The Dividend Value Discipline™
Market Commentary
1st Quarter 2009

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I am happy to report that most participants within **The Dividend Value Discipline™** did make money during the first quarter of 2009, despite negative returns for the TSX Composite Index (-3.0%), the TSX Unweighted Index (-4.1%) and the S&P 500 Index (-11.7%). As you are aware, no two accounts are exactly alike due to the ***"buys only"*** process and different start dates. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly reporting package.

Our objectives for the program remain unchanged – income every month, an acquisition process where we buy ***only*** those securities which become attractive on a "go forward" basis, and finally, absolute returns of 8%+ each and every year, recognizing full well that we have a lot of lost ground to make up after 2008's disappointing results.

Market volatility continues to be extreme. On March 9th (a week after my broadcast e-mail updating you on recent market activity), the TSX Composite Index closed at a multi-year low of 7567, putting its year-to-date return at -15.8%. The S&P 500 Index looked even more dismal, closing on the same day with an eye popping year-to-date return of -25.1%. It should be noted that our program, although not unscathed, has performed considerably better due to what we own (gold producers) and what we don't own (banks).

The following is a recap of this quarter's transactions and our rationale thereof. On balance, we are grateful for the progress made. Our strategy is to use the market volatility to our advantage – in essence, to buy the things we want to own when the markets are making us nauseous, and to sell the things we wish we did not own when market rallies give us a sense of renewed hope. This sounds like a simple process, but it is not an easy one to execute.

In keeping with that strategy, we took advantage of the significant rally in copper and copper producers, selling both **First Quantum Minerals** in our registered accounts and **Southern Copper Corp.** in our non-registered accounts. Yes, we took a loss on both positions. With that said, by not selling into the November, we were able to recover a significant amount of capital.

On the buy side, in January we purchased an initial position in gold & oil royalty company **Franco-Nevada Corp**., which we then added to in February. Franco-Nevada is in a very enviable position – at a low in the commodities cycle, they have a very strong balance sheet and lots of cash. They are in the business of financing cash starved mining and energy companies that the banks want nothing to do with. To fund this position, we opted to sell **Yamana Gold**. Yamana's earnings announcement prior to the sale came with a dividend cut and some very enthusiastic comments from CEO Peter Marrone. Such talk sets high expectations, and disappointments can be severe.

In early February, we exited our position in **Rogers Sugar Income Fund** after our in-house analyst Howard Ma noted deteriorating margins in their most recent earnings announcement, as well as a loss of market share. A distribution cut is likely, making the stock increasingly vulnerable. We opted to hold the debentures however, because a distribution cut would actually help the debt side of the equation.

In late February, we forced ourselves to buy when the oil & gas complex seemed bleakest, by increasing our **Encana Corp.** position at a price very close to its 52-week low, and thus far we are better off for it. We took some money off the table at the end of March when the stock had increased by 19% from our February purchase price.

At the beginning of March, when fear looked like it was peaking, counter intuitively I chose to sell both our **Empire Ltd.** and **North West Company Income Fund** positions at reasonable gains. My rationale was simply this – with fear peaking, it looked like the fear trade was drying up – i.e. a market rally would draw investors away from the defensive issues – and thus, we were at close to "as good as it gets" on both companies. We now have cash to redeploy.

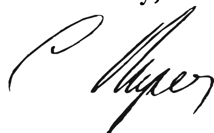
Shortly thereafter, we eliminated **Bristol-Myers Squibb** from the portfolio, when we were forced to acknowledge the speed at which President Obama seems to be able to move. His announcement on healthcare reform promptly sent most U.S. healthcare stocks south by 20%, on huge institutional selling – fighting against institutional sellers is generally hazardous to your financial well-being. There was a brief rally thereafter and we exited the position, holding our loss to roughly 7%, and happy to have avoided any further political risk.

In mid-March, after the U.S. Federal Reserve announced its clear intention to buy long-term bonds, we purchased a position in the **iShares Canadian Long Term Bond Index Fund**. We expect the Bank of Canada will do the same for Canadian bonds, particularly given it had previously announced plans for quantitative easing. In addition to capital gains potential, there is currently a significant yield advantage in long-term Canadian bonds over their U.S. counterparts.

Our last new position for the quarter was the **iShares Canadian Energy Sector Index Fund**, which we bought to increase our energy exposure within **The Dividend Value Discipline™**. With the recent strength in oil prices and the low valuations of companies in the energy sector, we were expecting consolidation in the industry. That said, it is hard to know who is going to get bought. Our belief was confirmed when just days after our purchase, Suncor Energy entered into a $15 billion dollar merger with Petro-Canada. We continue to expect more of the same.

Clients who monitor their statements closely will note that there has been a significant amount of cash built up since the start of the year, which undoubtedly will raise the question, "Chris, are you not scared of missing the recovery?" The short answer is no. History tells us that after every major bear market (such as 1930's or 1970's), we typically enter a period of months, sometimes years, of range-bound markets before a bull market returns. My job is to get us through that period without betting the farm on a market bottom – in essence, "***survive, then thrive***". As per my comments in the February edition of **The Strategist** (it is on our website under the **Market Insight** section), history suggests that we will see strong double digit stock market returns over the next 10 years. What we don't know is when this will start – next month, next year, or three years from now? Our intention is to use the interim volatility to our advantage and concentrate on base hits as opposed to home runs. When the bull market finally does return, we can adjust accordingly.

Yours truly,



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