ScotiaMcLeod™ Kelland Wealth Management Group

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◆ Investment News ◆

May 2011

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Front row: Patty, Trina, Natalie, Rob, Lee

The Kelland Wealth Management Group, ScotiaMcLeod
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Market Returns in 2011
As of April 27, 2011

S&P/TSX	**3.50%**
S&P 500 – USA (in US$)	**7.10%**
MSCI World Index (in US$)	**6.50%**
S&P/TSX - from 2008 peak to now:	**-8.70%**
KWMG Model Portfolio, annualized Since inception January 1, 2009:	**16.05%**

In This Issue

MARKET COMMENTARY

There were a number of news bites that might have disturbed markets in April, in addition to the lingering concerns regarding the Japanese disasters. Although stock prices softened in Canada somewhat, markets continued to demonstrate resilience. **Global markets recorded a three-year high in April, up 6% year to date, in spite of**:

- *High commodity and food prices* – Texas sweet crude surpassed US$112, and Brent crude, the benchmark in Europe, is over US$125;
- *The price of filling up the auto* was over $1.30 per litre in Ontario, although in the U.K. you spend the equivalent of $2.30 per litre. In the U.S., gas at the pump is cheaper at about $1.00 per litre, but nonetheless edging close to a psychological flash point of US$4.00 per gallon;
- *Inflation in Canada* was a 3.3% annualized rate in March – a big surprise;
- *The U.S. dollar traded at a three year low* against six major currencies. The low U.S. dollar together with the hesitancy to increase American interest rates adds fuel to the fire of commodity prices and inflationary pressures;
- *Our Loonie was the highest since 2007* ($1.05);
- *Gold traded at US$1,500 per ounce* and silver set new records in the high $40s;
- *Greece's government 10 year bonds now bear interest at 15%*! Beware Greeks bearing bonds!

A recent study concluded that every $1 increase in the price of crude oil costs consumers (in the U.S.) $3 billion over the course of a year.

So the household finance discussions may be: "Shall I gas up the car to check out the best deals at several grocery stores?", or "Honey, where did you say you left the keys?"

INTEREST RATES

China began raising interest rates 18 months ago to combat inflationary pressures, which continue to exceed 5%. Many observers, including our ScotiaMcLeod Portfolio Strategists, believe that the Bank of Canada will join the Australians and Europeans and re-start its tightening (rate increase) regime later this year, perhaps as early as July, while the Federal Reserve in the U.S. is expected to remain on the sidelines until early 2012.

When a warning was sounded by Standard & Poor's that the U.S. triple-A credit rating might not be so sacrosanct, the stock markets stifled a yawn. They are paying close attention however to the first-ever press conference by the Federal Reserve's chairman (Ben Bernanke) on April 27, in an attempt to get a reading on how the Fed is perceiving the need for rate increases in a "on-again, off-again" economy.

From a "Big Picture" perspective, interest rate trends can last for generations. Rates fell in the final quarter of the 19th century. They rose from 1900 to 1920. They fell from 1920 to 1946, and rose from 1946 to 1981. Since 1981, rates have been declining, but very likely will soon be making their next historic about-face – even if it is at the speed of an ocean liner changing direction. **The timing is uncertain, the trend is not**. **For now, we recommend staying short term with most bond purchases.**

KWMG INVESTING PRINCIPLES (2)

Further to our views on asset allocation in April, we offer some observations on what we believe are other sound principles of investing.

A recent study has exploded the myth of higher risk stocks earning higher rewards. It seems **you can achieve higher returns, over the long run, with lower risk stocks.** The study used data from the largest 1,000 U.S. stocks spanning 1968 to 2008. In fact, over this 40 year period, the highest-volatility stocks produced a loss, after inflation, while $1 invested in the lowest risk group grew to $10.12 after inflation was taken into account. The added benefit is that the lower-risk stocks also tend to provide dividends as well. **As advisors, this is why we attempt to focus on long-term goals, rather than more instant gratification.** It is exciting to hit a home run, but it is the singles and doubles that produce the results in the investing world.

One of our primary objectives is our clients' "Peace of Mind". What we mean by this is that we believe in honest, respectful and lasting relationships. We take the time to get to know our clients. Our job as investment advisors is to make recommendations that prioritize our clients' comfort level and their ability to sleep at night through all market conditions.

The Kelland Wealth Management Group's investment philosophy has not changed in 27 years in the business. **Rob is committed to providing clients with the best possible investment returns while focusing on minimizing risk. Common sense, pragmatic, blue chip, strategies are implemented for each individual client.**

Over the last six months, S&P 500 dividend-paying stocks with yields over 3% outperformed non-dividend payers by 2.1%. (There was a similar performance trend in Canada in early 2011).

WHY INVEST IN THE U.S.A.?

Following is a summary of what we have written in previous newsletters as to why investments in U.S. equities are attractive at this point in time:

1. U.S. stocks are generally cheaper than their Canadian peers.
2. The current phase of economic expansion favours consumer discretionary, information technology, and industrial sectors that do not have a strong Canadian stock representation. Keep in mind that fully one-half of the Toronto Stock Exchange is represented by energy and materials stocks. Gold mining itself is 11% of the TSX total weighting, but less than 3% of our Gross Domestic Product. Health care is 8% of our GDP but only 1% of the TSX.
3. U.S. stocks have the cheapest currency conversion than at any time in the past 3½ years. At the same time, a lower U.S. dollar against other major currencies makes offshore earnings of multinationals that much more favourable. U.S. corporations that are globally focused also benefit from emerging market growth.
4. Many analysts forecast U.S. equities climbing by 8% to 10% in the current calendar year.
5. S&P 500 corporations are estimated to see profit margins climb to their highest level in 18 years.
6. The trend towards increasing dividends and stock buybacks that started in 2010 is continuing in 2011.
7. 70% of S&P 500 stocks have now recovered their 2008/09 market crash downturns (excluding U.S. financial stocks).
8. Second quarter earnings reports generally are

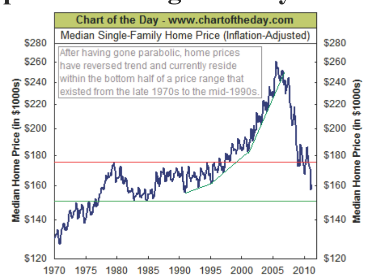
continuing the trend of beating estimates and exceeding prior quarters' results.

In addition to specific stock recommendations from time to time, Rob Kelland also recommends certain moderate-cost foreign mutual funds with well-researched U.S. representation as well as exchange-traded funds with U.S. and global reach.

United States Economic News

Granted, optimism for U.S. stocks may seem contradictory, when one considers the ups and downs of economic news from the U.S. We believe there is occasionally a disconnect between economic bulletins and stock values. **The U.S. economy remains 25% of global GDP and its industrial output is still double that of China's. Nonetheless, unemployment remains stubbornly high and household wealth is under stress**. Our view is that even although U.S. consumers are challenged, the reach of U.S. multinationals is growing globally as is their potential for higher corporate earnings more than in years past.

This chart shows the inflation-adjusted median price of a single-family home in the United States over the past 41 years. The median home price is currently 38% off its 2005 peak. That's a $100,000 drop. In fact, a home buyer who bought the median priced single-family home at the 1979 peak has actually seen that home lose value after inflation. The most recent home price analysis by Case Shiller confirmed that average home prices continue to weaken (down 3.3% over one year).



Tax Reminder:

Canadians with Cdn$100,000 in assets outside of the country at any time during the year should be aware of a disclosure requirement (found at the top of page two of your federal return). However, U.S. dollar-denominated investments based in Canada, such as mutual funds or savings accounts, or personally-occupied vacation property, do not have to be included in this disclosure.

In certain situations, where U.S. assets included in a total worldwide estate exceed a specified threshold, U.S. estate taxes might be payable (or, there may be a need to file a U.S. estate tax return to claim exemptions). **The estate issue is not related either to citizenship or residency. Consult your tax advisor for advice relevant to your particular situation**.

ScotiaMcLeod does not offer tax advice, but working with our team of experts we are able to provide a suite of financial services for clients. Be sure to consult with your own tax and legal advisors.

DIVIDENDS IN PORTFOLIOS (3)
What About Preferred Shares?

Preferred shares are a form of capital issued by a company to finance their business. They provide dividends, paid quarterly – often at higher rates than common shares. We consider them as lower risk "fixed income" even though they are sold as "shares", since typically they do not offer prospects for growth. Preferred shares take priority over common shares in the event of liquidation of a corporation, but rank below all other forms of debt.

Preferreds do offer tax-effective dividends for non-registered accounts, but even in RRSP or RRIF accounts they can offer attractive yields. All preferred shares that we recommend are "liquid" – that is, they trade daily and are not locked in. There are various forms of preferred shares, with different legal provisions. Like bonds, they carry investment ratings (P-1 through P-5). We recommend only the highest rated preferred shares. The ideal structure is a "hard retractable" issue, meaning that the company is obligated to redeem the shares at their issue price at a predetermined date. However, new issues of such retractables are rare in the current environment.

By far the most popular form of issuance of new preferred shares are "resets". These shares generally carry a provision that after five years their dividend rate will be adjusted based on a pre-defined spread over the Government of Canada five year bond (which in the current interest rate environment means the rate will go likely go up) or the company will repay the capital in full. **The current average yield on such reset preferred shares is approximately 4.0%, which is a pre-tax equivalent interest rate of about 5.4%** (meaning you would have to earn 5.4% in GIC equivalent pre-tax interest to have the same after-tax amount).

'KIDS TRI 4 KIDS' TRIATHLON

The ScotiaMcLeod London Branch is very excited to announce a new community event being planned for London this summer.

For the first time ever, a non-competitive triathlon for children aged 3-13 will be held in London on **Sunday, June 12, 2011** at the Carling Heights Optimist Community Centre. At the "**Kids Tri 4 Kids**" event, presented by the entire ScotiaMcLeod London Branch, children will bike, swim, and run their way around a professionally developed course. ScotiaMcLeod's goal is to create a happy, positive experience for the children and their families, while promoting physical activity and fitness for kids.

The event will benefit **Childreach**, a key London non-profit community organization since 1975 that focuses on giving all children the best start in life. Childreach provides learning opportunities, information and support for children in our community and those who care for them.

For more information about the triathlon, please visit the event website at **www.kidstri4kids.com**. ***Online registration is now open*!** If you have any questions about the event, or if you would like further information, please contact Talea Danbrook or Lee Lomax on our Team.

Sources: Scotia Capital, Globe and Mail, Globe-Investor.com, National Post, Credit Suisse, , TD Mutual Funds, chartoftheday.com, Grantspub.com, Advisor.ca

"Laughter is the sun that drives winter from the human face." **Victor Hugo**

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