HOWARD, BARCLAY

October 24, 2009

Dear Client,

When the U.S. gets a cold Canada gets a ????

As we enter the fourth quarter of 2009, the Canadian stock market would appear to be at a crossroads. One year ago, it was as if a tsunami had hit the entire world. Today, the flood waters have receded and we now deal with the devastation and ruin that the storm has left behind. It would appear that after the large surprises such as the Lehman Brothers bankruptcy, the Bear Stearns bailout, and the Madoff scandal, the markets are ready to move forward. Although the markets seemed destined to go to zero in late 2008 and early 2009, that fear is no longer in the market and there is a sense of uneasy stabilization. In hindsight, it is reasonable to suggest that the markets overshot on the upside and then with the precipitous drop in the markets overreacted too much on the downside. At a crossroads, the natural question is “Which way do we go from here?”. We are of the opinion that the market has settled at a reasonable level given what has occurred economically and the corresponding response by governments around the world (specifically lowering interest rates and increasing the supply of money in the financial system). Although the rebound from the lows has been significant and some would argue too much too fast, it is worth knowing that the Canadian and US stock exchanges are still down approximately 25% from the peaks achieved over one year ago. Furthermore, the Dow Jones Industrial average (DJIA) is still below the level it traded at 10 years ago. It is difficult to argue with an investor in US markets that the recent rally has been too much too fast.

However, it will by no means be easy or quick to get back to the highs reached by the Toronto Stock Exchange or the DJIA. The unprecedented levels of excess borrowing by consumers, the corresponding run up in real estate values and the excess housing inventory built up will take years to work its way through the system. We also contend that the problems of excess borrowing and increases in housing values were a far more significant issue in the United States and some other countries than it was in Canada. If the US was going through their current crisis 40 years ago, we would suggest that Canada would be in far greater trouble economically than we are today. We feel the old economic adage that "**When the US gets a cold Canada gets pneumonia"** is no longer the case. There is little doubt that when Canada's main trading partner is suffering economic hardship that it would have some impact on the Canadian economy. However, we feel that the Canadian economy will not suffer nearly as adversely as the US economy and that Canadian stocks could be a destination for global investors.

Our strong opinions of the Canadian economy are based on several factors. First, as we indicated earlier, the excesses in the Canadian market were not nearly as great as the US market. As the value of residential real estate kept spiraling upwards, Americans were using their homes as ATM's. The increase in real estate values allowed home owners to mortgage even greater amounts. As long as real estate values were increasing, it was okay to borrow. However, with the drop in real estate, many homeowners were now left with mortgages far in excess of the value of their homes. Today, the due diligence of lenders is much more stringent. Canadians have long been criticized by many as being too conservative when it comes to their finances. But the combination of tougher lending criteria by Canadian financial institutions and the greater risk aversion to debt by Canadians compared to Americans has lead to far fewer financial difficulties here in Canada.

Second, as a result of our Canadian banking regulations and lending practices the major Canadian banks are amongst the soundest if not the soundest financially in the world. None of the big five banks required financial assistance from the government and with the exception of Manulife Financial (which cut its dividend in half) none of the major Canadian financial institutions cut their dividends. Over the last nine months, the major banks and insurers have raised money through either debt or equity issues thereby strengthening their balance sheets and putting their capital ratios at levels that would be the envy of most other global financial institutions.

Finally, the economies of Asia that their positive impact on Canada may be enough to overcome the negative impact from the decline of the US economy and its negative impact on Canada. China and India represent almost half of the world's population (approximately 2 billion people). These countries are increasingly demanding more and more goods that we take for granted. Automobiles, computers, refrigerators, washing machines are just a few items that are in demand by consumers. This demand creates an almost incomprehensible need for almost all raw materials from copper to oil. We believe this demand will only continue to grow over the coming years and Canada will be a major beneficiary of this increased demand. The continued demand for commodities from Asia will reduce the impact of a slowdown in the US economy on the Canadian economy over time. To what extent a slowing US economy affects the Canadian economy is still open for debate.

"**When the US gets a cold Canada gets a ????????**"

In summary, we feel that the stock markets have correctly adjusted for the economic fallout of the events over the past two years. Although we expect the markets to be volatile, we do not believe that the lows reached earlier in 2009 will be retested. We would also expect that the markets will begin a slow trend upwards over the coming months and years but a full economic recovery will take even more time. We feel that our emphasis on Canadian financial companies and oil and gas companies to continue to be a place for investors to earn solid returns going forward.

Sincerely,

Stephen Sisokin