The Dividend Value Discipline™
Market Commentary
2nd Quarter 2011 (Q2)

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April 1, 2011 saw us begin Q2 with a new high water mark for **The Dividend Value Discipline™** and then set another new high for the month ended May 31, 2011. June was a month of tough sledding, and most fully invested accounts closed out the quarter with year-to-date returns in the 0% to +2% range, so certainly a setback from where we left off Q1, albeit a modest one. With that said, most year-over-year returns are in the range of 11% to 14%, which compares favourably with our objective of 8% each and every year. We continue to deliver on our other objectives; income every month and an acquisition process where new entrants buy only those securities which become attractive on a go forward basis. Due to our ***"buys only"*** approach and different start dates, no two accounts are exactly alike. Your individual results can be found on **The Progress Monitor**, which is included in your quarterly report.

Our theme in the April to early May period was "take some money off the table" as it appeared to us that the masses were being greedy, thus making us fearful. By late May and throughout June that sentiment had reversed itself and we found ourselves redeploying cash as the value propositions became just too good to pass up. What follows are the major buy/sell decisions, and please understand that there were a number of "trims and top-ups" that are not reflected below.

In mid-April, we sold the remaining **Stoneham Drilling Trust** position in all registered accounts. At $22 and change, the price exceeded our estimate of the company's value. You may recall the announcement in early April that Stoneham is to be acquired by Western Energy Services. Western does not pay a dividend and staying true to the "dividend" leg of **The Dividend Value Discipline™**, we exited, logging a gain just shy of 28% over the 5-year hold period. Yes, that is the same Stoneham that sold down to a low of $0.96 in March of 2009. Sticking with it was clearly the right thing to do, despite the client pressure to sell.

Next up was a purchase and sale within the gold complex. We sold **Newmont Mining Corporation** from the program as a result of its deteriorating operating margins and increasing costs per ounce of gold produced. Furthermore, its gold production appears to have peaked and is in the initial stages of decline – that is bad news for any gold company. We chose to lock in a nominal 5% gain and used the proceeds to acquire mid-tier gold producer **Yamana Gold**. It has significantly lower unit costs and a growing production profile, given its new mines coming on stream. We are also impressed with the company's minimal debt load. On May 10th (after our purchase), the company announced a 50% increase in their dividend, and the tone of the press release suggests there may be more to come.

In mid-April we sold our **Yellow Media bonds**. The sell decision was prompted by the continual deterioration of the underlying stock. Experience tells us that the market often knows more than you do. Notwithstanding the fact that our fundamental assessment says the bonds are safe, the price of being wrong was just too great given the limited upside. Accordingly, we exited our position and booked a gain that could hardly fog up a mirror.

Next we sold global consumer products company **Kimberly-Clark**. The company has been challenged by rising input costs, particularly for fiber and energy, and is having a difficult time passing these increases on to consumers, given its already premium brand status. We continue to think highly of Kimberly-Clark, particularly its management team, so hopefully we get the chance to revisit with a better value proposition and a catalyst to boot. In the meantime, we accepted a nominal loss of less than 1%.

Our final "sell all" decision of the quarter was in mid-June, when we parted with the last of our **Herbalife** shares at just north of $53.00 per share. Our rationale was that better value propositions existed elsewhere and we notched a gain of roughly 58% for the 14-month hold period. Herbalife continues to be an impressive company and given a better value proposition, we would be receptive to owning it again.

On the buy side, we started accumulating a position in phosphate and potash fertilizer producer **Mosaic** in mid-April and have added to it since then. Unlike most other commodity producers, agribusiness lives and dies on one crop per year. In years gone by I spent a lot of time as a farm lender, enjoying it immensely. One observation I made is that farmers are a fairly predictable lot. They tend to see the world as having three possible investments – land, machinery and inputs. With near record grain prices (and livestock close on its heels), the fertilizer industry is in a position to do very well. Company wise, we love Mosaic's culture – it has a long history of promoting from within and planning for succession. Those are the things that protect you in the tough times. Insider ownership is broad and extensive – another point on the culture front. Its competitive advantages include a high barrier to entry and vast scale. We look forward to growing with Mosaic (pun definitely intended!)

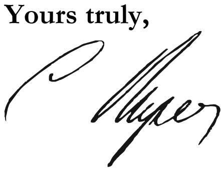
In mid-May it was more natural gas, when we revisited and reacquired a previous holding of the program, namely **EnCana**, which is North America's largest natural gas producer. The company is at the forefront of the continents' biggest shale gas plays, where it has great expertise. Recently, they have announced investments in mobile and stationary natural gas fuelling stations and the proposed Kitimat LNG export terminal. Clearly, EnCana is intent on developing new markets for this cheap and abundant gas. We continue to see a lot of value in this space and see EnCana as having first mover advantage.

Since then we have concentrated on "backfilling" existing positions for new entrants to the program, and increasing our weightings in those stocks which have pulled back (for all participants). These names include energy sector companies **Ensign Energy Services**, **Pason Systems** and **Husky Energy**, restaurant royalty trusts **A&W** and **Boston Pizza**, gold producer **Yamana**, steel producer **Nucor**, industrial giant **3M** and finally one of our favourites, who just reported impressive quarterly results on June 29th, seed producer **Monsanto**. The stock surged on heavy volume, up some 8.5% on the first two trading days after the earnings release.

As we wade into Q3, I see much of the correction behind us, with fear starting to subside and buyers once again becoming interested. Weighing all the evidence, I am biased to higher markets by the fall and we intend to invest (and have invested) accordingly. If the evidence changes, we will change as well.

Until then, I encourage you and your family to get out and enjoy some of our great Canadian summer!

Yours truly,



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