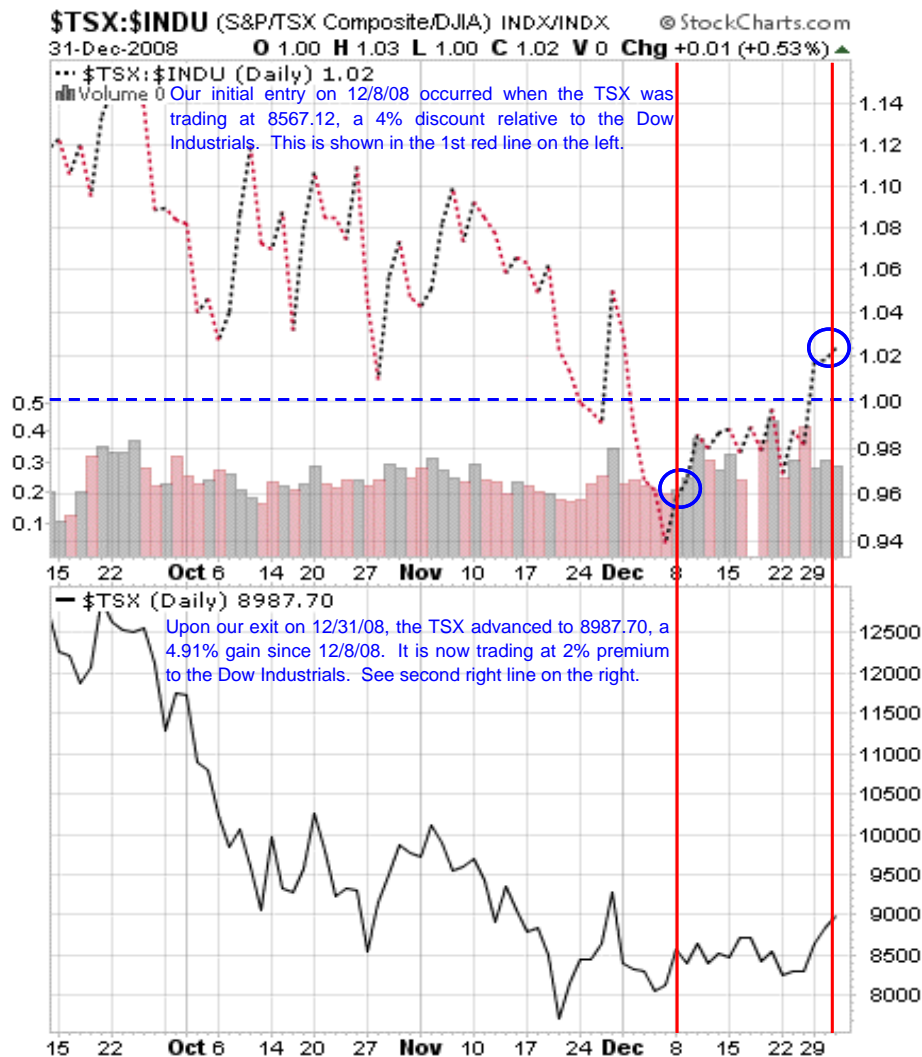




OUTLOOK

"Catching a Canadian Rally"
12/31/2008

In our Outlook on 12/8/08, we were bullish on Canadian stocks since we perceived them as a bargain relative to US Stocks. At the time, the Canadian TSX index was trading at about a 4% discount to the US Dow Industrials Average. Thus, we thought that Canadian stocks offered a good risk/reward opportunity that would benefit from a rebound in both equity and commodity prices.



Since our Outlook on 12/8/08, the TSX has outperformed the US Dow Industrials Average (INDU). The TSX has gained 4.91% since 12/8/08 while the Dow Industrials has declined 1.77%. So is the TSX index still a bargain relative to the Dow Industrials? If we look at the ratio of TSX/INDU, we can gauge the relative value of the TSX versus the INDU. A ratio of 1 indicates that the TSX is trading at the same level as the INDU. A ratio above 1 indicates that the TSX is trading at a premium relative to the INDU. A ratio below 1 indicates that the TSX is trading at a discount relative to the INDU. As shown by the graph above, the TSX/INDU ratio is now 1.02 which means that the TSX is trading at a 2% premium relative the Dow Industrials. So to answer the previous question, the TSX is no longer a bargain relative to the Dow Industrials based on its 2% premium over the Dow. Although there may be more upside, we think it is a good time to lock in profits since the risk/reward is not as favorable.

Mark Yuan, CFA

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