

## Questions

- How would you characterize the economic and market outlook, and how is that affecting your positioning of the portfolio?

The market's recovery is vigorous but unsustainable. The market holds neither the promise of enduring profits or value. The unprecedented, concerted global spate of spending and bank system liquidity has boosted both bonds and stocks and delivered a mite of a business recovery and, we might add from Alan Abelson of Barron's, *Examples of the spirited revival of investors' mindless pursuit of risk.*

This market and economy is on a sugar high. We expect the expansion to relapse as stimulants are withdrawn and the weight global debt brakes bank lending and profit growth generally. The heads of the world's central banks in their assurances of prolonged cheap money telegraph the prevailing need to refinance their banks.

David Rosenberg of Gluskin Sheff - *While the US economy (global, in fact) looks like it is emerging from recession, the reality is that the patient is so loaded with medication that it is next to impossible to conduct an accurate assessment. All we can ascertain is that while a -1.0% real GDP growth rate in 2Q doesn't look so bad, and sequentially is a fabled green shoot, the reality is that without all the doses of fiscal stimulus, US GDP would have contracted at a 6.0% annual rate.*"

We question both policy and valuation in the equity markets. The authorities have opted for cheap money and spending incentives. We are in difficulty because of such policies. Without the liquidation of debt and the assets they back and without a deep reservoir of savings in consuming nations, the translation of liquidity and spending into long-term profit growth will be limited and deferred.

We think the very low rate of interest and easy credit draw consumption forward, create volatile markets, increase debt and defer savings so needed to reliquify the world's financial institutions.

When we compare equity valuations (high multiples of book value) with the mid single-digit level of return we expect, we want to err on the side of caution for clients. We want to emphasize sustainable businesses over the short-term winners in this market. We tend therefore to own companies having regulated or stable businesses and strong dividends. We have not waived from the policies of good income and reasonable valuation and a lower equity commitment.

- What makes you think that the market or the economy's rise may be at risk?

Beyond equity valuations discounting too much future growth, and the much narrowed spread of poor to high quality bond rates, we see very aggressive insider selling, a near record high in optimistic sentiment and more recently, we see long US Treasury bond yields breaking to new lows, indicative of investors gauging the outlook may be weak.

Employment in the US continues slack. Commodity prices looked to have cracked. We think the measures of business growth are simply lifts from government spending and the credit injections.

## Pooled Fund – Month End Unit Values<sup>^</sup>

Unit Values	Jun-09 <sup>*</sup>	Jul-09	Aug-09
Cdn Income Fund CI D	10.61	10.66	10.78
Cdn Balanced CI A	12.76	12.87	13.19
Cdn Equity Fund CI A	8.43	8.51	8.79
Cdn Small Cap CI A	16.55	16.83	17.60
Global Equity Fund CI A	7.71	7.63	7.93

<sup>^</sup> Fund NAVs reflect "full-fee" class \* Post distribution

- What do you look for in the managements of the companies that you buy?

Capability and candor. We test all managements for their commitment in time and ownership, for their long-term record of creating shareholders' wealth, for their acumen in building the business, for their prudence in financing the company and for their treatment of all stakeholders. Management assessment is essential to making a sound long term investment.

- How do you use valuations to help select stocks?

Valuation is a key. Valuation, after management, is second in importance in the seven steps in our "selection process". (The seven steps are: management, financial record, development of the business franchise and outlook, strength of the balance sheet, ability and willingness to pay dividends, valuation and the quantitative improvement a selection makes to a portfolio.)

We endeavor to obtain better valuations than the market. Ideally, if we can find better valued companies with better, higher or more consistent returns on equity, we will select the company and in time so will others. We will buy a company on assets, if cash flow or the return on equity is weak, as long as we believe management is acting in the long-term interest of the stakeholders.

- Why are dividend-paying stocks a significant feature of this portfolio and will you name a few?

For the benefit of a high total return. Empirical studies have shown that companies able to pay dividends and preferably those able to increase dividends achieve the highest total returns over the long term. As we prefer to hold indefinitely those companies we like, clients benefit from capturing dividend growth.

BCE Inc., Canadian Utilities, Encana, Astral Media, Pason Systems, and Laurentian Bank are examples.

## Total Return – Capital Gains plus Income (%)

To Aug 31 '09	1 Mo	3 Mo	1Yr	3 Yr	5 Yr	10 Yr
<b>QV Pooled</b>	%	%	%	%	%	%
Cdn. Income	1.1	2.6	7.3	5.9	5.5	5.5 <sup>^</sup>
Cdn. Balanced	2.5	5.6	-1.2	3.4	6.5	9.7
Cdn. Equity <sup>*</sup>	3.3	7.0	-14.0	0.6	9.3	14.8
Cdn. Small Cap	4.6	6.9	-18.1	-3.3	8.4	14.2
Global Equity	3.4	10.2	-3.0	-	-	-

<sup>\*</sup>Historic equity returns from the Cdn. Balanced Fund

<sup>^</sup>6 yr

## Benchmarks:

DEX Bond Unv.	1.1	3.2	7.2	5.5	5.8	6.6
Balanced Fund	1.5	4.9	-5.5	2.6	7.2	6.8
S&P/TSX Comp	1.0	5.6	-18.2	-0.6	8.0	6.7
BMO Small <sub>unwtd</sub>	5.0	9.3	-14.3	-7.8	2.7	5.1
MSCI World <sub>(SCA)</sub>	5.6	12.0	-16.7	-7.5	-2.6	-4.3

<sup>\*</sup> Pooled fund returns are gross of management and custodial fees. Returns over one year are annualized.

<sup>^</sup> The Balanced Fund Index reflects the total rates of return earned by the DEX 91-Day T-Bill Index (5%), the DEX Bond Universe (45%), the S&P/TSX Composite Index (40%), and the MSCI World Index (CS) (10%)