July 26, 2010

Portfolio Strategy

OPTIMISTIC EPS ESTIMATES & CHINA SENTIMENT

String of Above-Average "Beat Ratios" in Jeopardy

With roughly 35% of S&P 500 companies having reported so far, Q2/10 earnings are coming in above consensus estimates and the "beat ratio" is currently hovering near 78% (average is 64%). S&P 500 quarterly EPS is expected to surpass US$20 in Q2/10, 45% above last year's US$13.81 level.

Quarterly profits have been posting consecutive above-average beat ratios since Q1/09 (six quarters ago). Actual earnings tend to beat consensus estimates when the economy digs itself out of recession through the earlier stages of expansion, as we have witnessed since mid-2009. Once the recovery is confirmed, however, and profits have forcefully rebounded, consensus estimates should turn more optimistic.

With signs pointing towards a slowdown in U.S. global growth in 2H/10 and, more importantly, very optimistic 2011 bottom-up estimates, the stretch of "positive earnings surprises" will likely be challenged in coming quarters.

Top-down analysts (ourselves included) spend most of their time voicing their scepticism on "consensus forecasts," and now that we are back in a more normal environment of bullish bottom-up forecasts, we believe it's time to become sceptical again.

Year-End North American Benchmark Information

	Recent	2010F	2011F
S&P/TSX Composite Index			
TSX Level/Target	11,714.21	12,300	
TSX Earnings	$624.36	$750.00	$825.00
TSX P/E	18.76	16.40	N/A
TSX Dividends	$320.18	N/A	N/A
TSX Yield	2.73%	N/A	N/A
S&P 500			
S&P 500 Level/Target	1,102.66	1,225	
S&P 500 Earnings	$72.23	$78.00	$82.00
S&P 500 P/E	15.27	15.71	N/A
S&P 500 Dividends	$21.88	N/A	N/A
S&P 500 Yield	1.98%	N/A	N/A
Fixed Income & Currency			
BoC Overnight Rate	0.75%	1.25%	2.75%
Canada 10-Year Bond	3.228%	3.85%	4.10%
Cdn/U.S. Dollar	$1.0358	$1.01	$0.98
U.S. Fed Funds Rate	0.25%	0.25%	2.25%
U.S. 10-Year Treasury	2.9943	4.10%	4.40%
U.S. Dollar/Euro	$1.2909	U$1.23	U$1.23
Commodities			
Gold	$1,189.20	U$1200.00	U$1300.00
Oil (WTI)	$78.98	U$79.00	U$80.00

Source: Scotia Capital, Bloomberg.

More important, though, is identifying the level of "optimistic deviation," above which S&P 500 performance materially suffers. Based on our 2011 EPS forecast (US$82), the optimistic deviation ratio currently stands at 16%, which points towards modest upside potential. Anything above 30% will raise the odds of negative forward S&P 500 returns.

Optimistic Deviation & One-Year-Forward S&P 500 Return

In order to gauge Wall Street's optimistic nature in terms of company-specific profit forecasts, we have calculated the historical optimistic deviation for S&P 500 bottom-up earnings estimates since 1985. The term "optimistic deviation" refers to consensus estimates at t=0 divided by actual earnings 12 months later (t+12).

A positive ratio means estimates were above actual S&P 500 earnings one year later, while a negative ratio means analysts' estimates turned out to be too conservative. For every optimistic deviation ratio, we have looked at the one-year-forward equity return. Overly optimistic earnings estimates are nothing new. The optimistic deviation ratio has averaged 10% in the last 25 years with bottom-up forecasts proving "too optimistic" 74% of the time.

When & Where to Worry

The debate surrounding overly optimistic earnings forecasts has been raging for decades, and we expect the Street's *bullish 2011* EPS scenarios will trigger sceptical headlines in the coming months. Based on the latest bottom-up census, S&P 500 EPS is slated to reach US$95 in 2011, 21% above 2010E's US$79 level and ahead of the past record of US$91.47 hit in Q2/07. In our opinion, this 2011 forecast is too optimistic.

We recently took down our fiscal year EPS forecasts to account for a slower pace of recovery in 2H/10. We reduced our 2011 numbers by about 3% for both the TSX and the S&P 500, and although our forecasts are in line with 2010 consensus, our 2011 earnings outlook is more cautious. We forecast S&P 500 earnings

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of US78 (+37% YOY) in 2010 and US$82 (+5% YOY) in 2011. TSX earnings estimates were reduced to $750 in 2010 and to $825 in 2011. Compared to our 2011 forecast of US$82, bottom-up estimates of US$95 appear 16% too high.

S&P 500 one-year-forward performance is overwhelmingly positive when bottom-up estimates are too conservative – i.e., when the optimistic deviation is negative (26% occurrence). Since estimates turn out to be too optimistic 74% of the time, the level of optimistic deviation needs to be monitored, not simply the fact that estimates appear too elevated.

When the optimistic deviation ratio hovers between -5% and 5%, the S&P 500 one-year-forward return averages 16% with very high probabilities of positive results. Expected returns are much more modest (high single digits) when the ratio moves closer to +20%. Above the 30% threshold, however, the S&P 500's forward return is outright negative 80% of the time.

Relative to our 2011 base case forecast (S&P 500 EPS of US$82), we believe the current optimistic deviation of +16% doesn't foreshadow major headwinds yet for S&P 500 returns. It does, however, point towards modest upside potential – i.e., in the high single digits.

Using a 15x P/E multiple on the current S&P 500 level of 1,069, we estimate that markets are fearing earnings levels of about US$72, in which case the optimistic deviation would stand at 25%. Under the recession scenario, actual S&P 500 earnings could fall near the mid-US$60 level and the optimistic deviation ratio would move above 30%. This is the level to watch, in our view.

In the near term, the ongoing positive earnings season should somewhat offset prospects for slowing global/U.S. GDP. At the start of July, the S&P 500 was down about 17% from its April peak level of 1,223, highlighting how markets were already pricing an imminent slide in corporate profits. "Quarterly" earnings are currently trending near the US$20 level (US$80 annual pace), and under a recession scenario, S&P 500 earnings could drop 20%, which would bring quarterly/annual earnings near the US$16/US$64 level. Under that scenario, the optimistic deviation would move above the 30% threshold (actual EPS of US$64 in 2011 vs. estimates of US$95) and equity downside risks would intensify. Under our base case scenario, we expect the S&P 500 to trade within the 950-1,200 range. Under the recession scenario, the floor could be under 900.

Vincent Delisle, CFA – *Portfolio Strategist, Scotia Capital*

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Canadian Equity Strategy

GOLD SECTOR UPDATE: BURSTING BUBBLE OR ATTRACTIVE ENTRY POINT

Against a backdrop of volatile equity markets, uncertainties associated with European deficits, concerns over global growth prospects, and a general distrust of many major paper currencies, gold has certainly garnered ample investor attention over the past year. Demand from central banks seeking to diversify their reserve base, the growth in ETFs, and general demand from institutional and retail investors has served to be key support factors for the precious metal.

In recent weeks, the price of gold has pulled back approximately 6% since reaching a high of US$1,256.80 per ounce in mid-June. Over that same period the S&P/TSX Gold Index has corrected approximately 10.5%. In general, gold equities are now trading at similar levels as those seen in the fall of 2009 while the price of the underlying commodity has actually increased approximately 16%. Given this recent volatility and as we approach the seasonally stronger fall season for gold, we take this opportunity to highlight Scotia Capital's investment thesis on the commodity.

- Typically, ***May-July sees a major correction in the gold and silver prices*** and the underlying equities, but not this year. Other than an early retreat in the first weeks of May after a strong April, we have seen strong consistent pricing throughout the period.
- Although we are bullish, ***we still remain cautious until the end of July when typically physical demand starts to pick up into September*** and then strengthen again in the November-January period after an October pullback. The presence or absence of investors can make or break these seasonal periods.
- We have three key reasons for increasing both our short-term and long-term gold prices:
  - The global credit crisis continues as we have now turned from the public companies such as Lehman in 2008 to sovereign banks such as that of Greece. We believe this credit/debt crisis will continue to snowball as more and more bailouts take place, continuing to increase the debt levels of many of the countries and public companies involved.
  - We believe the bailouts, incentive packages, and increased money supply will eventually breed runaway inflation. We believe before this takes place the U.S. dollar will be considerably weaker than it is today due to the massive U.S. debt and deficit and the slow recovery of that economy.
  - From a supply-demand point of view we believe that gold production will fall in the coming years, as this gold cycle has been marked by very few large world class gold deposit discoveries. Demand has done nothing but rise due to increased investor demand and a lack of central bank selling (now net buyers).
- We ***forecast a range of prices from $1,100-$1,500 between now and January***.
- We believe silver will move higher with gold and therefore have moved our silver prices higher with our gold prices. We believe investors will continue to flock to silver as the poor man's gold. Silver typically does better than gold in a bullish gold environment but it falls harder as well.
- In the senior gold equities we remain ***bullish on Barrick Gold (ABX)***. We continue to believe the rerating of this story is in progress. With a world class project pipeline that no other gold producer can compete with, and the largest reserves and resources in the industry, Barrick is poised to remain the biggest gold producer for many years. It also has shown and should continue to show improving total cash costs as it continues to build new low cost mines such as Cortez Hills, the newest, to be followed by Pueblo Viejo and then Pascua Lama.
- In the intermediate gold equities, we remain ***bullish on IAMGOLD (IMG)***. IAMGOLD has just started a new +400,000 ounce a year mine in Burkina Faso, Esskane, and continues to find more gold through exploration at Westwood and Rosebel. We believe it has good growth and once the new CEO is named in the coming weeks, it should regain its trajectory that was offset when the previous CEO left the company in January. We believe its history of M&A success and exploration discovery will continue to be a solid foundation for the company to grow its production base, and lower its cost profile.
- On the silver equities, we believe ***Silver Wheaton (SLW) is a must-own stock***. It has impressive growth, a solid portfolio of world class assets, and a U.S. dollar fixed cost base (1% increase for inflation after first three years on any silver stream). It has a one for one margin expansion for each dollar increase in the silver price and offers excellent leverage to rising silver prices.

For more details on any of the above mentioned companies, please contact your ScotiaMcLeod wealth advisor.

Geoff Ho, CFA – *Director, Portfolio Advisory Group*

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U.S. Equity Strategy

CAUTION WARRANTED AHEAD OF Q2 GDP RELEASE

Investors will get their first look at U.S. second quarter GDP next Thursday, July 30th. The consensus of economists' estimates is for growth of 2.7% annualized. That would be unchanged with the growth rate registered in Q1 of 2.7%, which was down sharply from the 5.6% growth rate reported in Q4. We believe this economic release will help set the tone for trading through the balance of the summer. A materially weaker GDP print would lead both economists and analysts to trim their numbers which would place downward pressure on the market. Conversely, a print consistent with expectations will provide support for equities. A recent string of data points for the second quarter suggest the pace of growth is beginning to moderate. Whether this trend shows up in the GDP print Thursday, we can't say with any certainty, but caution is warranted.

Bond fund managers Bill Gross and Mohamed El-Erian of PIMCO, along with high-profile economists Nouriel Roubini, Carmen Reinhart, Ken Rogoff, and David Rosenberg, have all been warning investors the recovery in the U.S. economy will be fleeting and to expect much slower growth in the second half of the year. PIMCO's Mohamed El-Erian has repeatedly said we are heading down a bumpy road towards a "new normal", an era characterized by global realignments and below trend economic growth. Goldman Sachs economics team has recently joined the chorus suggesting growth in the second quarter has slowed more than originally anticipated.

Goldman Sach's U.S. economists believe real GDP growth in the U.S. slowed in the second quarter to 2% (annual rate) from the 2.7% reported in Q1. They also now forecast growth of only 1.5% for the second half of 2010. The slowdown is occurring as support from fiscal stimulus and the inventory cycle are beginning to fade. Both have played a major role in the recovery to date. Goldman is also now worried the reacceleration that many are hoping for in 2011 will not occur. According to data compiled by Bloomberg, the consensus growth rate for the full year is 3.1%, and 2.9% for 2011. It would appear that expectations are too high.

We can't ignore the contribution which China and other emerging markets to a lesser extent have played in the global recovery. China helped kick-start the recovery with its own massive fiscal stimulus package. Huge infrastructure projects sparked demand for raw materials and kept scores of Chinese employed as exports market softened. China and others in the region produce for export, not domestic consumption. As growth slows in developed nations, the Chinese economy will also slow. Internally, Chinese policy makers have been restricting credit growth to remove inflationary pressures particularly in the housing sector. Earlier this week, Chinese officials at the Ministry of Commerce referred to the trade picture as "still complicated and grim…the sovereign debt crisis has made many EU countries shift to fiscal austerity from fiscal expansion, which will greatly restrict consumption and investment growth in the EU," Unfortunately domestic demand in developing nations is not yet strong enough to support global aggregate demand as belt tightening in the developed world tempers consumption.

The latest economic data suggest the U.S. economy is beginning to slow. When we dissect and analyze the components of Gross Domestic Product it is easier to see the how and why.

GDP = Private Consumption + Business Investment + Net Exports + Government Spending

Private consumption or consumer spending is the largest component of GDP historically representing about two thirds of aggregate demand. Recent data points including retail sales, consumer credit, and consumer confidence all suggest consumer spending will remain under pressure. Retail sales dipped in the months of April and May, while consumer credit has been contracting for more than a year. The latest reading of the University of Michigan Consumer Confidence Index fell to its lowest level in a year, heightening the risk of a slowdown in the broader economy. Turning to business investment, U.S. corporations are sitting on a mountain of cash, which is a non-productive asset. While there are signs that business investment is beginning to pick up, the large output gap (the difference between the actual output of the economy and the output it could achieve at full capacity) suggests capital investment is likely to remain subdued. Where businesses are spending is on productivity enhancing technology rather than plant, equipment, and payroll. Nonfarm payroll data show that job creation has stalled over the last two months. The weak employment picture feeds back to consumer confidence and troubles in the housing market. Exports got a boost in 2009 from a weaker U.S. dollar. However export markets are slowing and the U.S. has lost some of its competitive edge to Europeans given the decline in the euro. The U.S. trade deficit has widened to its highest level in 18 months. Net exports will be a drag on growth in the quarters ahead. As for government spending, public debt and deficits have skyrocketed to uncomfortable levels over the past two years. Austerity has replaced stimulus as the market's new mantra. Building support for a second fiscal stimulus package as the effects of first fade will likely be challenging.

Assuming analysts’ earnings expectations reflect GDP growth of 3.1%, the consensus forecast for 2010; if GDP does in fact slow to 1.5% in the second half, earnings expectations are too high. It's difficult to say what level of earnings for the S&P 500 would be consistent with GDP growth of 1.5%. Second quarter earnings are once again coming in well ahead of expectations. Annualizing earnings for the S&P 500 for the first half of the year yields a full-year estimate around U$80. The current bottom-up earnings estimate for 2010 is U$81.73 and U$94.84 for 2011. With signs the U.S. economy is slowing, positive earnings surprises could turn into earnings disappointments later this year. Expectations for 2011 are too optimistic in our opinion. Scotia Capital’s Portfolio Strategist is forecasting S&P 500 earnings of U$78 for 2010 and U$82 for 2011 appear far more reasonable. Under his base case scenario, he expects the S&P 500 to trade within the 950-1200 range. Under a recession scenario, the floor could be under closer to 900. See Vincent Delisle’s Portfolio Strategy comment from July 22, 210 “Optimistic S&P 500 Bottom-Up Estimates: What Level to Watch” for a more detailed discussion of his projections. Using his range for the S&P 500, the Portfolio Advisory Group would be selectively buying U.S. stocks as the S&P 500 approaches or trades below the 1000 level and tactically reducing positions as the S&P 500 approaches 1100.

Paul Danesi, CIM – *Director, Portfolio Advisory Group*

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Economic Outlook

Equity Indices - Weekly Performance				
	Close	Weekly Change		YTD Return
Equity Index	07/23/2010	Points	%	%
S&P/TSX Composite Index	11714.21	144.56	+1.2%	-0.27%
Dow Jones Industrial Avg.	10424.62	326.72	+3.2%	-0.03%
S&P 500	1102.66	37.78	+3.5%	-1.12%
Nasdaq Composite	2269.47	90.42	+4.1%	0.01%
FTSE-100 (London)	5312.62	153.77	+3.0%	-1.85%
CAC-40 (Paris)	3607.05	106.89	+3.1%	-8.37%
DAX (Frankfurt)	6166.34	126.07	+2.1%	3.51%
Nikkei (Tokyo)	9430.96	22.60	+0.2%	-10.58%
Hang Seng (H.K.)	20815.33	565.17	+2.8%	-4.83%

In the U.S last week, the housing market proved to disappoint already weak expectations. Scotia Economics notes that single-family homes retreated only 0.7% month over month from a rate of 457,000 in May to 454,000 in June. Housing starts are now back to the lowest level since last October. However, it was multiple-family units that fell 21.5% month over month, bringing down the headline number. Aside from housing starts, building permits actually rose 2.1% month over month, which was the first increase since March. Jobless numbers were also released last week, with initial jobless claims higher then expected while continuing claims were lower at 4,487,000.

Last week in Canada, the Bank of Canada raised its overnight rate by 25 basis points to 0.75%. Scotia Economics notes that Canada is the first G7 nation to begin a policy tightening cycle, which is reminiscent of the relatively stronger pace of domestic demand. However, the BoC changed its forecast for Canadian GDP growth for this year and next to 3.5% and 2.9% respectively. There is expected to be weaker global growth and more modest consumer spending. In addition to the BoC announcement last week, retail sales data has started to dip after posting some strong gains earlier in the year. Retail sales slipped in May for the second straight month, down 0.2% month over month. Since then, Canadian consumers have started to ebb their expenditures somewhat, as the Bank of Canada has gradually raised rates, housing markets have started to cool down, and in addition there has been increased volatility in financial markets, which have all contributed to the slow down in consumer expenditure growth. Overall retail sales growth is expected to continue, however at a more modest pace. Canada still expects a healthy outlook for retailers as consumer confidence is still up roughly 15% year over year.

This week in the U.S. New Home Sales will be released on Monday, S&P/Case Shiller Home Price Index, consumer confidence, and the Richmond Fed Index will be released on Tuesday. Durable Goods Orders will come out on Wednesday, while Employment Cost Index, GDP, Chicago PMI, as well as consumer sentiment will all be released on Friday. There will be little data released in Canada this week with IPPI & Raw Materials Price Index coming out on Thursday, while Real GDP will be released on Friday.

Amy Billinghurst – *Associate, Portfolio Advisory Group – Fixed Income*

Fixed Income Strategy

Strong Q2 Earnings Drove Investors to Sell the Safety of Government Debt

The Bank of Canada increased the overnight rate by 0.25% to 0.75%, as the market had expected on Tuesday July 20th. Canadian bonds rallied on the back of the Bank of Canada's rate announcement and then reversed course as the market seemed to conclude that the statement's dovish tone (monetary policy supporting lower interest rates) had not actually deviated from expectations as drastically as anticipated. Scotia Economics is anticipating that the Bank will hike rates another 0.25% in September followed by a pause at 1% for the remainder of the year. Further, the domestic Headline CPI was reported in-line with expectations at 1.0% year-over-year while the Core CPI was slightly lower than anticipated coming in at 1.7% on an annual basis. In other news, Canadian Retail Sales disappointed the market coming in at -0.2% on the headline and at -0.1% on the core figure for the month of May. But in the end, the positive tone set by the Q2 earnings drove investors to sell the safety of government debt to invest in riskier assets. Government of Canada yields rose by +0.01% to +0.07% on the front end of the curve with the exception of the 3-year and 4-year benchmark yields which fell by -0.01%. Long Canada yields rose by +0.06% for the week. As a result, the DEX Universe Bond Index and the DEX All Corporate Bond Index fell -0.13% and -0.14% respectively on a year-to-date basis.

Canadian Bond Yields - Weekly Change

	July 23	July 16	Change (bps)
Canada 2-Year Bond	1.58	1.57	1
Canada 10-Year Bond	3.22	3.16	6
Canada 30-Year Bond	3.78	3.72	6
BoC Target Overnight	0.75	0.50	25
Prime	2.75	2.50	25
U.S. 2-Year Bond	0.59	0.59	0
U.S. 10-Year Bond	2.99	2.92	7
U.S. 30-Year Bond	4.01	3.94	7
Federal Funds	0.25	0.25	0
Prime	3.25	3.25	0

Source: Bloomberg

Bond Index Performance (YTD)

	July 23	July 16	Change (bps)
DEX Universe Bond Index	3.91%	4.05%	-0.14%
DEX All Government Bond Index	3.73%	3.86%	-0.13%
DEX All Corporate Bond Index	4.38%	4.49%	-0.11%

Source: PC-Bond

U.S. Treasuries sold off as the positive tone set by the Q2 earnings season fueled the market's appetite for risk. The housing data that was released for the week was a little disappointing considering that Housing Starts and Existing Home Sales for the month of June failed to bring comfort at -5.0% and -5.1% respectively. Further, Initial and Continuing Jobless Claims were also worse than anticipated. However the weak economic data was offset by the positive sentiment felt in the equity markets. We saw U.S. Treasury yields rise by +0.02% to +0.09% across the curve.

Results of European banking stress tests were released on Friday. The results demonstrated that 7 of the 91 banks assessed need to raise a total of €3.5 billion in capital. Five Spanish savings banks, Agricultural Bank of Greece and Hypo Real Estate of Germany were deemed to not have enough reserve to maintain a 6% Tier 1 capital ratio in the event of market turbulence. Given the relatively low rate of misses, the market consensus seems to be that the bar was set too low. One of the key issues was that the analysis apparently ignored the majority of the banks' sovereign debt holdings, focusing only on trading positions.

Corporate credit markets posted solid performance on the back of strong Q2 earnings. Credit spreads (yield pick-up over the benchmark) in Canada and the U.S. were able to grind tighter over the week to the tune of -0.04% to -0.06%, as better than expected earnings from S&P 500 companies helped improved market tone, and thus risk sentiment. Equities were able to rally +3.00% on the Dow and S&P 500, while the CDX investment grade index IG14 closed a full -0.06% tighter on the week. In Canada, broad market performance was also on the positive end with spreads in the overall market tightening about -0.04% to -0.05%. The top performers were Canadian bank debt and life insurance companies. The better tone also allowed for new issuance to remain robust during the week, with three new deals to report. Trans Quebec & Maritimes Pipeline Inc. had a seven-year deal for $100 million, Union Gas wrote $250 million of long bonds, and the main attraction was Telus corp writing $1 billion of

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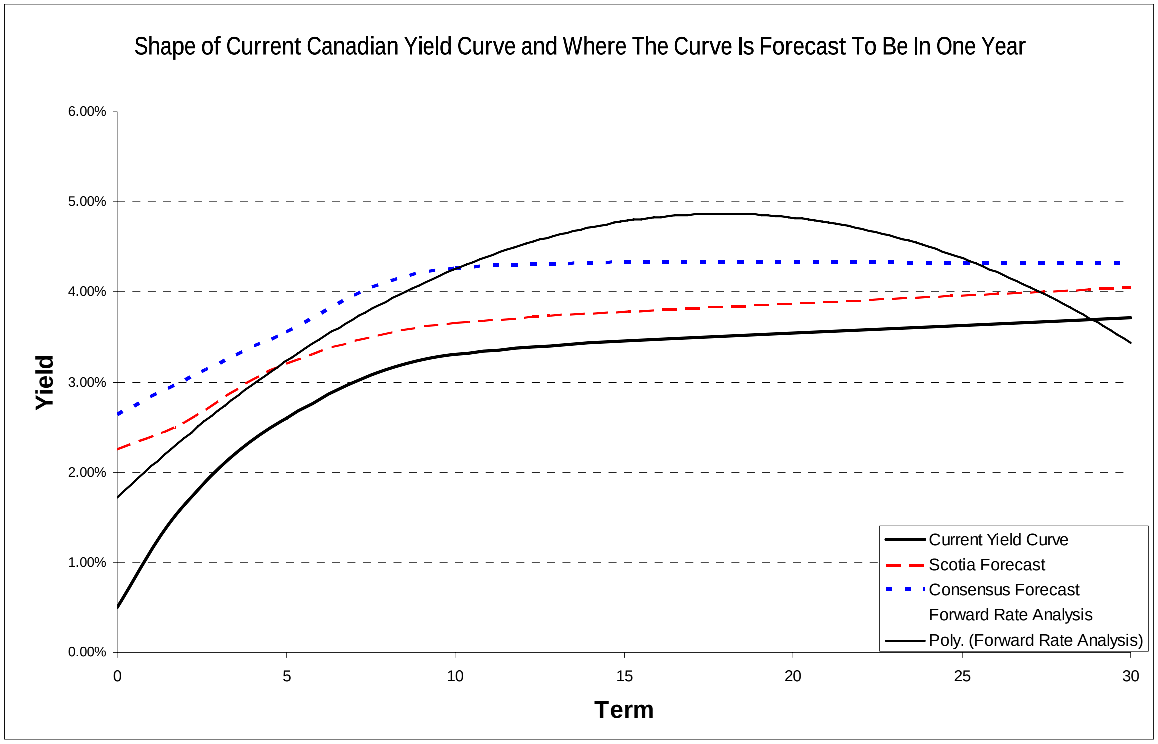
ten-year paper at a spread of 1.88% over the 10-year benchmark. The improved market tone also benefited the secondary market, with the new Telus trading very well to end the week. TD Bank also took advantage of lower rates in the U.S., writing $2 billion of a covered bond at 0.57% over the Treasury curve. Canadian banks have been diversifying their issuance as of late to south of the border, which has helped C$ issues by not flooding the market with supply.

For this week, the markets will focus on more Q2 earnings reports and on GDP data coming out of both Canada and the U.S. Also, the Treasury Department will auction $38 billion in 2-year notes on Tuesday, $37 billion of 5-year notes on Wednesday and $29 billion of 7-year notes on Thursday.

Portfolio Advisory Group Fixed Income – Current Recommendations

1. **Term Call –** You should no longer sit in cash but instead start to extend term
2. **Sector Call –** Underweight Canada's, overweight provincials, municipals and corporates
3. **Currency Call –** We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt.
4. **Alternative Strategies –** Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

1. **Term Call** – Scotia Economics is now forecasting a much flatter yield curve over the next 12 months, with the forecast now indicating much lower longer term yields than previously expected. This creates a more neutral outlook for bond returns, which in turn means you should no longer sit in cash but instead start to extend term.



Source: Scotia Economics and Bloomberg

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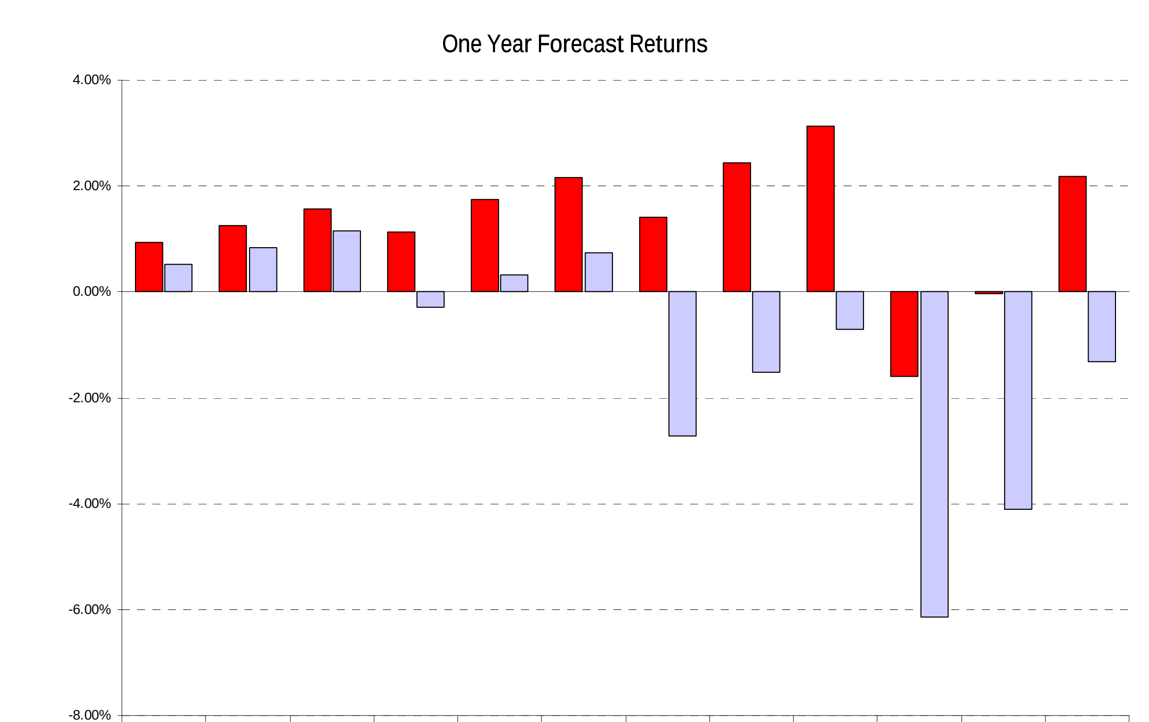

	2 Year Canada	2 Year Provincial	2 Year Bank	5 Year Canada	5 Year Provincial	5 Year Bank	10 Year Canada	10 Year Provincial	10 Year Bank	30 Year Canada	30 Year Provincial	30 Year Bank
Scotia	0.94%	1.25%	1.57%	1.14%	1.74%	2.15%	1.40%	2.44%	3.14%	-1.60%	-0.03%	2.18%
Consensus	0.52%	0.84%	1.16%	-0.30%	0.32%	0.74%	-2.71%	-1.51%	-0.71%	-6.14%	-4.11%	-1.32%

Source: Scotia Economics and Bloomberg

2. **Sector Call –** We recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick up over Canada bonds) still remain attractive.

3. **Currency Call –** We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt. Although at current levels the Australian dollar is expected to fall slightly versus the Canadian dollar, this is more than offset by 4%+ in incremental yields. Hence, we continue to recommend Canadian investors add exposure to the Australian dollar.

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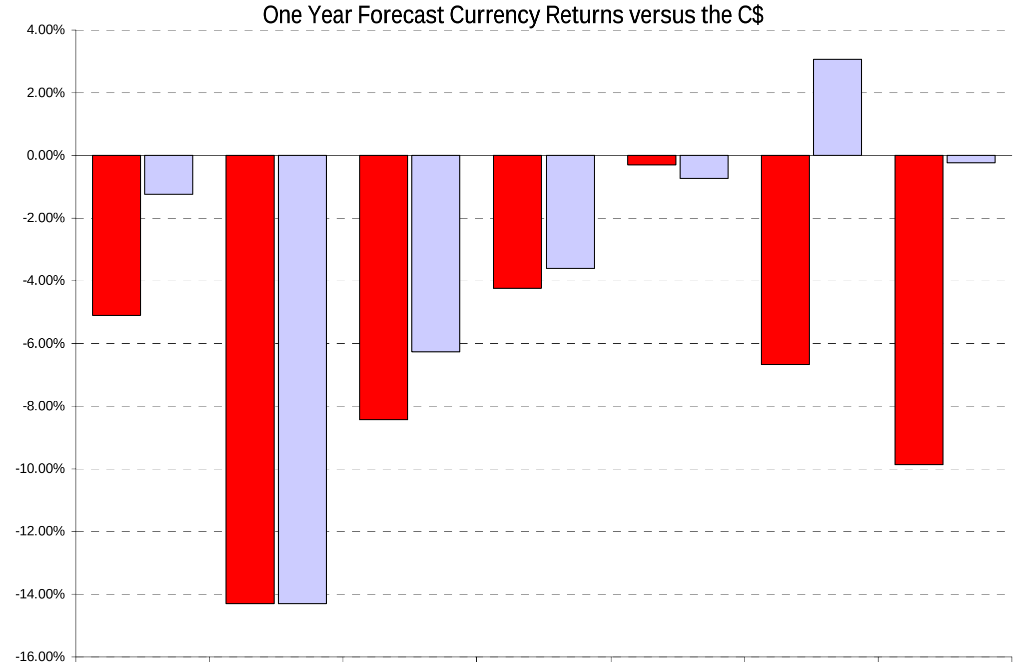

	USD	JPY	EUR	GBP	AUD	MXN	BRL
Scotia	-5.09%	-14.29%	-8.45%	-4.22%	-0.29%	-6.68%	-9.86%
Consensus	-1.22%	-14.29%	-6.27%	-3.59%	-0.74%	3.08%	-0.25%

Source: Scotia Economics and Bloomberg

4. Alternative Strategies: Within a broadly diversified portfolio our recommendations are as follows:

a) High Yield – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we see still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – Similar to our outlook for high yield and equities, we continue to see value in this sector versus both investment grade and high yield, based both on absolute yields in excess of 5.5%, and based on positive underlying fundamentals. Hence, we continue to recommend maintaining an overweight exposure.

c) Inflation Protected Bonds – with current real yields in the area of 1.53%, and the market pricing in an effective long term inflation rate of 2.54%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Anthony Mentor – *Associate, Portfolio Advisory Group – Fixed Income*

-S&P/TSX Composite Index

-Dow Jones Industrial Average

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-NASDAQ

- S&P 500 Index

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Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

Ratings

1-Sector Outperform
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

2-Sector Perform
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

3-Sector Underperform
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

Other Ratings
Tender - Investors are guided to tender to the terms of the takeover offer.

Under Review - The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

Risk Rankings

Low
Low financial and operational risk, high predictability of financial results, low stock volatility.

Medium
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

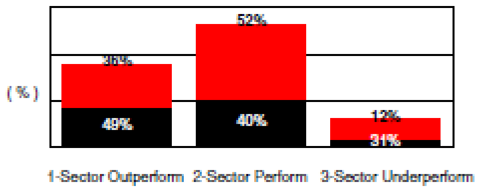
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

Caution Warranted
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk tolerant investors only.

Venture
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

Scotia Capital Equity Research Ratings Distribution*

Distribution by Ratings and Equity and Equity-Related Financings*



*As at June 30, 2010.
Source: Scotia Capital.

- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than buy, hold/neutral and sell, to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

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The author(s) of the report own(s) securities of the following companies.
None.

The supervisors of the Portfolio Advisory Group own securities of the following companies.
None.

Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months. ***Barrick Gold Corporation, Silver Wheaton Corp.***

The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of the following issuer(s): ***Barrick Gold Corporation***

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months. ***Barrick Gold Corporation, Silver Wheaton Corp.***

The issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of the following issuer(s): ***Barrick Gold Corporation, Silver Wheaton Corp.***

The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): ***Barrick Gold Corporation, Silver Wheaton Corp.***

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, the following issuer(s): ***Barrick Gold Corporation, Silver Wheaton Corp.***

Scotia Capital Inc acted as financial advisor to Silver Wheaton Corp. on its agreement to amend its silver purchase agreement relating to the San Dimas mine, in conjunction with Goldcorp Inc.'s proposed sale of the mine to Mala Noche Resources Corp. ***Silver Wheaton Corp.***

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