing as opposed to emotional investing. In uncertain times, remaining disciplined in your investment approach is more important than ever.

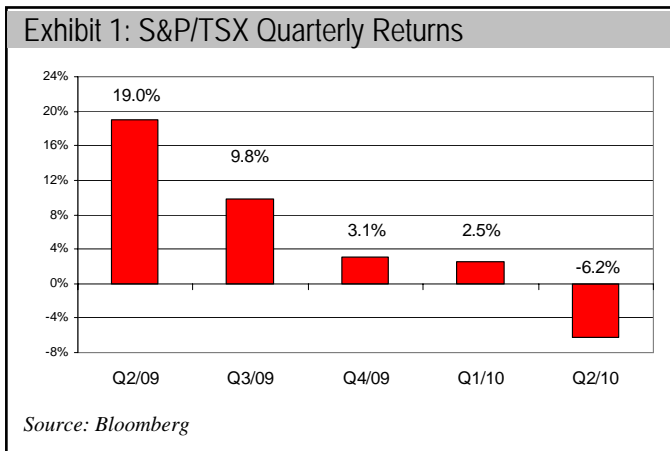
Canadian Equity Strategy

Sideways and Beyond!

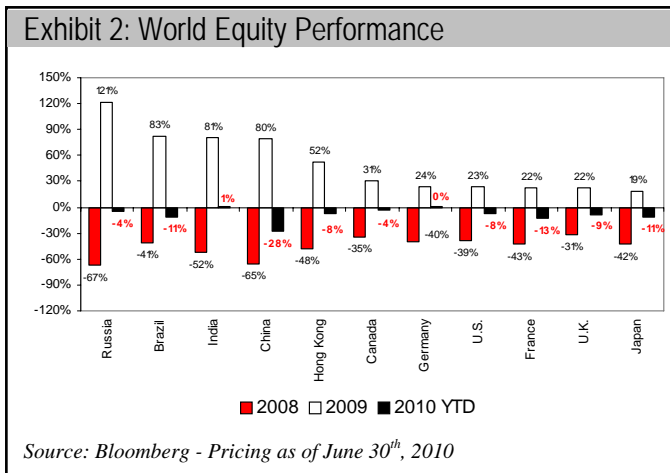
Gareth Watson, CFA — Director, Portfolio Advisory Group

In our Spring IPQ publication we noted that “investors have entered 2010 with expectations of a good first half but questionable second half due to the uncertainty concerning economic growth, interest rates, currency, and spending.” While we can wish that market changes occur on precise dates so that we can manage our investments accordingly, we all know too well that wealth management cannot always be that easy. As such, it does look like performance in the second half of the year remains questionable, but equity investors have, to some degree, already incorporated such thoughts into their investment decisions ahead of schedule. The second quarter of 2010 for the TSX Index was the first negative quarterly return we’ve seen since the market began to recover in early 2009. The index fell 6.2% during the last three months and is now down 4.0% for the first half of the year. These losses were led by the Energy and Financial sectors; however, that weakness was partially offset by precious metal equities in the Materials index, the majority of which have posted positive returns year-to-date.

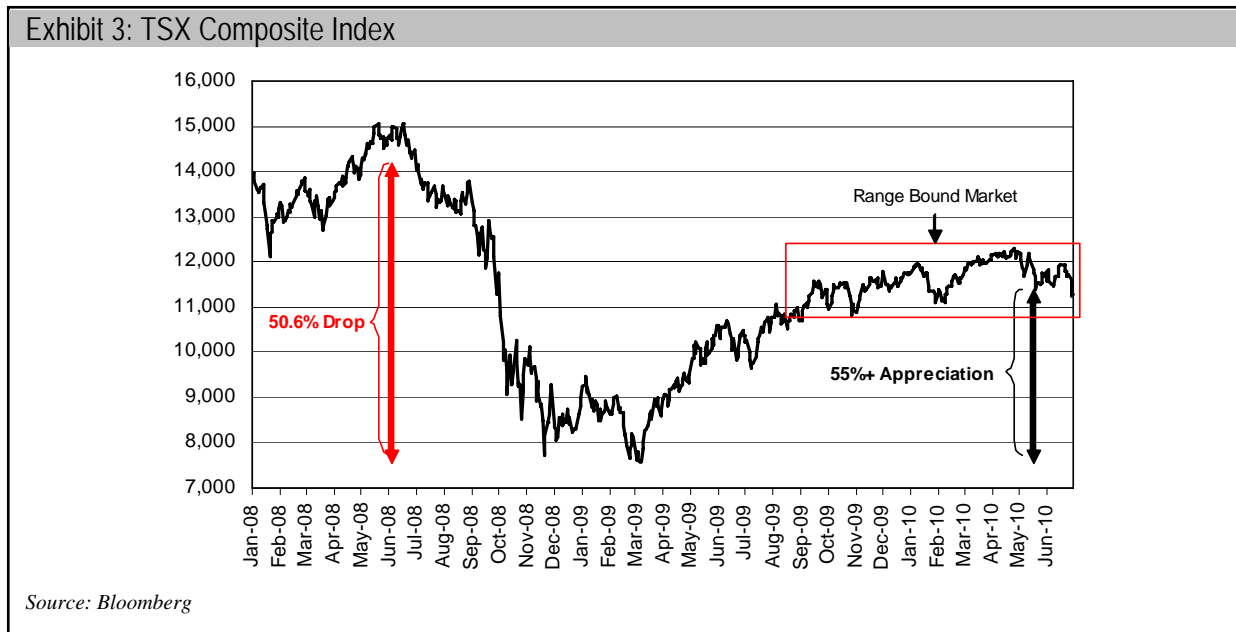
While Canada is currently in negative territory for 2010, we are not alone as most of the world’s major exchanges are lower for the year and global equity markets are continuing their pattern of moving in unison, which has been the case since 2008. In that year almost all equity markets fell with the most



profound losses coming from the emerging markets and BRIC (Brazil, Russia, India, and China) nations as they were the first countries investors exited when it became apparent that global growth was going to contract. However, when it appeared that the global economy was going to expand again in 2009, the emerging markets/BRIC nations were the first countries investors rushed to as they offered greater leverage to the economic recovery. But with greater leverage comes greater risk and the prospect of slower global growth going forward has caused investors to rotate out of higher risk investments to the detriment of emerging market equity performance.



While returns have not been consistent, Canada’s resiliency has been impressive. While a 35% loss in 2008 is nothing to brag about, Canada was still one of the best performing markets in the world that year and while 2009’s 31% gain paled in comparison to the returns coming from the BRIC nations, Canada led the returns amongst the G7 Industrialized nations. Once again this year we find the TSX Index to be one of the better performing indices on a relative basis.



However, the performance of the TSX Index over the past 10 months has not been anything remarkable in absolute terms as the Composite Index has remained within a thousand point range between the 11,000 and 12,000 level. In our Spring 2010 IPQ we highlighted three reasons for the equity market indecision and now we'd like to provide you with our updated thoughts on these recurring themes:

Strong economic data points will continue but for how long?

As it turns out, not for very long! No matter what any market commentators may say, they cannot be surprised by the fact that as stimulus programs and spending start to expire or decline that the magnitude of economic growth is starting to subside. The eventual decline in stimulus spending worldwide has been well telegraphed and in some cases has been accelerated thanks to the desire for austerity in Europe. Have GDP growth rates declined? Yes. Have industrial activity data points declined? Yes. Has employment growth in many countries surprised to the upside? No. Is growth declining to a more normalized level now that countries are weaning themselves off of the steroids known as "government spending"? Absolutely.

Exhibit 4: Scotia Economics Forecasts as of June 30, 2010

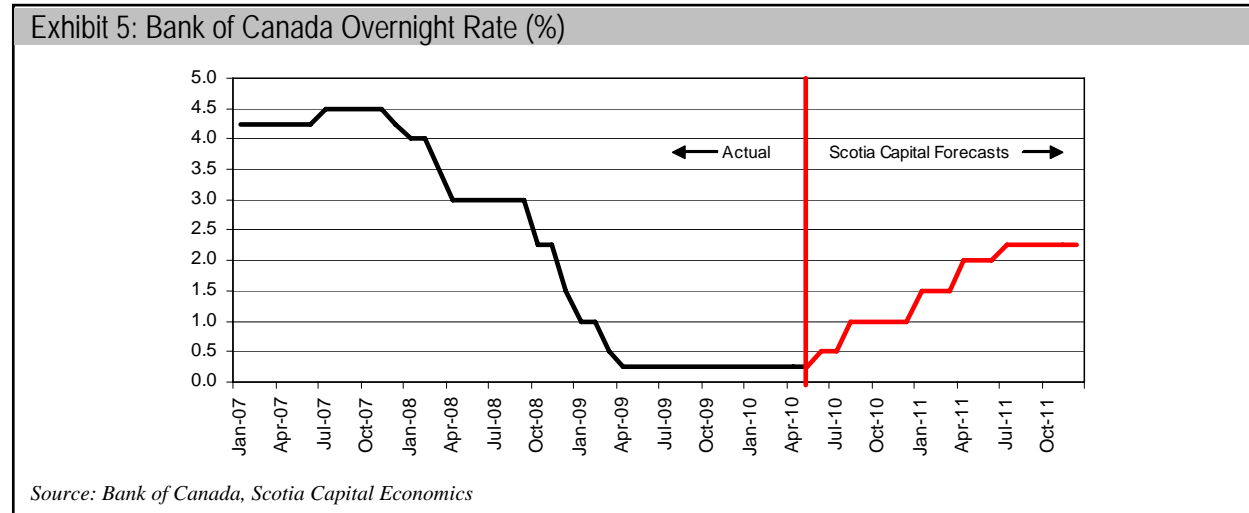
Real GDP (% change)	2008	2009	2010f	2011f	
Canada	2.6	-2.5	3.4	2.6	↓
United States	2.4	-2.4	3.2	2.6	↓
Japan	1.4	-5.2	2.2	1.3	↓
United Kingdom	2.4	-4.9	1.1	1.1	
Euro Zone	1.9	-4.1	0.8	1.0	
China	10.1	9.1	10.0	9.0	↓
India	7.3	6.7	8.0	7.0	↓
Brazil	3.3	0.5	7.0	5.0	↓
	Q2/2010	Q3/2010	Q4/2010	Q1/2011	2011
Bank of Canada Rate	0.50	1.00	1.00	1.50	2.25
Federal Reserve Rate	0.25	0.25	0.25	0.25	1.75
Canadian Dollar (CAD/USD)	\$0.94	\$0.99	\$1.00	\$1.01	\$1.03
Canadian Dollar (USD/CAD)	\$1.06	\$1.01	\$1.00	\$0.99	\$0.97

Source: Scotia Capital Economics

So what does this do for equity markets, whether it be for Canada or any country? We must remind ourselves that stock markets are forward looking indicators. They do not price in what has happened or what is happening now, but instead will discount expectations for the next 6 to 12 months. Why did equity markets bounce back to life in March 2009? Because economists expected economic growth in countries, such as Canada and the United States, to return in the third quarter of that year. While a return to growth was not expected for another six months, equity investors were keen to buy stocks before anyone else had the chance to bid up the market. Now the opposite is true and while we are not saying that growth is contracting, we must recognize that the rate of growth witnessed over the past year or so must eventually subside if the spending that drove the gains in the first place declines. As shown previous in Exhibit 4, economists at Scotia Capital expect economic growth rates to decline as we move into 2011.

Interest rates WILL move higher

And in Canada, they did! While it's only been a 50 basis point increase so far, the fact remains that borrowing costs in Canada again on the rise as the Bank of Canada thought the economic recovery in this country was robust enough to start 'normalizing' rates. While developments since the beginning of the year, such as the fiscal mismanagement of some European countries could potentially slow the rate of interest rate increases in Canada if global growth is impacted, the bias for rates is still definitively higher. This also bodes well for the Canadian dollar as higher relative rates to the U.S. normally leads to loonie appreciation. What is clear is that the Bank of Canada is determined to get our country back on the path to a more normalized level of interest rates which will provide us with greater monetary flexibility if we encounter economic headwinds going forward. We noted last quarter that the initiation of rate increases does not always result in an immediate equity market sell off; however, equity investors are still likely to be more cautious in their investment choices as they wait to see what impact a higher rate environment will ultimately have on the broader Canadian economy.



Stimulus is great, but who is going to pay for it?

There have been many developments in Europe since last quarter. Whereas 2009 was consistently labeled the year of growth, 2010 is turning out to be the year of austerity. Now then we could write pages on the developments in Europe, but instead we shall leave you with what we believe is the main concern leaving equity investors cautious about the future. It is true that opinions concerning the European sovereign debt issue range from inconsequential to devastating; however, we encourage investors to look beyond Europe where they will likely find some middle ground for the consequences of what has been excessive spending. While it's very easy to get caught up on the specific details concerning the debt of countries such as Greece, Spain, Portugal, etc., we would not encourage investors to look at those countries in isolation, but instead focus their attention on who has exposure to these debt problems worldwide. The exposure problem is not a domestic matter as the globalization of our world's economy and financial

system has left many investors exposed to political and economic problems in many countries. Let us not forget that a number of banks in Europe had to be saved from bankruptcy in 2008 and 2009 for what was originally a U.S. real estate problem. It's not just the Greeks who are exposed to Greek debt as other foreign countries, financial institutions and individuals can be hurt financially if European debt problems escalate. Can sovereign debt problems be contained going forward if the appropriate actions and policies are put into place? Yes. But can these sovereign debt problems cause significant economic retrenchment if allowed to spiral out of control? Absolutely.

While you may be led to believe that many countries have difficult decisions to make going forward, the fact is that most of these decisions have already been made. It's the implementation of these decisions that will prove to be difficult as the problems are not just economic but also cultural in nature. Taking away or reducing social safety nets that have been in place for years is never welcome news, but when you spend more than what you earn, it's also inevitable. The European sovereign debt problems are going to persist for years and while it's easy to become negative on Europe, austerity measures and a weaker Euro could provide enough willpower to turn the corner like Canada did back in the mid 1990s.

A quick overview of the TSX index

Our views concerning the Canadian equity market have hardly changed at all this year as our expected "questionable" second half of the year appears to be a reality for now. Again, we note that the outlook is questionable but not necessarily negative as the Canadian economy and TSX Index could work through the challenges that lie ahead. What is clear is that a continuation of the solid returns we witnessed last year is no slam dunk. With respect to the Canadian stock market we would make the following observations:

Financials: Admittedly, Canadian banks have had a difficult quarter with respect to stock price performance; however, operationally we believe the banks continue to execute well, have strong balance sheets and could be in a good position to start raising dividends again within the next year after new capital requirement rules are released in the fall. The most recent fiscal quarter for the banks revealed strength in retail banking while growth in wholesale banking has started to moderate. Nevertheless, Canadian banks find themselves in strong competitive positions as loan losses continue to decline, thus indicating that the worst of the credit cycle is likely behind us. Last quarter we noted that life insurance companies are still sensitive to movements in equity and fixed income markets. While that sensitivity may have declined over the past year, the expectation of flat or range bound equity markets could make life insurance relative outperformance difficult to achieve as a market rebound will be required to get buyers back into the market.

Energy and Base Metals: If there are any doubts about global economic growth in the market, and China in particular, it's almost inevitable that you'll see commodity prices come under some sort of pressure. The most recent downturn in the market is no different as oil and base metal prices have retreated off of their recent highs. While we believe any reports of Chinese economic demise are overblown at this point in time, there is no denying the strong relationship that exists between the Chinese economy and commodity price performance. Therefore, with the market pricing in lower expectations for global growth, we would not be surprised to see continued pressure on commodity prices in the near term. However, the longer-term outlook for stronger commodity demand, especially from emerging markets, remains constructive. So while we could see short-term weakness, we believe that longer-term investors will still benefit from exposure to these sectors.

Precious Metals: Precious metals are unique commodities as they tend to act as a refuge during times of uncertainty. Seasonal patterns would normally indicate that the second quarter of the year should see lower demand and therefore lower prices; however, the increasing uncertainty presented to the market by Europe and the world's major economies over the past three months actually, resulted in a rise in physical demand alongside gold and silver prices increase. Since physical demand should remain relatively strong as we enter the stronger seasonal buying period of the fall, we continue to believe that there is further upside in precious metal equities. The risks to this thesis are that the macroeconomic outlook changes materially for the better or the U.S. dollar strengthens as a function of Euro weakness. Nevertheless, precious metal investments should provide positive returns in 2010.

Defensive Industries (Consumer Staples, Utilities, Telecommunications): The move from cyclical to more defensive equities continued in the second quarter. While broader global economic concerns can be attributed as a primary factor for that rotation, we are seeing more and more investors turn to dividend yields to add return to portfolios that are seeing little growth thanks to the sideways behaviour of equity markets in general. Some of the best yielding stocks happen to be defensive in nature thanks to the predictability of cash flows and the lower relative sensitivity to the economy. Since there is a high likelihood that markets will remain range bound for the next three to six months, we expect this trend of rotation into defensives and yield to continue. We also expect these sectors to benefit longer term from the demographics we see in the western world where more investors are entering the latter half of their investment life cycles and thus are looking for income rather than growth from their investments.

Conclusion

Reflecting on the last three months and looking at our conclusion from our last IPQ publication, our conclusion going forward has barely changed. As such we will simply reiterate our conclusion from March. While the movement of the TSX Index during the first six months of the year was eventful, we are not surprised to find the market fluctuating around the break even level. We thought returns in 2010 would be positive but not excessive; nevertheless, opportunities to exceed the market return through a more active investment strategy have presented themselves. We expect this trend to continue possibly through to the end of 2010 as we work through a number of the uncertainties we expect to face in the coming months. The key to making money going forward will lie in superior stock selection and the ability for investors to lock in short-term gains when possible. It's also very important for investors to stick to their long-term investment plan along with their asset class, sector and stock percentage allocations. While the decision to sell or trim "a winner" can be a difficult one, we remind investors that making money is a good thing and that gains are not realized until locked in! We reiterate our conclusion from our 2010 outlook, that we are bullish for the Canadian stock market over the long term and believe this country will be a great place to invest as the global economy grows this year and beyond.

U.S. Equity Strategy

Not Too Late to Get Defensive

Paul Danesi, CIM – Director, Portfolio Advisory Group

The global economic recovery is entering a more challenging phase that is being defined by heightened volatility in financial markets. The sovereign debt crisis, sluggish employment growth, and a second leg down in the U.S. housing market are presenting challenges for government regulators and investors. Public debt and deficits have skyrocketed to uncomfortable levels over the past two years. Austerity has replaced stimulus as the markets new mantra.

A further deepening of the European debt and financial crisis and an inevitable retrenchment in government spending have the potential to derail the recovery, and will likely have a lingering negative effect on global economic growth. Slower growth should translate into lower returns for investors.

The Portfolio Advisory Group has identified 18 U.S. companies which have proven over the past five years that management and shareholder interests are largely aligned. Before we look at the companies specifically, let's take a brief look at the macro environment that leads us towards our conclusion.

The Burden of Debt

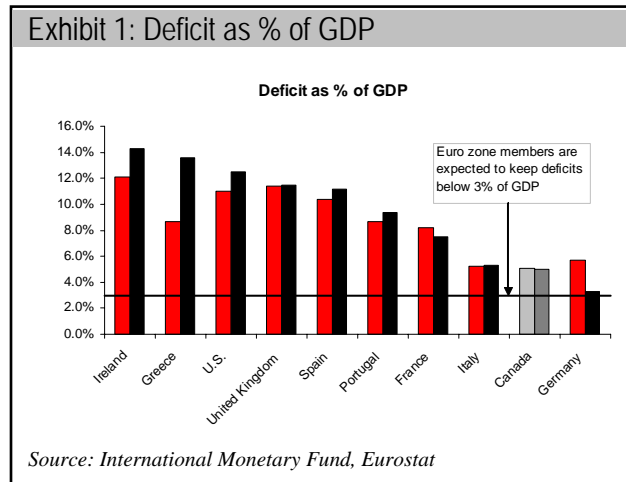
The world economy is recovering from what was the worst financial crisis and recession since the Great Depression. The road to recovery was never expected to be smooth sailing and it is somewhat typical that post crisis recoveries tend to suffer from deleveraging and aftershocks. Greece's debt crisis is an aftershock of the subprime crisis. The downturn in U.S. housing and resulting credit crisis forced governments around the globe to monetize private sector debt and increase spending at the same time they were experiencing revenue shortfalls. Government deficits and debt ballooned as a result leading to a new crisis of confidence within sovereign debt markets. The market has quickly come to recognize that this is not just Greece's problem, but a much broader dilemma. For the time being, Portugal, Ireland, Italy, Greece, and Spain (PIIGS) are attracting most of the attention. More recently we are hearing of difficulties in Romania and Hungary. Even more troubling, deficits and debt have risen to what are being viewed as unsustainable levels in the U.K. and the United States as well. The U.S. fortunately has the benefit of being the world's reserve currency. During times of peril, investors flock to the safe haven of the U.S. Treasury market.

History has shown that in isolation a massively levered economy such as Japan can muddle along for years or even decades. However, this isn't an isolated problem. At present, deficits are at unacceptably high levels in many of the world's most developed countries. Federal government finance is struggling under the weight of this heavy burden as lenders are beginning to lose confidence in governments' abilities to service and repay their debts. This is creating significant dislocations in financial markets – soaring financing costs, failed bond auctions, and more recently renewed funding pressures on European banks, which have been big buyers of sovereign debt.

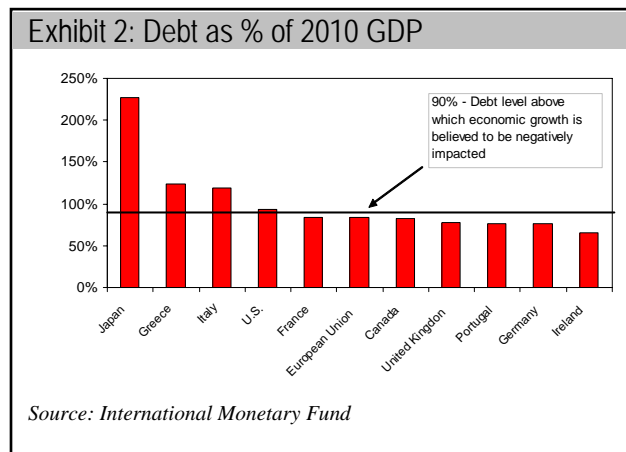
For most Spanish companies, including banks, international capital markets are closed. Back in 2008 when the same funding problem developed, banks could issue new debt with government guarantees. For banks in countries such as Spain or Greece that is no longer an option as investors have lost confidence in their ability to provide those guarantees when they themselves are under funding pressures. The European Central Bank is providing liquidity to Spanish banks and it would be fair to say their banking system would collapse without ECB support. Funding problems are restraining credit flowing out into the real economy, further retarding hopes for a recovery.

European banks have significant exposure to sovereign and private sector debt. The Bank of International Settlements recently quantified European bank exposure to the PIIGS group of countries. French and German banks have lent nearly US\$1 trillion to the most troubled countries in Europe. For the time being, problems appear contained within Spain and other peripheral European countries. However, a default by Greece could cause a chain reaction leading to significant losses for major European banks. The banking system is the mechanism, which would turn a regional debt crisis into a full blown credit and financial crisis, not dissimilar to that experienced a brief 18 months ago.

There is no quick fix to sovereign debt troubles and a resolution may just be a matter of belt tightening and time. Budget deficits in many European countries are now in excess of 10% of GDP. The savage spending cuts required to realign budget deficits within the prescribed limit of 3% of GDP will cause significant



hardship for many and will not be easy to implement. Greece, Spain and others cannot resort to currency devaluation to restore international competitiveness. The outcome of increased austerity is slower economic growth and declining revenues from which to service debt. Greece's debt to GDP ratio is forecast to increase to 150% of GDP in three years, from 120% currently, despite the country's recently outlined austerity measures. For that reason, in almost complete unanimity, economists and strategists believe Greece will ultimately default on its debt obligations.



A further deepening of the European crisis and an inevitable retrenchment in government spending will clearly have a negative effect on global economic growth and heighten the risks of another recession in the U.S. in 2011. The risks are likely to become more palpable through the summer. PIMCO's Mohamed El-Erian has repeatedly said we are heading down a bumpy road towards a "new normal", an era characterized by global realignments and below trend economic growth. Such an outcome would likely lead to sub par returns for equities and an environment where dividend yield is a more meaningful contributor to total return calculations. Portfolios which emphasize dividend income could outperform those that don't.

Dividends and Share Buybacks

Over the years, a number of companies have created shareholder value through share repurchase programs and/or dividend increases. By share repurchase program we are referring to companies that buy back their stock in the open market. Both can represent good value for shareholders although there is an ongoing debate as to how much value is created, and which is the better use of free cash flow. Certainly, the permanence of a dividend increase tends to be a better indicator of financial health and investors like to see dividends credited to their accounts. That said, the return of cash to shareholders through share repurchase programs also benefits shareholders by reducing the number of shares outstanding, boosting earnings per share, and providing support for the share price. We have attempted to identify companies that have a history of consistently executing both shareholder friendly policies.

U.S. Corporations Flush with Cash

Following a period of significant corporate restructuring, coupled with what has been a rebounding global economy, U.S. corporations are now sitting on record levels of cash. S&P 500 companies in aggregate held a record U\$831.2 billion in cash at the end of the fourth quarter of 2009. High free cash flow yields and excess capital positions should lead to increased payouts to shareholders and share buyback activity. S&P 500 companies repurchased U\$137.6 billion worth of stock last year. Mizuho Financial Group estimates U.S. firms will increase their spending on stock buybacks to U\$235 billion in 2010. Nevertheless, buybacks remain well below the record U\$589.1 billion in 2007. According to Standard & Poor's, 135 companies have increased, initiated or reinstated dividends so this year. The net effect is a U\$10.4 billion increase in dividends paid so far this year.

18 Companies That Could Raise Dividends and Buyback Stock

Corresponding to the thesis above, we screened for companies that consistently repurchased shares and increased dividends over the past five years. To qualify, a company had to reduce its common shares outstanding and increase its dividend each year. We believe historical data sets a fairly strong precedent for future activity in this regard and is a reasonable basis for our stock selection.

Why not simply look for cash rich companies with high free cash flow yields? Far too many management teams have destroyed shareholder value with poor investment decisions. Share buybacks and dividend growth should not come at the expense of strategic investments that could impact a company's long-term financial health. That said, cash rich companies with limited investment opportunities should return excess cash to shareholders.

There are 18 companies in the S&P 100 that met our selection criteria. Consumer Discretionary, Staples, Industrials, and Technology dominate the list. The stocks in the list below are ranked based on yield, decline in shares outstanding, and growth rate in dividends. On the basis of these equally-weighted factors, fast-food retailer McDonald's looks the most attractive followed by global defense company Lockheed Martin, semiconductor maker Texas Instruments, and software and services giant IBM Corp.

Exhibit 3: Dividend Growth and Share Buybacks

Company	Ticker	Price 30-Jun-10	Current Dividend	Yield	5-Year Decline Shares Outstanding	5-Year Growth Dividend	Compound Annual Growth Dividend
McDonalds Corp.	MCD	\$65.80	\$2.20	3.3%	-14.6%	228.4%	26.9%
Lockheed Martin	LMT	\$74.50	\$2.52	3.4%	-15.2%	140.0%	19.1%
Texas Instruments	TXN	\$23.28	\$0.48	2.1%	-24.8%	336.4%	34.3%
IBM Corp.	IBM	\$123.48	\$2.60	2.1%	-18.7%	233.3%	27.2%
Intel Corp.	INTC	\$19.45	\$0.63	3.2%	-9.4%	96.9%	14.5%
Raytheon Corp.	RTN	\$48.39	\$1.50	3.1%	-15.5%	70.5%	11.3%
Campell Soup	CPB	\$35.83	\$1.10	3.1%	-17.1%	59.4%	9.8%
Exxon Mobil Corp.	XOM	\$57.07	\$1.76	3.1%	-25.0%	54.4%	9.1%
Target Corp.	TGT	\$49.17	\$1.00	2.0%	-16.1%	163.2%	21.4%
Johnson & Johnson	JNJ	\$59.06	\$2.16	3.7%	-7.2%	69.4%	11.1%
Microsoft Corp.	MSFT	\$23.01	\$0.52	2.3%	-19.1%	62.5%	10.2%
Wal-Mart Corp.	WMT	\$48.07	\$1.21	2.5%	-10.0%	108.6%	15.9%
Lowe's Cos	LOW	\$20.42	\$0.44	2.2%	-7.3%	300.0%	31.0%
United Parcel Service	UPS	\$56.89	\$1.88	3.3%	-10.6%	42.4%	7.3%
United Technologies	UTX	\$64.91	\$1.70	2.6%	-7.8%	93.2%	14.1%
Coca-Cola Co.	KO	\$50.12	\$1.76	3.5%	-4.3%	57.1%	9.5%
Colgate-Palmolive	CL	\$78.76	\$2.12	2.7%	-6.9%	91.0%	13.8%
Nike Inc.	NKE	\$67.55	\$1.08	1.6%	-7.8%	125.0%	17.6%

Source: Bloomberg; ScotiaMcLeod Inc

Fixed Income

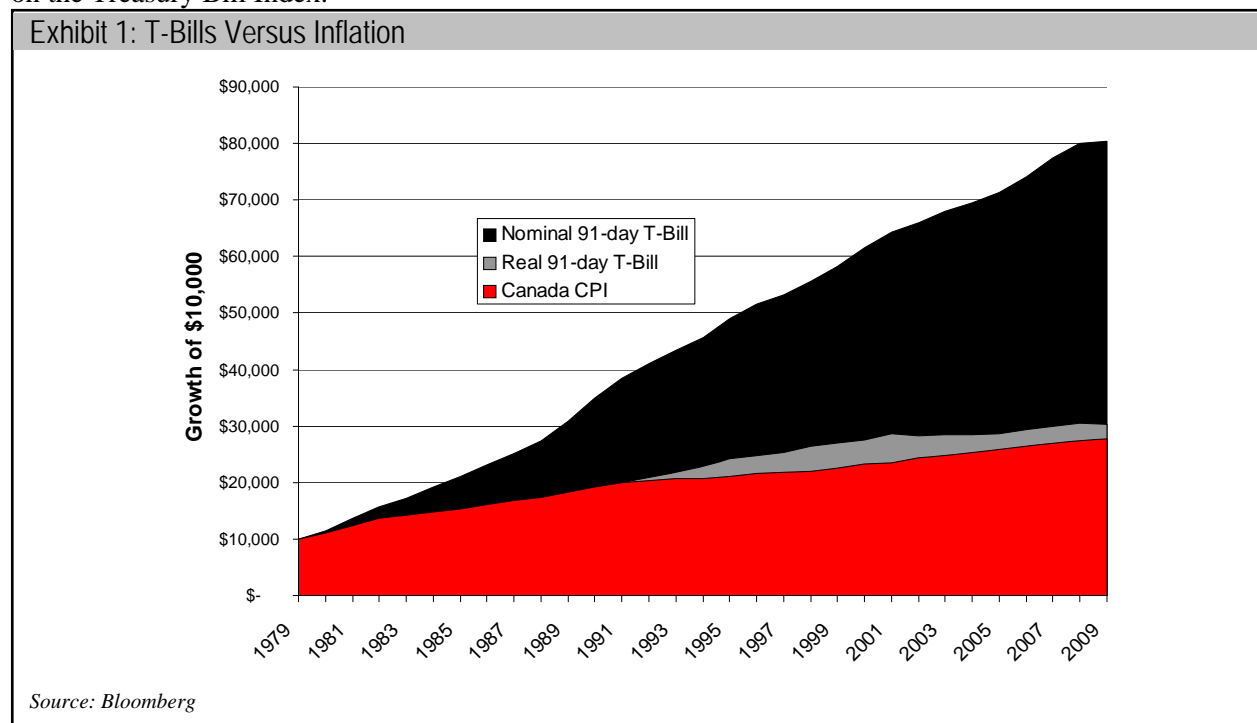
Stashing Cash – Alternative for Money Market Investors

Joey Mack — Director, Portfolio Advisory Group, Fixed Income

Amy Billingham — Associate, Portfolio Advisory Group, Fixed Income

With investors continuing to maintain above average cash balances, it is important to achieve the best possible return in what continues to be a low rate environment, especially as inflation continues to erode purchasing power.

Indeed, inflation can and is eating into the value of your investments. The following chart highlights the rate of return on DEX 91-day Treasury Bill Index (the Canadian performance benchmark for money market funds), the Consumer Price Index (a key measure of inflation), and the ensuing real rate of return on the Treasury Bill Index.



The chart highlights that although the nominal value of \$10,000 invested in T-Bills at the end of 1979 would now be worth over eight times as much (\$80,460), this has only kept pace with inflation – in fact, on a real (after-inflation) basis, your investment would only be worth \$30,359. Furthermore, over the past 10 year, inflation has twice exceeded the return on Treasury Bills – in 2002 CPI increased 3.8% when T-Bills rose just 2.5%, and in 2009, Canadian CPI rose 1.3%, versus the lowly 0.6% return on T-Bills.

2010 presents a similar dilemma. CPI is currently running at an annualize rate of 1.4%, whereas 90-day T-Bills are only yielding 0.50%. In fact, there are few money market investments that currently enable you to maintain your purchasing power. The following table highlights the current yields available to investors at ScotiaMcLeod:

Exhibit 2: Yield Table

<u>Term</u>	<u>Canada</u> <u>T-Bills</u>	<u>Provincial</u> <u>T-Bills</u>	<u>Term</u> <u>Deposits</u>	<u>Bankers'</u> <u>Acceptances</u>	<u>R-1 High</u> <u>CP</u>	<u>R-1 Mid</u> <u>CP</u>	<u>R-1 Low</u> <u>CP</u>	<u>ABS</u> <u>CP</u>
1-month	0.29%	0.34%	0.52%	0.53%	0.50%	0.53%	0.75%	0.50%
2-month	0.40%	0.44%	0.58%	0.59%	0.60%	0.77%	0.93%	0.72%
3-month	0.50%	0.54%	0.72%	0.73%	0.64%	0.80%	1.00%	0.75%
6-month	0.79%	0.86%	n/a	0.95%	n/a	n/a	n/a	n/a
1-year	1.07%	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: ScotiaMcLeod Inc

Further details of each of these investments follows. Essentially, the table highlights that investors in money market securities likely need to lock their funds in for a year just to keep pace with inflation. That being said, we also note that the gradual rise in money market yields does indicate that markets are expecting higher yields in the months ahead, and hence, staying in short-term funds for now may indeed pay off as investors may be able to reinvest at higher rates.

In the interim, clients are best served by keeping very short-term funds in Investment Savings Accounts or in Cashable GICs, as these yields continue to exceed those available from money market securities. However, for those willing to lock in a little longer, securities with a maturity six months or longer now offer a premium to these retail focused products, and for those willing to take on some credit risk, Commercial Paper does offer higher yields on three month money.

In addition, we note that Cashable GICs and Investment Savings Accounts are capped (at \$5 million and \$3 million respectively), and hence larger trades will also need to look to money market securities to park their funds.

Investment Savings Accounts - Investment Savings Accounts are high interest rate bank accounts that carry an attractive yield, and offer the security of any other bank deposit. Offered by various Canadian financial institutions, they are eligible for CDIC insurance, subject to CDIC rules and regulations. Interest is calculated daily on opening balance and paid monthly to the account as reinvested distributions.

Investment savings accounts are purchased through Fundserv, similar to other mutual fund transactions, and can be redeemed for next day settlement. With no maturity date, funds are not locked in, allowing investors to access their cash on demand without penalty.

Cashable GICs - Guaranteed Investment Certificates (GICs) are deposit instruments issued by Canadian banks offering investors a predetermined rate of interest for a stated term. In general, these are non-redeemable and non-transferable prior to maturity, but there is an exception – the Cashable GIC, which serves as an excellent alternative to other money market securities.

Cashable GICs offered through the Portfolio Advisory Group's Fixed Income desk have a set maturity of 1 year. However, they can be redeemed as early as five business days after purchase for the full principal value, and are redeemable with interest after 30 days (if cashable GIC's are redeemed before this time, no interest will be received).

Cashable GICs continue to offer an attractive yield in comparison to 30-day Bankers' Acceptances even before taking into account commission. A GIC is classified as a deposit, and do carry CDIC insurance for purchases up to \$100,000. In addition, with the cashable option, they carry no market risk, and can be redeemed at par plus accrued should rates rise and investors choose to switch into other asset classes or money market securities.

Treasury Bills - T-Bills are short-term notes issued by the Government of Canada or by Canadian Provinces. They have varying terms to maturity, up to one year. Treasury Bills do not bear interest. Instead, they are sold at a discount to their face value, and the annual yield or interest rate is determined by the difference between the discounted purchase price and the maturity value (par). Government of Canada T-Bills are considered to be virtually risk-free and have a highly liquid and active secondary market.

Banker's Acceptances - A Banker's Acceptance (BA) is a commercial draft (i.e. a written instruction to

make payment) drawn by a borrower for payment on a specified date. Issue terms range from one day to one year. Each Banker's Acceptance is "accepted" or guaranteed at maturity by the borrower's bank. BAs are suitable for money market investors accepting bank credit risk in return for a higher yield over Government of Canada T-Bills.

Commercial Paper – Commercial Paper is a promissory note which can be secured or unsecured, issued by a corporation or trust. Issue terms range from one-day to one-year. Commercial Paper ranks equal, or senior, to unsecured long-term debt, and junior to secured debt. Corporations that access the money market are large firms with an established financial history and rating agencies rank the paper according to the issuer's ability to meet short-term debt obligations. These types of issues are suitable for money market investors who are willing to accept a corporate credit in order to obtain a higher yield.

Floating Rate Notes

In addition to money market securities, investors making a commitment to money markets as an asset class can enhance returns by taking on longer-term credit risk and invest in a floating rate note (FRN). A FRN is a debt instrument with a variable interest rate, and typically has a term to maturity of 2 to 3 years. The varying interest rate is usually based on an accepted market benchmark rate such as the Canadian Deposit Offering Rate (CDOR), which is based off of BA's, plus additional yield (known as the spread), which enhances the return. The changes in the floating rate note coupons vary based on changes in short-term interest rates, and are popular to investors that are looking for a liquid cash investment alternative.

How do they work?

Unlike plain bonds that pay a fixed rate, set at the time of issuance of the bond a floating rate note, has a variable rate coupon that is usually set every three months, and pays interest based on the interest rate at that time. This can be seen as a beneficial factor for the investor, because as interest rates increase so does the coupon rate of the FRN, providing the investor with more income. Floating rate notes are a highly liquid security, providing the investor the chance to sell or purchase their holdings at any time. While these securities do see quarterly coupon changes based on interest rates, the price of the security generally does not vary far from par (\$100.00) which makes this type of security relatively less volatile than other fixed income products.

The floating rate in Canada is normally based off of a commonly used benchmark known as CDOR. CDOR is the accumulation of, and averaged, rates on BA's from nine Canadian Financial Institutions: Bank of Montreal, HSBC, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Merrill Lynch, Bank of Nova Scotia, Toronto Dominion Bank, National Bank and Deutsche Bank. These rates are posted every day at 10:00am eastern time for all 1-month, 2-month, 3-month, 6-month and one year BA's. The average final rates for each term are collectively called CDOR. Floating rate notes usually offer an interest rate premium over the benchmark CDOR rate making these investments attractive to investors looking for an alternative to simply rolling over or reinvesting short-term securities.

Short-term bonds and strip coupons

In addition to money market securities, bonds and strip coupons that were originally issued/created with a longer-term maturity do eventually mature. In the Canadian fixed income marketplace, once securities reach within one year of maturity, they are no longer included in the various debt market indices, and begin to trade in closer relation to money market instruments. However, given their lower liquidity and availability in comparison to money market instruments (primarily due to the smaller issue size), short-term bonds and strip coupons will often trade at a small yield premium. Hence, these securities can offer individual money market investors an enhanced return.

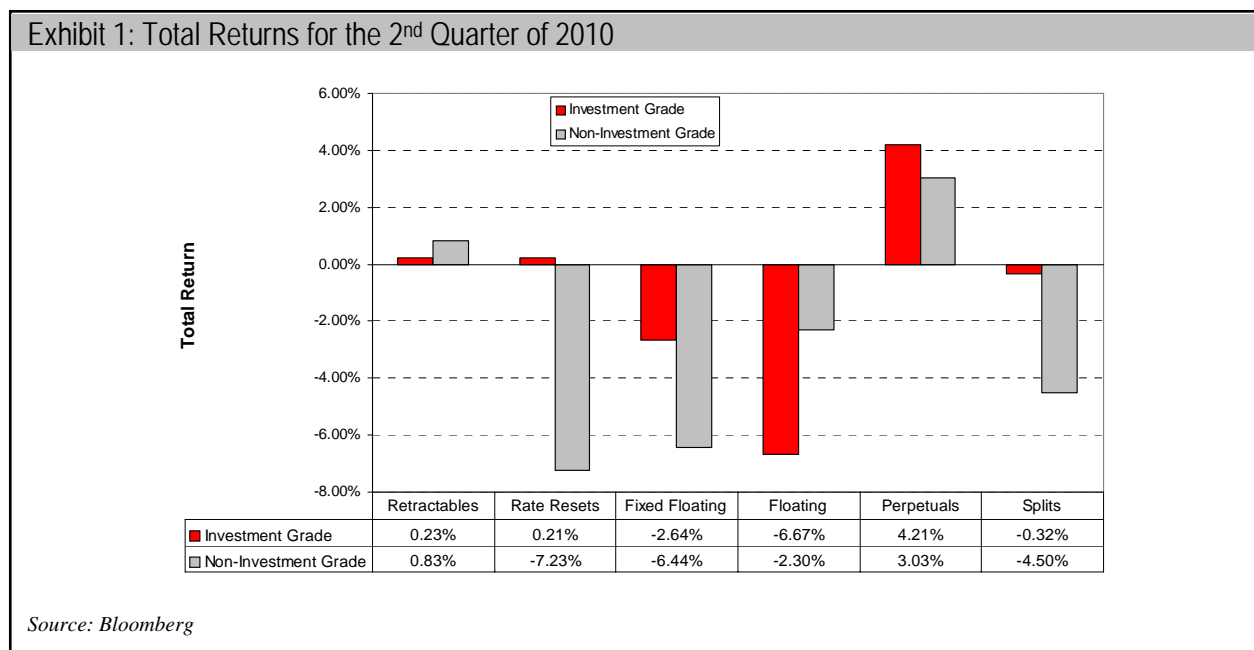
Preferred Shares

For Income and Stability Add Preferred Shares

Tara Quinn, MBA — Associate Director, Portfolio Advisory Group

During a quarter where global concerns were apparent in the market, investors searched for quality investments with limited risk and stable cash flows. In this type of environment the Canadian Preferred share market underperformed the bond market (DEX Universe +2.93%) yet outperformed the equity market (S&P/TSX Composite -6.17%). For the second quarter of 2010 the S&P/TSX Preferred Share Index was relatively unchanged (+0.03%) yet for the first half of 2010 the Preferred Share Index remains in negative territory (-2.22%). The S&P/TSX Preferred Share Index is designed to serve the investment community’s need for an investable benchmark representing the Canadian preferred share market. This index is comprised of preferred shares trading on the Toronto Stock Exchange that meet criteria relating to minimum size, liquidity, issuer rating, and exchange listing. This index is also rebalanced twice a year.

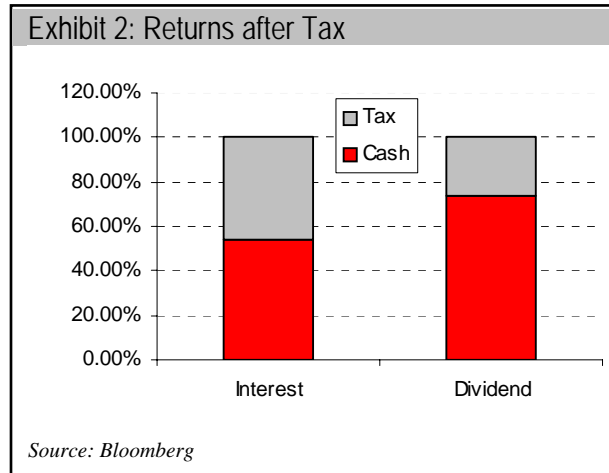
However, it should be noted that the S&P/TSX Preferred Share Index is not a total return index. On a total return basis, which includes the income provided from the various securities, the returns are higher as indicated in the graph below. Given that one of the benefits of investing in preferred shares is the stable income they provide, total return values are a more accurate gauge of performance.



The top performing sector for the quarter was the straight perpetuals which significantly outperformed the remainder of the preferred share market. This type of preferred share pays the investor a fixed dividend indefinitely and is most comparable to corporate long bonds as its price will move inversely to yield movements in the 30-year Government of Canada bond. During the second quarter of 2010, the 30-year Government of Canada bond yield moved lower by -0.42% which in turned helped support the prices of the straight perpetual preferred shares. Yields were also lower across other parts of the yield curve as the 5-year Government of Canada bond yields were lower by -0.57% which negatively affected the fixed floating rate preferred shares as its dividend is reset based on the 5-year yield benchmark. The floating rate preferred shares also underperformed as their dividend payments are based on the bank prime rate which was increased from 2.25% - 2.50% over the quarter but is still at low levels on a historic basis. Looking forward, Scotia Economics is now forecasting the overnight rate to reach 1.00% by the third quarter which would equate to a bank prime rate of approximately 3.00%.

Income and Stability for Your Portfolio

Even if the market is not rising, it is beneficial to have investments in your portfolio which generate a steady income. Using preferred shares with a stable dividend source is one option which provides the potential for generous after tax returns.



Interest income from bond payments is like employment income where every dollar is taxed at your full marginal rate. Dividend income, on the other hand, is eligible for a Dividend Tax Credit when it is received from a Canadian corporation. As a result, an interest payment and a dividend payment of the same amount before tax will produce two very different outcomes after tax. Based on the 2010 top marginal tax rate in Ontario, an investor who earns \$10,000 in interest will keep only \$5,359, while an investor who earns \$10,000 in dividends will keep \$7,343. This can make a very big difference, especially if you rely on your investments for retirement income.

Rate Reset Preferred Shares – How do corporations decide upon an adequate reset rate?

Total preferred share new issuance has been slightly over \$3 billion during the first half of 2010, as compared to \$7 billion in 2009 over the same time period. One theme that is consistent over the past year is that the rate reset structure has dominated the new issue market. Due to the abundance of rate resets in the market, as well as the potential for addition issuance going forward, it is important for the investor to have a strong understanding of this product.

Description: This class of preferred share pays a fixed dividend until the reset date, which is typically also the call date. On that date, and every reset date thereafter, if the preferred share is not called, the holder has two options.

1. The investor has the option of locking in a fixed dividend until the next reset date. This rate is at a predetermined spread over an equivalent term Government of Canada bond.
2. The investor has the option of exchanging to a floating rate preferred share. The floating rate is a quarterly dividend based on 3-month Government of Canada Treasury bills, plus the same spread as in option 1.

Investors have the option at each reset date, if the issue is not called, of switching back and forth between the two dividend options. Additionally, at any time the investor has the option of selling the shares at the market price.

Redemption: These preferred shares are redeemable at the option of the issuer on every reset date at par value (\$25.00). Additionally, if the floating rate option is chosen, the floating rate preferred shares may also be called at the option of the issuer, usually at a premium price. Issues currently outstanding are callable at a price of \$25.50 at any time.

Retraction: Rate-resets are perpetual in nature and are not retractable by the holder.

Example: The BNS 5.00% Ser 20 (BNS.PR.Q) is structured to pay a dividend of \$1.25 on a quarterly basis until the reset date (Oct 26, 2013). If the preferred share is not called at this time and the yield on The Government of Canada 5-year bond is 4.00%, the dividend will be reset at a rate of 4.00% plus a spread of 1.70% or equal to 5.70% or \$1.425 until the next reset date.

Risks: The main risk of investing in rate reset preferred shares is that they are perpetual and the issuer will only redeem these shares if it is in their best interest. In the long term, investors in perpetual securities need to be very concerned about credit quality and the future prospects of the issuer, as there is *no obligation to ever redeem the issue*.

Advantages: In exchange for having no maturity date, investors are rewarded with an attractive dividend rate which is re-set in-line with yields prevailing in the market on a periodic basis. Due to this factor, this structure has less interest rate risk than straight perpetual preferred shares.

Setting the Reset Rate: When a company wants to issue a rate reset it will assess comparable preferred shares trading in the secondary market and then decide upon a yield (dividend rate) that is reasonable within the context of the market. The reset rate is then determined by looking at the difference between the dividend rate and the interpolated Government of Canada benchmark yield. This difference is the credit risk inherent in purchasing a preferred share versus the safety of Government debt. For example, TransCanada Corp recently came to market with a reset rate preferred share with an initial dividend rate of 4.40% until January 30th 2016. The interpolated Government of Canada benchmark (2016) when the issue came to market was 2.86%. Therefore the reset spread for this issue was calculated at (4.40% - 2.86%) 1.54%. For some investors, the reset spread might have seemed much lower than other issues in the market yet investors should remember that a new issue is the context of the market at that particular point in time as seen in the table below.

Symbol	Issue Date	Reset Date	Initial Dividend Rate	Canada Benchmark at Issue Date	Reset Spread over Benchmark
TD.PR.K	March 3, 2009	July 31, 2014	6.25%	1.92%	4.33%
TRP.PR.C	June 17, 2010	January 30, 2016	4.40%	2.86%	1.54%

In 2009, Government of Canada bond yields were much lower than today and the credit market has changed dramatically as seen in the large difference between the two issues reset spreads.

There is no set probability dictating if this type of preferred share will be called at the call date but, it is fair to say that those issues which have a higher reset spread have the highest probability of being called. The higher reset spread makes it very expensive for the issuers to continue dividends past the call date. However, it also depends on the credit environment on the call date and if the issuer may refinance at a cheaper rate.

At this time Scotia Economics is forecasting yields to increase in short-term securities (< 5 year term) with longer-term yields (30-year term) staying relatively unchanged. In this environment it is recommended that investors consider selling half of their positions in the rate reset preferred shares and lock in a taxable capital gain as it is unlikely that the prices on this type of security will move much higher. That being said, investors who purchased these securities for income may want to remain holding to continue and collect the tax-efficient income.

There are a variety of different types of preferred shares and it is important to understand the features associated with each particular issue. It is important to discuss your specific needs and goals with your ScotiaMcLeod advisor who can analyze your situation and present you with well reasoned recommendations. It's worth a conversation, as preferred shares have shown resilience in volatile markets and can offer predictable, tax-advantaged income quarter after quarter.

Equity Guided Portfolios

Stephen Uzielli — Portfolio Manager, Portfolio Advisory Group

The Equity Guided Portfolios are models designed to provide investors with a convenient way of investing directly in individual holdings and building diversified portfolios composed of equity securities. The portfolios are actively managed by a dedicated Portfolio Manager with oversight from the Investment Committee of the ScotiaMcLeod Portfolio Advisory Group. Each portfolio has a specific mandate but they all have the common objective of providing investors with a consistent long-term rate of return through holding a portfolio of stocks comprised of industry leaders with unique franchises and strong management teams, combined with an attractive trend in profitability.

ScotiaMcLeod Canadian Core Guided Portfolio

Performance Update

After an initial move higher at the beginning of April, equity markets peaked near the end of that month and subsequently sold off through the balance of the quarter. The market surrendered under the weight of multiple impediments, mostly fundamental in nature, but some technical and/or psychological as well. Investors first started reflecting anxiety over European sovereign debt back in January but somehow found a way to shrug off those concerns and move equity prices higher in anticipation of continued economic recovery. These issues re-emerged during the second quarter with credit markets tightening and increased concerns that the Greek sovereign debt crisis was unraveling, leading to increased risk of contagion among other European nations. In May, the European Central Bank and the IMF cobbled together a US\$1 trillion aid package, aided by other central banks around the globe. The initial market response was positive, but further analysis led many to the conclusion that in order to comply with conditions imposed in order to receive aid, the austerity measures required will severely impact economic growth in the region, if not tip it back into recession. This has implications for global economic growth forecasts and thus projections for commodities demand. Toward the end of the quarter came reduced growth forecasts for China who are the largest incremental consumer of commodities globally. If that wasn't enough to upset investors, volcanic activity in Iceland shut down European travel for several days at a time, threatening commerce in a region that was already suffering. For other stretches of time the market also wrestled with Goldman Sachs fraud allegations, ongoing debate among lawmakers over U.S. financial regulatory reform, and withering consumer confidence tied to weak employment data.

Equity markets declined significantly and at quarter's end were trading at critically important levels from a technical analysis perspective, suggesting still further downside risk in the near term. Although valuations on a Price/Earnings basis appear attractive and corporate balance sheets are for the most part in solid financial condition, the market declines imply that either P/E multiples are cheap or that earnings forecasts will prove to be optimistic and are thus vulnerable to downward revision. The bull case for equity markets suggests that the recent correction is already pricing in a slowing U.S. economy and that valuations are now sufficiently low to provide a catalyst for higher prices over the balance of the year. Although we concur that a double-dip recession in the U.S. is unlikely, we do not believe that the contagion risk from European weakness has passed.

From a more traditional fundamental perspective, we will continue to keep a close watch on earnings forecasts and estimate revisions as we expect the market will sell off in the event of any significant change in earnings momentum and if revisions begin to turn negative; analyst estimates should already anticipate a weaker second half as the pace of economic growth is widely expected to slow in the third and fourth quarters of 2010. Given these concerns, prudence suggests equity portfolios should not be fully invested and investors who have not already done so should raise 10-20% cash by trimming exposure and/or taking profits in fully valued or overvalued holdings with a view to buying back positions on further market weakness.

Most commodities were weaker in the second quarter reflecting the deteriorating economic outlook. The main exception was natural gas futures which reversed their Q1 decline and rallied almost 20%, mostly in June, as investors anticipated the beginning of hurricane season in the Gulf of Mexico which traditionally wreaks havoc with production levels; however, any strength is likely only temporary as there still remains excess reserves of low cost natural gas for the foreseeable future. Crude oil futures dropped 11.8% and closed the quarter at US\$ 74.79 per barrel while copper futures fell 18.7% to US\$ 2.91 per pound. Gold bullion futures reached an all-time high during the period increasing 11.2%, finishing the quarter at US\$1241 per ounce as investors sought refuge in the traditional safe haven in response to the economic uncertainty.

The Canadian Core Guided Portfolio underperformed during the second quarter as it generated a return of negative 10.1% during the period while the benchmark S&P/TSX60 Index gave up 5.7% on a similar total return basis. The underperformance resulted primarily from stock selection, specifically large declines in the shares of **Shoppers Drug Mart (SC)** and **Research In Motion (RIM)**, significantly poorer performance of lifecos relative to bank stocks in the Financial sector, and negative returns among non-gold Materials holdings. Six of ten sectors generated declines greater than 5% during the quarter, led by Technology, (mostly **RIM**'s contribution), Financials, and Consumer Staples, (mostly **SC**'s contribution). **SC** shares dropped almost 25% during the quarter in the aftermath of the announcement by the Ontario government regarding changes to the Ontario Drug Benefit program. **RIM** shares declined over 30% during the quarter, more than half of which occurred in late June as the company released Q1 financial results which despite beating earnings estimates, missed revenue expectations due to deferred product shipments and guidance disappointed as well because of timing of new product launches. That said, the company is expected to release two new products by the end of September and we believe the shares are significantly undervalued at current prices. The other outsized negative performer during the period was **Teck Resources** which dropped 29% in sympathy with the lower commodity prices. The lone bright spot in the portfolio was **Barrick Gold** which advanced 24% during the period in response to the move higher by gold bullion.

Changes

Despite our cautious view on equities in the near term, we remain positive on the longer-term trend and believe investors should focus on switch opportunities to enhance portfolio performance as opposed to necessarily adding to overall equity exposure. We advocate trading around core holdings within equity portfolios but also to switch positions if there is an opportunity for greater upside potential. In that vein, during May we made a switch in the Canadian Core Guided Portfolio within the fertilizer space: we exited the position in **Agrium Inc. (AGU)** and replaced it with **Potash Corp. of Saskatchewan (POT)**.

The macroeconomic drivers that support an ongoing investment in fertilizer stocks remain valid: as the world's population grows, particularly in emerging markets, fertilizer demand is increasing, largely driven by demand for food, for both human and livestock consumption. Farmers increasingly need to enhance efficiency and productivity as they cultivate their land. Generally speaking, fertilizer stocks tend to outperform during periods of increased demand for the end product; that is, when global demand by farmers increases either in anticipation of planting season, or when grain prices are soaring, typically during droughts or after poor harvests. Seasonally, this period typically extends from November to May; however, despite this seasonal trend, Scotia Capital analyst Sam Kanés recently upgraded his view on the sector to Overweight from Market Weight on the premise that Chinese imports of U.S. corn and wheat could be a positive catalyst for fertilizer stocks that will lead to improved share price performance in the second half of 2010 and into 2011. Although fertilizer stocks tend to move together directionally based on macro factors, specific movements, or anticipation of changes in pricing dynamics in potash versus nitrogen will lead to changes in relative performance between **POT** and **AGU**.

Potash Corporation is the world's largest fertilizer producer by capacity, producing all three primary crop nutrients: potash, phosphate, and nitrogen, each representing approximately 1/3 of the company's revenue. Based on 2009 data, potash represents 71% of **POT**'s wholesale gross margin and only 27% of **AGU**'s, while nitrogen represents only 19% of **POT**'s wholesale gross margin and 64% of **AGU**'s. Demand for potash plummeted 50% during the global economic recession in 2009 which set up a strong rebound in 2010; although farmers can elect not to apply potash some years, ultimately they must make up for deleted potash levels. A recent industry report suggests that North American producers' inventory of potash is 18% below the 5-year average. The superior outlook for potash versus nitrogen in the current environment favours an investment in **Potash Corp.** over **Agrium Inc.**

Exhibit 1: ScotiaMcLeod Canadian Core Guided Portfolio

Company	Symbol	Rating	Risk Ranking	Price 30-Jun-10	Target Price	Dividend	Dividend Yield	Potential ROR
Interest Sensitive:								
Bank of Nova Scotia	BNS	Restricted	-	\$48.97	-	\$1.96	4.0%	-
Brookfield Asset Management*	BAM	Not Rated	Not Rated	\$24.25	\$31.00	\$0.54	2.2%	30%
Great West Lifeco*	GWO	Not Rated	Not Rated	\$24.48	\$29.00	\$1.23	5.0%	23%
Manulife Financial*	MFC	Not Rated	Not Rated	\$15.60	\$20.00	\$0.52	3.3%	32%
Rogers Communications	RCI.B	2-SP	Medium	\$35.16	\$40.00	\$1.28	3.6%	17%
Royal Bank of Canada	RY	2-SP	Low	\$51.16	\$68.00	\$2.00	3.9%	37%
Sun Life Financial*	SLF	Not Rated	Not Rated	\$28.18	\$34.00	\$1.44	5.1%	26%
Consumer Products:								
Shoppers Drug Mart	SC	1-SO	Low	\$33.10	\$48.00	\$0.90	2.7%	48%
Thomson Reuters Corporation	TRI	1-SO	Low	\$38.52	\$45.00	\$1.20	3.1%	20%
Industrial Products:								
Canadian National Railway*	CNR	Not Rated	Not Rated	\$61.74	\$70.00	\$1.08	1.7%	15%
Research In Motion	RIM	1-SO	Medium	\$53.45	\$117.00	\$0.00	0.0%	119%
Resource:								
Barrick Gold	ABX	1-SO	Medium	\$48.64	\$69.00	\$0.42	0.9%	43%
Canadian Natural Resources	CNQ	1-SO	High	\$35.97	\$48.00	\$0.30	0.8%	34%
Crescent Point Energy Corp.	CPG	1-SO	High	\$37.61	\$49.00	\$2.76	7.3%	38%
Nexen Inc.	NXY	2-SP	High	\$21.22	\$25.00	\$0.20	0.9%	19%
Potash Corp. of Saskatchewan	POT	1-SO	High	\$92.93	\$138.00	\$0.41	0.4%	49%
Suncor Energy	SU	1-SO	Medium	\$31.73	\$40.00	\$0.40	1.3%	27%
Talisman Energy	TLM	1-SO	Medium	\$16.31	\$22.00	\$0.25	1.5%	36%
Teck Resources Ltd.	TCK.B	1-SO	High	\$31.71	\$52.00	\$0.40	1.3%	65%
TransCanada Corp.	TRP	1-SO	Low	\$35.88	\$44.00	\$1.60	4.5%	27%

*Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital; Bloomberg.

ScotiaMcLeod Canadian Income Plus Guided Portfolio

Stephen Uzielli-Portfolio Manager, Portfolio Advisory Group

Performance Update

As a result of the poor performance of Financial stocks during the second quarter, dividend stocks, as measured by the Dow Jones Canada Select Dividend Index which comprise a large weighting in Financials, underperformed the broader market. Higher yielding dividend paying stocks in other sectors fared somewhat better and as a result, this portfolio declined less than the benchmark, generating a total return of -5.9% during the quarter while the benchmark index gave up 7.5% on the same basis. Only four portfolio holdings moved higher, the most significant of which included shares of **TELUS Corp.** which advanced 6%, **Thomson Reuters** which climbed 3%, and **Enbridge Inc.** shares which got a 2% lift. But the strength demonstrated by those positions wasn't enough to offset the negative returns of **Shoppers Drug Mart** and among several Financial holdings. Lifeco holdings **Great West Lifeco** and **Sun Life Financial** dropped 18% and 14% respectively during the period as investors again became concerned about the companies' capital markets exposure; bank holdings also declined as the majority of the Big 6 banks delivered disappointing Q2 earnings results.

Changes

No changes were made to the Canadian Income Plus Guided Portfolio during the second quarter. We will continue to monitor all current holdings to ensure that they represent the best potential return available within the eligible investment universe of companies. We seek to make investments in companies that demonstrate a combination of both above-average income and growth characteristics. The current yield of the portfolio as of the end of the quarter is 4.4%.

Exhibit 2: ScotiaMcLeod Income Plus Guided Portfolio								
Company	Symbol	Rating	Risk Ranking	Price 30-Jun-10	Target Price	Dividend	Dividend Yield	Potential ROR
Interest Sensitive:								
Bank of Montreal	BMO	1-SO	Low	\$58.15	\$70.00	\$2.80	4.8%	25%
Bank of Nova Scotia	BNS	Restricted	-	\$48.99	-	\$1.96	4.0%	-
Great West Lifeco*	GWO	Not Rated	Not Rated	\$24.47	\$29.00	\$1.23	5.0%	24%
National Bank of Canada	NA	2-SP	Medium	\$55.24	\$70.00	\$2.48	4.5%	31%
Rogers Communications Inc.	RCI.B	2-SP	Medium	\$35.14	\$40.00	\$1.28	3.6%	17%
Royal Bank of Canada	RY	2-SP	Low	\$51.20	\$68.00	\$2.00	3.9%	37%
Sun Life Financial*	SLF	Not Rated	Not Rated	\$28.18	\$34.00	\$1.44	5.1%	26%
TELUS Corp.	T	2-SP	Medium	\$40.49	\$39.00	\$2.00	4.9%	1%
Toronto Dominion Bank	TD	1-SO	Medium	\$69.51	\$90.00	\$2.44	3.5%	33%
Consumer Products:								
Shaw Communications	SJR.B	2-SP	Low	\$19.27	\$22.00	\$0.88	4.6%	19%
Shoppers Drug Mart	SC	1-SO	Low	\$33.10	\$48.00	\$0.90	2.7%	48%
Thomson Reuters Corp.	TRI	1-SO	Low	\$38.50	\$45.00	\$1.20	3.1%	20%
Resource:								
Crescent Point Energy Corp.	CPG	1-SO	High	\$37.37	\$49.00	\$2.76	7.4%	39%
Enbridge Inc.	ENB	1-SO	Low	\$49.94	\$57.00	\$1.70	3.4%	18%
TransCanada Corp.	TRP	1-SO	Low	\$35.88	\$44.00	\$1.60	4.5%	27%

*Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital; Bloomberg.

ScotiaMcLeod U.S. Core Guided Portfolio

Stephen Uzielli - Portfolio Manager, Portfolio Advisory Group

Performance Update

Although the U.S. equity market generated positive returns in April, the major market indices posted significant declines in May and June as investors took profits in anticipation of a pullback in share prices, and a weaker economic outlook for the second half of the year. There was a distinct shift in investor sentiment after the recent peak in April as all sectors registered declines for the quarter but cyclically oriented groups were the clear leaders on the downside. U.S. economic data has begun to reveal signs of renewed weakness, particularly in housing and employment statistics. Also of concern was the announcement late in the period that the U.S. economy grew at a 2.7% annual rate in Q1, revised lower from the most recent estimate of 3%, implying the early phase of economic recovery was less robust than previously indicated. The Federal Reserve also announced they would continue their accommodative low-interest rate policy for the foreseeable future, suggesting in their comments they anticipate weaker financial conditions stemming from the fragile fiscal situation in the eurozone; it now appears that interest rate hikes in the U.S. may be deferred until early 2011.

The U.S. Core Guided Portfolio performed equally as poorly as the benchmark S&P500 Index during the second quarter as both generated negative returns of 11.4% for the period. Only one portfolio holding actually generated a positive return in Q2 as shares of **McKesson Corp. (MCK)** advanced a modest 2% despite the company reporting Q4 earnings during the period that came in below expectations; however, **MCK** raised 2011 financial guidance and increased their quarterly dividend by 50%. Although registering a small decline of 1%, shares of **McDonald's Corp.** performed well on a relative basis after the release of Q1 earnings that beat expectations in addition to reports of same store sales improvements in successive months. The holding generating the largest decline during the quarter was **Freeport McMoRan** which dropped 29% in response to the downward move in copper prices. The most consistent area of weakness among portfolio holdings was found in the Technology sector. Shares of **Cisco Systems, Intel Corp., Microsoft Corp., and Oracle Corp.** all fell between 10-20% due to profit taking and economic concerns; tech stocks had been among the best performing groups earlier in the year and this group remains one of the most attractive from an investment perspective as it still demonstrates some of the best earnings momentum and growth prospects going forward.

Changes

In April we made a change in this portfolio: a sale of **Walt Disney**, coupled with the purchase of **Marathon Oil Corp.** **Walt Disney (DIS)** had been a holding in this portfolio since 2003 and during that time frame had generated a total return of approximately 145% which translates to 13.3% per annum, more than twice the return of the S&P500 index during the same period. Over the most recent twelve months **Disney** shares had also outperformed by a wide margin, but it was time to take profits as the valuation had become stretched and we forecast greater upside potential in the other two Consumer Discretionary holdings: **McDonald's Corp.** and **Nike Inc.** **Disney** shares had been hitting new 52-week highs and their highest level since the days of "convergence" during the tech boom in 2000. From a valuation perspective **DIS** shares were trading at a premium P/E multiple and were also above the consensus target price of US\$36 and very close to the Credit Suisse target. The Credit Suisse target implied a 16x multiple which is commensurate with the company's 5 year earnings growth rate, and as such, not likely to garner any significant re-rating by the market in the absence of a large increase in earnings power which we do not envision.

Scotia Capital Strategist Vincent Delisle's spring update re-confirmed his plan to slowly migrate investment strategy toward a more defensive posture as the year unfolds, resulting in some modest tweaks in his sector allocation which, when combined with market moves led to some minor shifts in recommended sector weights. The only change that impacted directly on the U.S. Core Portfolio was a shift in Consumer Discretionary from Over Weight to Market Weight, and Energy, moving from Market Weight to Over Weight. Consequently we reduced the number of Discretionary holdings in this portfolio from three to two, and added another Energy holding, hence locking in profits on **Walt Disney Co.** and switching into **Marathon Oil Corp.**

Marathon Oil Corp. (MRO) is an integrated international energy company with operations in the US, Canada, Africa, Europe, Equatorial Guinea, Libya and the North Sea. **MRO's** 2009 production of 435 Mboe/d was 63% weighted toward crude oil which includes its 20% interest in the Athabasca Oil Sands mining project; Shell Canada is the operator and owns 60%, while Chevron Canada owns the remaining 20%. **Marathon** is the 5th largest US refiner with 7 refineries sustaining a total refining capacity of 1,188 Mbbl/d located in the US Midwest and Gulf Coast regions. The company's retail gas station network encompasses 1,600 Speedway SuperAmerica and 4,600 **Marathon**-branded sites. The company's valuation had been discounted over recent years because of heavy exposure to refining which has been under pressure with the spike up in crude oil prices in 2008, and subsequent economic recession impacting gasoline demand. After several years of successful oil and gas exploration the company is in the process of transitioning from a company primarily leveraged to refining and marketing, to one increasingly focused on exploration and production which should lead to enhanced valuation parameters. Notwithstanding the current cautious environment surrounding strength of demand for refined product like gasoline and diesel, **Marathon's** refineries are performing well partly due to the geographic location of many of their plants in the Midwest which don't have as much competition from imported fuel as are coastal plants. The economic recovery should eventually lead to a rise in diesel requirements and hence enhanced profit margins. In Q4 2009, **MRO** began phasing in start-up of the expanded (total capex \$3.2 billion) Garyville, Louisiana refinery which should increase capacity by 70% or 180,000 bbl/d, with similar growth in gasoline and diesel production. This plant is expected to be one of the most efficient refinery operations in the market. Projections suggest that by the 2011 **MRO's** profitability mix will be dominated by Exploration & Production over Refining & Marketing while historically the mix has been more balanced despite the heavy concentration of assets traditionally in the Refining & Marketing group. At the time of purchase **MRO** was trading at a 38% discount to Credit Suisse's estimate of Net Asset Value (NAV) of reserves, resources, and downstream assets of \$51.31, well below the average discount to NAV of 31% for its peer group. **MRO** currently provides a 3.1% dividend yield and despite the volatility in oil prices over the past several years, the five year dividend growth rate is 12.6% per annum. Although refining margins remain under pressure, they will accelerate along with the economic recovery and incremental demand for refined product.

Near the end of the quarter, the position in **XTO Energy (XTO)** was converted into shares of **ExxonMobil Corp. (XOM)** as a result of the all-share acquisition of **XTO** by **XOM**. Under the terms of the acquisition, **XTO** shareholders received 0.7098 **XOM** shares for each share of **XTO**. **ExxonMobil** is the world's largest publicly traded integrated oil and gas company. The company's international operations include exploration and production of oil and gas, electric power generation, and coal and mineral operations. **XOM** also manufactures and markets fuels, lubricants, and chemicals.

Exhibit 3: ScotiaMcLeod U.S. Core Guided Portfolio

Sector	Symbol	Rating	Risk Ranking	Price 30-Jun-10	Target Price	Dividend	Dividend Yield	Potential ROR
Interest Sensitive:								
AT&T Inc.	T	Neutral	Low	\$24.23	\$27.00	\$1.68	6.9%	18%
MetLife, Inc.*	MET	Restricted	Medium	\$38.21	\$54.00	\$0.74	1.9%	43%
State Street Corp	STT	Outperform	Low	\$34.14	\$52.00	\$0.04	0.1%	52%
Consumer Products:								
Colgate-Palmolive Co.	CL	Neutral	Medium	\$79.11	\$87.00	\$2.12	2.7%	13%
McDonald's Corp	MCD	Outperform	Low	\$66.39	\$79.00	\$2.20	3.3%	22%
McKesson Corporation	MCK	Outperform	Low	\$78.00	\$80.00	\$0.72	0.9%	3%
Nike Inc.	NKE	Outperform	Medium	\$68.11	\$85.00	\$1.08	1.6%	26%
Pfizer Inc.	PFE	Outperform	Low	\$14.36	\$21.00	\$0.72	5.0%	51%
Wal Mart Stores	WMT	Neutral	Low	\$48.28	\$58.00	\$1.21	2.5%	23%
Industrial Products:								
Cisco Systems	CSCO	Outperform	Low	\$21.51	\$35.00	\$0.00	0.0%	63%
Fluor Corp.	FLR	Outperform	Low	\$43.00	\$56.00	\$0.50	1.2%	31%
Intel Corp.	INTC	Outperform	Low	\$19.64	\$32.00	\$0.63	3.2%	66%
Microsoft Corp	MSFT	Outperform	Medium	\$23.31	\$40.00	\$0.52	2.2%	74%
Oracle Corp	ORCL	Outperform	Low	\$21.67	\$30.00	\$0.20	0.9%	39%
United Technologies Corp	UTX	Outperform	Low	\$65.53	\$93.00	\$1.70	2.6%	45%
Waste Management Inc.	WM	Neutral	Medium	\$31.60	\$36.00	\$1.26	4.0%	18%
Resource:								
ExxonMobil Corp.	XOM	Neutral	Low	\$57.56	\$71.00	\$1.76	3.1%	26%
Freeport McMoRan Copper	FCX	Outperform	Medium	\$59.72	\$95.00	\$1.20	2.0%	61%
Marathon Oil Corp.	MRO	Outperform	Medium	\$31.42	\$44.00	\$1.00	3.2%	43%
Occidental Petroleum	OXY	Outperform	Medium	\$78.23	\$92.00	\$1.52	1.9%	20%

*Currently Credit Suisse does not provide research coverage - target price based on consensus data.

Source: Scotia Capital Credit Suisse; Bloomberg; Value Line

ScotiaMcLeod North American Core Guided Portfolio

Stephen Uzielli-Portfolio Manager, Portfolio Advisory Group

Performance Update

The ScotiaMcLeod North American Core Guided Portfolio is suitable for growth investors seeking consistent long-term rates of return from a portfolio of high quality Canadian and U.S. companies. The current portfolio holds 25 equal-weighted (4%) positions. Country allocation within the portfolio is determined in a bottom-up, stock-specific fashion as opposed to making any particular country “call.” Generally speaking, but not exclusively, resource holdings will likely come from the Canadian universe, and Health Care, Information Technology, and Consumer stocks will usually be drawn from the United States. Performance of the portfolio is measured against a North American Index which is a composite benchmark equally weighted between the S&PTSX 60 Index (50%) and the S&P500 Index (50%), translated into Canadian dollars.

The U.S. dollar gained strength in the second quarter as global investors fled from the euro, and commodity based currencies as well, in search of the relative safety of the greenback. The U.S. dollar advanced 4.8% against the Canadian dollar, which enhanced performance for Canadian investors in U.S. securities after allowing for conversion. Post currency translation, the advance in the U.S. dollar diminished the negative returns generated by U.S. stocks held in the portfolio. On average U.S. holdings declined more than Canadian in local currency terms during the period. In the quarter the hybrid benchmark North American Index generated a total return of -6.5% in Canadian dollars, while the North American Core Guided Portfolio underperformed with a return of -7.4% including dividends. Only two holdings moved higher during the quarter: Rogers Communications and Barrick Gold. Among the largest decliners were Manulife Financial, Shoppers Drug Mart, Microsoft Corp., and Teck Resources.

Changes

We made a change in this portfolio during the quarter as well; because of the changes in the U.S. Core Guided Portfolio where we eliminated the holding in **Walt Disney Co. (DIS)**, we were compelled to also remove the **DIS** position from the North American Core Guided Portfolio as holdings in this portfolio must also be components of one of the other two Core Portfolios. **Walt Disney** had been a holding in this portfolio since its inception in May, 2007, and during that time frame had outperformed the return of the S&P500 index, which actually delivered a negative return. For the reasons outlined above we took profits on the position in **Walt Disney Co.** and switched into **Nike Inc.**

Nike Inc. (NKE) has grown to become a \$19.1 billion manufacturing, marketing, and sales organization that caters largely to the athletic market, and designs and develops footwear, apparel, equipment, and accessory products for men, women, and children. **Nike Inc.** has been a holding in the U.S. Core Guided Portfolio since July, 2007 and has been a valuable contributor to portfolio performance, consistently delivering on or exceeding analyst expectations for growth in revenue and earnings, even during the global recession.

Exhibit 4: ScotiaMcLeod North American Core Guided Portfolio

Company	Symbol	Rating	Risk Ranking	Price 30-Jun-10	Target Price	Dividend	Dividend Yield	Potential ROR
Financials:								
Bank of Nova Scotia	BNS	Restricted	-	\$48.97	-	\$1.96	4.0%	-
Brookfield Asset Management**	BAM/A	Not Rated	Not Rated	\$24.26	\$31.00	\$0.54	2.2%	30%
Manulife Financial**	MFC	Not Rated	Not Rated	\$15.60	\$20.00	\$0.52	3.3%	32%
Royal Bank of Canada	RY	2-SP	Low	\$51.16	\$68.00	\$2.00	3.9%	37%
Sun Life Financial**	SLF	Not Rated	Not Rated	\$28.18	\$34.00	\$1.44	5.1%	26%
Telecommunication Services								
AT&T Inc.	T	Neutral	Low	\$24.23	\$27.00	\$1.68	6.9%	18%
Rogers Communications	RCI/B	2-SP	Medium	\$35.16	\$40.00	\$1.28	3.6%	17%
Consumer Discretionary								
McDonald's Corp	MCD	Outperform	Low	\$66.39	\$79.00	\$2.20	3.3%	22%
Nike Inc.	NKE	Outperform	Medium	\$68.11	\$85.00	\$1.08	1.6%	26%
Consumer Staples								
Colgate-Palmolive	CL	Neutral	Medium	\$79.11	\$87.00	\$2.12	2.7%	13%
Shoppers Drug Mart	SC	1-SO	Low	\$33.10	\$48.00	\$0.90	2.7%	48%
Health Care								
Pfizer Inc.	PFE	Outperform	Low	\$14.36	\$21.00	\$0.72	5.0%	51%
Industrials								
Canadian National Railway**	CNR	Not Rated	Not Rated	\$61.74	\$70.00	\$1.08	1.7%	15%
Fluor Corp.	FLR	Outperform	Low	\$43.00	\$56.00	\$0.50	1.2%	31%
United Technologies Corp	UTX	Outperform	Low	\$65.53	\$93.00	\$1.70	2.6%	45%
Information Technology								
Cisco Systems	CSCO	Outperform	Low	\$21.51	\$35.00	\$0.00	0.0%	63%
Microsoft Corp.	MSFT	Outperform	Medium	\$23.31	\$40.00	\$0.52	2.2%	74%
Oracle Corp	ORCL	Outperform	Low	\$21.67	\$30.00	\$0.20	0.9%	39%
Energy								
Canadian Natural Resources	CNQ	1-SO	High	\$35.89	\$48.00	\$0.30	0.8%	35%
Occidental Petroleum	OXY	Outperform	Medium	\$31.42	\$92.00	\$1.52	4.8%	198%
Suncor Energy	SU	1-SO	Medium	\$31.73	\$40.00	\$0.40	1.3%	27%
Talisman Energy	TLM	1-SO	Medium	\$16.31	\$22.00	\$0.25	1.5%	36%
TransCanada Corporation	TRP	1-SO	Low	\$35.88	\$44.00	\$1.60	4.5%	27%
Materials								
Barrick Gold	ABX	1-SO	Medium	\$48.64	\$69.00	\$0.42	0.9%	43%
Teck Resources Ltd.	TCK/B	1-SO	High	\$31.71	\$52.00	\$0.40	1.3%	65%

*Currently Credit Suisse does not provide research coverage - target price based on consensus data.

**Currently Scotia Capital does not provide research coverage - target price based on consensus data.

Source: Scotia Capital Credit Suisse; Bloomberg; Value Line

The Guided Portfolios returns are not calculated according to CFA Institute "Performance Presentation Standards". Returns are calculated on a total return basis (including dividend income). The returns are used to gauge our performance by comparing the returns of the Portfolios to benchmark total return indices such as the S&P/TSX 60 and the S&P 500. Historical performance of the Guided Portfolios is not necessarily indicative of future performance. Each client's return will vary depending on the number of shares purchased, as well as the timing of purchases or sales. The Guided Portfolios themselves should not be used as benchmarks with which to compare our clients' portfolios.

ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio

Tim Vlahopoulos — Associate Director, Portfolio Advisory Group

Investment Objective

The ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio (“Portfolio”) is designed for investors with a moderate to higher investment risk profile and who want to take a more active approach to managing their fixed income assets within a diversified portfolio. The objectives of the portfolio are to provide both a high level of current income, and a reasonable level of return to protect against future inflation. The overall goal of the portfolio is to exceed the performance of the DEX Universe Bond Index (“Index”). Typically, superior returns are not achieved every year, however, the goal is to achieve these rates of return over the long-term. Approximately 75% of the portfolio is invested in a 10-year bond ladder and 5% is invested in inflation-protected securities. These comprise the core holdings of the portfolio. The remaining 20% is allocated toward two active value-added trade strategies that attempt to outperform the benchmark.

Performance Update

The ScotiaMcLeod Core-Plus Portfolio Fixed Income Guided Portfolio returned 1.80% for the quarter that ended on June 30th, 2010 and only 2.92% year-to-date. The portfolio underperformed the DEX Universe Bond Index, which returned a solid 2.93% for the quarter that ended June 30th, 2010 and 4.22% year-to-date. The reasons for the lackluster performance of the Portfolio, as compared to the Index, are primarily due to sector allocation and length of term of the Portfolio.

The best performing sectors in the market for the second quarter were the Provincial and the Canada sectors. The DEX Provincial Index returned 3.29% for the second quarter while the DEX Canada Index returned 3.10%. These solid performance numbers were driven by a number of events that occurred during the second quarter. The most influential of these events was the flight to quality by investors due to the European debt crisis. The debt crisis in Europe seemed to dampen any feelings towards the emergence of a strong global economic recovery. The risk of a stalled economic recovery decreased the probability of near-term interest rate hikes by central banks around the world. There was no need for central banks to raise interest rates quickly if the economic recovery had in fact stalled. The combination of little to no risk appetite by investors and the prospect of a slower economic recovery led investors to look for the relative safety of government debt securities and helped the Provincial and Canada sectors to their solid quarterly performances.

On the other hand, the Portfolio was overweight towards the corporate sector during this period. The DEX Corporate Index only returned 2.27% for the quarter. The Portfolio held approximately 41% in corporate debt securities while the Index only held about 27%. The sub-par performance by the DEX Corporate Index somewhat mirrored the lackluster performance achieved by the Portfolio.

Another factor that led to the superior performance by the Index came from the performance of the long end of the yield curve. Long-term debt securities are described as having maturities that are longer than ten years. The long end of the yield curve, as measured by the DEX Long-Term Index, returned a remarkable 5.05% for the quarter. The emergence of a weaker economic recovery and the possibility of having central bank interest rate hikes pushed further into the future led investors to look for higher yields, which were found in the long end of the yield curve.

The Portfolio was overweight in its short and mid-term securities as compared to the Index. This was one of the major reasons why the Portfolio turned in such a weak performance as compared to the overall Index. The DEX Universe Index had an average term to maturity of 8.81 years while the Portfolio had an average term to maturity of 5.63 years. Clearly, length of term played a major role in the performance of the Index and helped explain why the performance of the Portfolio did not compare favourably to the Index.

Current Active Strategies

There were no changes made to the active portion of the portfolio during the second quarter of 2010. The two positions continue to be the Wells Fargo Canada Finance (“WFC”) 3.97% due November 3rd, 2014 and the Canadian Imperial Bank of Commerce Floating Rate Note (“CIBC FRN”) due September 14th, 2012.

Active trades are implemented to add value and try to outperform the Index. Unfortunately, the two active trades in the Portfolio had a sub-par performance compared to the Index for the second quarter of 2010. The Wells Fargo Canada Finance position returned 1.19% and did not perform as expected because it is a corporate in the short-end of the curve. This combination, as was described earlier, did not perform well in this quarter. The second active position, the Canadian Imperial Bank of Commerce Floating Rate Note, delivered a return of only 0.42% well below the 2.93% return generated by the Index. The investment in the CIBC FRN is purely a defensive position designed to preserve capital during the upcoming rate hike cycle.

These two positions continue to be reviewed as market conditions change and evaluated against other fixed income alternatives.

Looking Forward

Overall, the ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio did not perform as well as expected for the second quarter. The Portfolio was structured to be defensive and designed to outperform the Index in a rising interest rate environment. However, this did not happen in the second quarter of 2010. Even though the Bank of Canada did raise its overnight target rate from 0.25% to 0.50% in the second quarter, the global economic environment changed with the European debt crisis. The crisis put doubts into the minds of investors about the strength of the economic recovery and pushed the probability of interest rate hikes further into the future. However, the latest forecast published by Scotia Capital Economics on July 7th, 2010 indicates that they are still bearish on interest rates going forward. They are forecasting that the Bank of Canada will increase its overnight interest rate to 1.00% by the end of the year and 2.00% by the end of the second quarter in 2011. We will continue to look for opportunities to add value to the Portfolio according to these conditions.

Exhibit 1: ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio					
Issuer Name	Coupon	Maturity Date	Current Weighting	Total Return for Q2 2010	Total Return Year To Date
Core Positions					
Export Development Corp.	5.750%	Jun 1, 2011	6.8%	0.38%	0.67%
Canada	5.000%	Jun 1, 2014	7.0%	2.59%	3.02%
CMHC	4.350%	Feb 1, 2017	7.2%	3.64%	5.37%
Canada Real Return Bond	3.000%	Dec 1, 2036	5.2%	3.91%	4.12%
CIBC Fixed Floater	3.750%	Sep 9, 2010	6.9%	0.15%	0.50%
Royal Bank Fixed Floater	5.450%	Nov 4, 2013	7.1%	0.68%	1.30%
Canadian Tire Corp	4.950%	Jun 1, 2015	7.3%	0.94%	3.04%
Metro Toronto	5.600%	Dec 18, 2018	7.7%	3.47%	5.09%
Manitoba	5.250%	Dec 3, 2012	6.9%	1.52%	1.77%
Saskatchewan	4.500%	Aug 23, 2016	7.2%	2.75%	3.36%
Quebec	4.500%	Dec 1, 2019	7.4%	3.58%	5.26%
Active Positions					
Wells Fargo Canada Finance	3.970%	Nov 3, 2014	9.8%	1.19%	3.06%
CIBC Floating Rate Note	1.207%	Sep 14, 2012	9.8%	0.32%	0.42%
Cash			3.7%	0.00%	0.00%
Returns for the ScotiaMcLeod Core-Plus Fixed Income Guided Portfolio			100.0%	1.80%	2.92%
Returns for the DEX Universe Bond Index				2.93%	4.22%

Source: ScotiaMcLeod Portfolio Advisory Group

Notes

Notes

The author(s) of the report own(s) securities of the following companies.

Shoppers Drug Mart Corporation, Teck Resources Limited, Barrick Gold Corporation, TELUS Corporation, Thomson Reuters Corporation, Enbridge Inc., Great-West Lifeco Inc., Sun Life Financial Inc., Johnson & Johnson, Microsoft Corp, Wal-Mart Stores Inc, United Technologies Corp.

The supervisors of the Portfolio Advisory Group own securities of the following companies.

Shoppers Drug Mart Corporation, TELUS Corporation, Colgate-Palmolive Co,

Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months. **Barrick Gold Corporation, Enbridge Inc., Great-West Lifeco Inc., Sun Life Financial Inc., TELUS Corporation**

The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of the following issuer(s):

Agrium Inc., Barrick Gold Corporation, Enbridge Inc., Great-West Lifeco Inc., Research In Motion Limited, Shoppers Drug Mart Corporation, Sun Life Financial Inc., Teck Resources Limited, TELUS Corporation, Thomson Reuters Corporation

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months. **Agrium Inc., Barrick Gold Corporation, Enbridge Inc., Sun Life Financial Inc., TELUS Corporation, Thomson Reuters Corporation**

Scotia Capital USA Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services in the next 3 months. **TELUS Corporation**

Scotia Capital USA Inc. had an investment banking services client relationship during the past 12 months. **Potash Corporation of Saskatchewan, Inc., Thomson Reuters Corporation**

The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s): **Barrick Gold Corporation**

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): **Enbridge Inc., Great-West Lifeco Inc., Sun Life Financial Inc., TELUS Corporation, Thomson Reuters Corporation**

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The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): **Barrick Gold Corporation, Potash Corporation of Saskatchewan, Inc., Research In Motion Limited, Shoppers Drug Mart Corporation, TELUS Corporation, Thomson Reuters Corporation**

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, the following issuer(s): **Agrium Inc., Barrick Gold Corporation, Enbridge Inc., Great-West Lifeco Inc., Potash Corporation of Saskatchewan, Inc., Sun Life Financial Inc., TELUS Corporation, Thomson Reuters Corporation**

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Comparative Canadian Bank Information				
Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	1-Sector Outperform	Low	\$70.00
Bank of Nova Scotia	BNS	R	R	R
CIBC	CM	2-Sector Perform	Low	\$80.00
National Bank	NA	2-Sector Perform	Low	\$70.00
Royal Bank	RY	2-Sector Perform	Low	\$68.00
Toronto-Dominion Bank	TD	1-Sector Outperform	Low	\$90.00

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BELLEVILLE (613) 968-6459	MISSISSAUGA (905) 848-1300	ST. JOHN'S (709) 576-1305
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BRANDON (204) 729-3362	MONTRÉAL (514) 287-3600	THUNDER BAY (807) 626-5180
BRIDGEWATER (902) 543-8293	MONTRÉAL Capital Branch (514) 287-2900	TORONTO – Scotia Plaza 11th Floor (416) 862-3110
CALGARY (403) 298-4000	NEW GLASGOW (902) 755-8509	TORONTO – Scotia Plaza Head Office Branch 15th Floor (416) 863-7272
CAMBRIDGE (519) 740-4300	NEW LISKEARD (705) 647-2044	TORONTO – Scotia Plaza 48th Floor (416) 945-4048
CHARLOTTETOWN (902) 566-3225	OAKVILLE – Church St. (905) 377-6301	TORONTO – Eglinton (Uptown) (416) 945-4840
COMOX (250) 890-3570	OAKVILLE – Kerr St. (905) 842-9000	TORONTO Personal Inv. Management Group (416) 865-6400
COMOX II (250) 890-3579	OTTAWA (613) 563-0991	TORONTO – North Toronto (416) 226-9505
CORNER BROOK (709) 637-4747	OWEN SOUND (519) 371-6496	TRURO- (902) 896-7741
EDMONTON (780) 497-3200	PETERBOROUGH (705) 876-1373	VANCOUVER (604) 661-7400
FREDERICTON (506) 450-6465	POINTE CLAIRE (514) 428-8400	VANCOUVER – North (604) 981-7600
GRAND PRAIRIE (780) 513-3505	PRINCE GEORGE (250) 614-2080	VANCOUVER – West (604) 913-7000
GUELPH (519) 763-0371	QUEBEC – Montreal Immigrant Investor Program (514) 287-4504	VERNON (250) 549-3411
HALIFAX (902) 420-2220	QUEBEC (418) 686-8666	VICTORIA (250) 389-2110
HAMILTON (905) 570-7960	QUEBEC – Rive-Sud (450) 463-5500	WELLAND (905) 732-7200
KANATA (613) 271-6600	REGINA (306) 352-5005	WHITBY (905) 444-4500
KELOWNA (250) 868-5500	RICHMOND (604) 713-7888	WHITE ROCK (604) 531-3500
KENTVILLE (902) 678-0777	ROSDALE (416) 335-6340	WINDSOR (519) 258-1050
KINGSTON (613) 531-6300	SAINT JOHN (506) 634-8021	WINNIPEG (204) 944-0025
KITCHENER (519) 571-3700	SALMON ARM (250) 804-2125	YARMOUTH (902) 742-0040
LAVAL (450) 680-3100	SASKATOON (306) 665-5300	
LETHBRIDGE (403) 317-4835	SCARBOROUGH (416) 296-0043	
LONDON (519) 660-3214	SIDNEY (250) 656-9393	