The Dividend Value Discipline™
Market Commentary
2nd Quarter 2010

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The Dividend Value Discipline™ objectives remain unchanged: income every month, an acquisition process where you buy ***only*** those securities which become attractive on a "go forward" basis, and absolute returns of 8% each and every year.

The stock market in aggregate "ground to the downside" throughout the second quarter, starting with a brief bout of excitement (April) and then giving way to serious doubt (May/June). The quarter-end result for the TSX Composite Index was a -6.17% return, with the year-to-date return coming in at -3.85%.

Thankfully, we were able to take advantage of the volatility and the inherent opportunity within. I am pleased to report that the net result for program participants (fully invested accounts) for the quarter was a return in the 0% to +1% range, while we came in at roughly 4% on a year-to-date basis. Those that have recently joined the program have had positive although somewhat lesser results. 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.

What follows is a summary of the major transactions and rationale thereof since March 31, 2010.

In late April, we took up a sizable position in **Groupe Aeroplan** 6.95% Senior Secured Notes maturing in 2017. As bondholders, we have seniority over subordinated creditors and shareholders. The company is motivated to maintain its current investment grade credit rating. Should that credit rating fall below investment grade, the interest rate they must pay us goes up in 0.25% increments for every step they fall below investment grade. This provision holds management's feet to the fire.

In early May, we made the difficult decision to sell out of **Shaw Communications** over our concerns of its recent acquisition of CanWest Global's television assets. In a nutshell, Shaw moved from paying "very little" for effective control of those assets (the proposed February deal), to "paying up big time" to get total control (the final deal). At the end of the day, our experience with major acquisitions has been one of heartache, so we settled for a break-even result and chose to move on to more attractive value propositions.

On May 7th, we exited our only copper producer, **Amerigo Resources**, at $0.85 per share. We purchased the company during the heady days of 2007 and although it met all of our investment criteria at the time, the financial crisis of 2008 exposed its weakness – too much debt. By the time we recognized that the company was in trouble, the panic sell had set in, resulting in the stock bottoming at $0.29 in November 2008. The company did get itself recapitalized, so we reasoned that we would be better off holding out for a fair price as opposed to a "dump at all costs, just so we don't have to look at it" type of attitude. By early May, we were getting glimpses of backwardation in copper prices and evidence that funds were leaving the emerging markets, so we exited the position at a significant loss. The only comfort I can give you is that I bought and sold at the same time and price as all of the other program participants.

Also in May, we took up a sizable position in **Herbalife Ltd.**, which sells weight management, nutrition and personal care products in 73 countries through a network of approximately 2.1 million independent distributors. Here's why: in effect, they have 2.1 million small scale entrepreneurs working on their behalf. What we have learned from watching companies like Avon and Tupperware through past recessions is that network marketing companies tend to do very well in tougher economic times, as the sales force expands when other job opportunities are difficult to come by. As if on cue, Herbalife has continued to beat analyst expectations and is using its substantial free cash flow to fund dividends, repurchase common shares and reduce funded debt. The company has also earmarked $1 billion to repurchase common shares, which represents approximately 1/3 of those outstanding. It is obvious that management sees the company as deeply undervalued, and we agree.

Kimberly Clark was the next acquisition and we see it as a defensive consumer products company that covers both ends of the demographic spectrum. Huggies are growing business in Asian/Latam countries, whereas Depends have the aging baby boomers covered in Europe and North America. Profit margins have been increasing over the past few quarters as a result of raising prices and cutting costs, and the company's average return on equity has exceeded 28% for the last ten years. Most impressively, Kimberly Clark has achieved all of this while decreasing its debt leverage. Continued dividend growth is anticipated into the foreseeable future. Senior managers are typically long time employees who have built their identities and their wealth through stock ownership of the company. We like that – it aligns their interests with ours.

In early June, we chose to eliminate our **AltaGas Income Trust** position, after the company disappointed on its last earnings announcement of April 29th. Of course, there were plausible reasons for the miss (there always are), but experience has taught us that one miss is usually followed by another. Investor demand, as measured by relative strength, had dropped off a cliff – our thinking is that we will read about the problems in the months ahead. All in, the trade made a positive contribution to the program.

Shortly thereafter, we purchased **Telus** 5.05% Series CG Senior Unsecured Notes maturing in December 2019. The bonds represent a senior claim to the company's assets, i.e. ahead of both subordinated creditors and shareholders. Furthermore, the recent trends favour creditors, as its financial leverage has moderately decreased over the past 12 months. At the time of purchase, these bonds were yielding 1.75% per annum more than a comparable Government of Canada bond. Telus has reserved the right to redeem the 2019 bonds at a price that would currently yield a capital gain of approximately 10% - let's hope they decide to do just that.

On June 8th, we sold the **Aberdeen Asia-Pacific** closed-end investment trust, which you may recall is predominately comprised of sovereign bonds from emerging economies. This sell decision was crystallized over our concern that the currency crisis in Europe has the potential to develop a "domino effect" in the emerging markets. History has shown us that the downside can be ugly, notwithstanding the fundamentals. In short, we wanted to avoid the potential pain, and feel that the cash generated can be better deployed.

On June 18th, we took up a position in patented seed producer **Monsanto**, who has recently announced that it is effectively exiting the chemical herbicide business due to its commoditization. We laud this decision, as Monsanto can now focus on the more profitable, higher growth business of seeds & traits. That business has higher barriers to entry, given it is highly dependent on patented technology, and is created from its core competency, which is cutting edge research & development. Monsanto has many of the characteristics we look for in a great business; promoting from within, an absolute passion for their products and the determination to be the very best. It also has a history of returning cash to shareholders – dividends have grown at an average annual rate of 29% over the past 5 years.

Looking ahead, we are expecting a "grinder" of a summer, with lots of volatility. Our main focus is to use the volatility to our advantage and hold onto the gains thus far. Towards fall, I expect there will be a plethora of great value propositions, along with improved investor demand. For us, it takes both to make a great investment.

Enjoy your summer!

Yours truly,

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