The Dividend Value Discipline™
Market Commentary
3rd Quarter 2009

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The third quarter of 2009 was much kinder to investors than the third quarter of 2008, at least to those investors who had the intestinal fortitude to "stick with the program". For those who opted to stand aside (move to cash) "until things stabilize", the third quarter was like watching your horse running over a distant hill with the stirrups flying and you not in the saddle.

Thankfully, participants within **The Dividend Value Discipline™** were not part of that nightmare. Fully invested accounts posted year-to-date returns in the 25-30% range. 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.

At the close of the quarter, I would characterize the market as frothy, yet, still biased to the upside. That makes us more inclined to sell. The cash positions have risen significantly over the quarter as we have focused on selling those positions that we deem to be most vulnerable in the next market downturn, whenever that may happen. The income flowing into accounts is currently running at about 5%, based on the market value of securities held, which certainly compares favourably to money market funds that are presently yielding a maximum of 1%.

Major Transactions

In the "not enough upside and too much liquidity risk" camp, we opted to eliminate **Advantage Energy debentures** and **Rogers Sugar debentures** from the program. Having the cash for future opportunities looked better than trying to squeeze the last nickel out of those two positions. By mid-August and with the benefit of the latest earnings announcement, we opted to sell natural gas compressor equipment maker **Enerflex Systems**. Our thinking was and continues to be that the natural gas producers need to recover before Enerflex can; therefore it makes sense to move capital to the natural gas producers. We also sold grain handler **Viterra**. The position was held only by non-registered program participants and was originally bought to offset capital losses and yet keep us in the agricultural sector. It had served its purpose and we saw potential downside in the sizeable Australian acquisition. Indigestion is not an uncommon theme for significant acquisitions.

The last two sells in the program occurred in late September when we eliminated our position in **Ag Growth International Inc**. over valuation concerns (the rise in the stock price no longer made the value proposition attractive) and **Transforce Inc.**, where we witnessed not one, but two senior financial officers leave the company. Such activity tends to be a perilous "tell" and we opted for cash.

Turning to buy mode, the market weakness in the second week of July gave us a small window of opportunity. On July 7, we took up an initial position in oil producer **Crescent Point Energy**, with the idea that we would buy more on further weakness. Some days you are just a little too cute for your own good! The stock traded away on us, so for now we must be content with our lesser position. Crescent Point is the type of company we love to own – management is deeply committed, as is evidenced by the huge insider ownership stake, they are focused (in this case concentrating on the Bakken play in south eastern Saskatchewan), and they run a very disciplined hedging program that gives us some downside protection on oil prices. Of course, we like the 7% dividend yield as well. In many ways it reminds us of our favourite natural gas producer **Peyto Energy**, which is a significant holding within the program.

On July 9, we added the world's largest producer of aluminium, **Alcoa**, but not because we were particularly bullish on aluminium or the economy at that point. The reality is that we just couldn't see things getting much worse for the company and the industry. It was also painfully obvious to us that the company could survive virtually any market condition and therefore when the upside did return, it should be pretty significant. It has happened a lot faster than we thought. Alcoa is one of our star performers, up some 40% in Canadian dollar terms since we bought it.

Next we acquired electrical generating company, **Companhia Energetica de Minas Gerais (CIG)** of Brazil. My thinking: Brazil is an extremely fast growing economy and we get to participate in that economy using a very defensive strategy – owning a utility. In my view, buying CIG is akin to buying a power company in Alberta in the 1960's. We are expecting great things from the company and would like to increase our Brazilian exposure in time to come.

Still on the defensive side in early September, we took up a position in **Life Partners Holdings Inc**., which is in the business of purchasing life insurance contracts from the terminally ill. The huge insider ownership stake, generous dividend yield and compelling business model are what attracted us. The company is also in a very strong position balance sheet-wise, whereas a lot of its competitors are starved for capital. That means Life Partners is in a position to grow both organically and by acquisition.

Pipeliner **Enbridge Inc.** was our next acquisition, where we see once again a more defensive theme. Enbridge has a great corporate culture – broad insider ownership is the norm, as are its take or pay contracts. It is a very well disciplined organization that has demonstrated its ability to grow earnings and dividends at more than satisfactory rates.

The final acquisition in the quarter was nitrogen fertilizer producer **Terra Industries Inc**. This is what we call a "great culture" company – management is typically hired from within, they are very focused (nitrogen only) and insider ownership is broad. Additionally, Terra fits within the one mega investment opportunity that we are seeing right now – that being the agricultural theme. Unlike the base metals stocks, most of the agricultural stocks have not moved much at all and, in fact, many of them have been heading south. Eventually the sellers will exhaust themselves in much the same way as they have in the natural gas arena throughout the summer.

Looking ahead, we are in somewhat of a holding pattern – yes, we have cash which earns us little to nothing and yet the prospect of a significant pullback looms. Obvious bargains are few and far between, and patience is probably our best ally.

Yours truly,

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