The Dividend Value Discipline™
Market Commentary
4th Quarter 2008

Market Commentary

We close the door on 2008 with a sense of relief – it is finally over. Using the Dow Jones Industrial Average as a stock market proxy (it has been around since 1896), 2008 goes down as the third worst decline on record, only to be surpassed by 1931 and 1907. Certainly, it is the worst that I have experienced in my lifetime.

Here in Canada, the capitalization-weighted TSX Composite Index recorded a -35% return for 2008, including a peak-to-trough decline of -48%. The TSX Unweighted (one stock, one vote) Index came in at -42% for the year, whereas the TSX Small Cap Index trailed in at -48%.

During the quarter it became readily apparent that we were not going to make our annual return objective of 8%. Our focus then turned to ensuring that we were well positioned for 2009 and doing everything possible from a tax perspective to make the best of a bad situation. Non-registered account holders will enjoy considerable tax savings this April due to the transactions effected right into the final trading days of the year. Our other objectives for the program, income every month and an acquisition process where we buy ***only*** those securities which become attractive on a "go forward" basis, continued to be met. 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.

The following is a recap of this quarter's transactions, which include the unique tax-loss selling transactions for our non-registered accounts only.

During the quarter we eliminated two positions in their entirety to purchase companies we felt were better equipped to withstand our current economic conditions. We sold the unhedged oil and gas producer **Vermilion Energy Trust** on November 6th, just north of $30 per share, to purchase the more utility oriented pipeline/gas processor **AltaGas Income Trust**, and in doing so, slightly increased the program's income yield due to AltaGas's higher distribution rate.

On December 4th, we exited our position in **Penn West Energy Trust** to buy an equal dollar weighted position in **Encana Corporation**. Obviously both of these companies had been hit hard with the oil meltdown so, in essence, we sold cheap to buy cheap. The loss will benefit non-registered holders, but the greater reason for selling was that it became apparent that our assessment of Penn West's management was flawed. Thus far, the switch has been encouraging as we have seen Encana move into positive territory whereas Penn West has continued to fall lower.

On October 8, 2008 we initiated a position in the **iShares S&P/TSX Global Gold Index,** which was a follow up to our sale of **Barrick Gold** at the end of September. Our thinking was that the upside on the index was a lot higher than the large cap producer. That thinking has proven to be right thus far.

Our last new position to the program was pharmaceutical and healthcare product producer **Bristol-Myers Squibb**. The company pays a healthy 5% dividend and should fair well in turbulent economic times. It also has a healthy drug pipeline, many of which are currently in the late stages of clinical trials.

The following transactions were effected for our non-registered (taxable) accounts only. In each case, we were of the opinion that the "sell candidate" was definitely worth holding on to in the registered (non-taxable) accounts and the long term outlook for the industry remained solid – thus the "buy candidate" was a similar company in a similar industry.

- We sold **Boston Pizza Royalties Income Fund** to purchase **A&W Revenue Royalties Income Fund**
- We sold **Newmont Mining Corporation** to purchase a larger position in the **iShares S&P/TSX Global Gold Index**
- We sold **CNH Global** to purchase **Viterra Inc**.
- We sold **First Quantum Minerals Ltd**. to purchase **Southern Copper Corporation**

As we move into 2009, there is ample reason to be concerned, and yes, there is also reason for optimism. On the concern front, we are definitely in a recession and with the credit freeze only recently starting to thaw, a severe recession cannot be ruled out. That said, there is little to no evidence of a severe 1930's style depression – our money supply continues to grow, banks are getting bailouts (as opposed to failing) and unemployment is 7%, not 40%.

On the optimistic front, much of what got us into this mess is now abating – the hedge funds that were going to fail have failed, the mutual fund redeemers have redeemed – translation: the forced selling is over. Cash levels are at record highs, so even a modest redeployment of that cash into the markets could spark a powerful rally. The futures market is pointing to much higher commodity prices by mid-2009, indicating it is at least plausible that we have seen the worst of the recession.

As you have heard me say many times before, the stock market is a forward looking animal. Here is what we know as I write this on Friday, January 2, 2009. The first three trading days of the year (for tax purposes) were actually December 29-31, 2008, due to the three-day settlement rule. During each of those days, the trading day started sloppy and closed rather strong on increasing volume, and it was the commodity-related stocks that led the rallies. Today is much the same story. On Monday, January 5, 2009, most institutional investors get back to work and we should have a much better sense of the near-term outlook by the end of the month.

Our current strategy is to maintain a balance between defensive and offensive positions – if we get too defensive, we will certainly miss the major part of the recovery. Our focus on income continues. Over time, you can look for us to improve the quality of our bond holdings as this is one area where the "mark to market" accounting rules have caused us considerable pain, even though we do not believe that our capital is in serious jeopardy.

To close, I want to thank each and every one of you for standing by my team and me during this very difficult year. Your confidence is not taken lightly by any of us. To date we have not lost a single client during these difficult times. In short, your actions indicate your faith in our abilities – it is now up to us to deliver and that is what we are fully intent on doing.

Please accept our best wishes for a happy and prosperous new year as we look forward to working with you in 2009.

Yours truly,

Chris Raper
Vice President, Portfolio Manager
Raymond James Ltd.