

January 31st, 2012

Portfolio Strategy

FED KILLS THE MOOD

Last Monday we commented on the likelihood of *bond yields finally moving higher*. Our take was that 10-year Treasury yields crossing 2% pointed to broadening risk appetite amidst improving U.S. data and a rallying S&P 500. Following last week's Fed comments and reversal in bond yields (10-year yields down 16 bp post-Fed to 1.90%), a broad recovery in risk appetite now appears elusive, thus challenging the risk on rally witnessed since October. In our view, if yields don't go up alongside better-than-expected data, yields are unlikely to increase much when U.S. momentum fades post Q1. And in the absence of higher yields, we do not expect major asset mix shifts out of bonds.

Policy risks have been front and centre since 2009, and last week saw another twist from U.S. monetary policy makers. The Fed surprised/confused investors by extending the deadline for "extremely low" rates to late 2014 versus its previous mid-2013 timeline. In addition, the Fed stands prepared to renew its bond buying program if employment and business spending don't improve, fuelling QE3 hopes.

Relative to the recent flow of U.S. data, the Fed's tone and decision to postpone monetary normalization is confusing, in our view. Another source of confusion stems from the contrast between the Fed's comments and the distribution of its internal forecasts. Although the Fed extended its projected rate hike timetable by 18 months, a look at each member's personal view provides a more balanced outlook. Six of the 17 members expect rate hikes to begin either in 2012 or by late 2013, which means 35% of participants appear more eager to start normalizing policy. Moreover, the long-run view appears to be that Fed funds will climb back to 4%.

Last week's Fed comments also contrasted with the recent uptick in U.S. macro data and halted the nascent back-up in bond yields. Although there have been notable improvements in key segments of the U.S. economy, the Fed's macro view remains tilted towards significant downside risks.

We find the argument of "employment improvement" somewhat misleading in the context of 1,640k new jobs added in 2011 and the unemployment rate declining to 8.5% last year. Admittedly, payroll progress remains lacklustre relative to past recoveries, but in our view by choosing to focus on the risks and move past the improvements, the U.S. Central Bank is sustaining this eternally bullish environment for bonds and restricting risk appetite. Yields tend to go up with lower jobless claims figures, but this relationship has diverged in recent months.

Business spending risks may also be overplayed by the Fed based on the sustained growth in non-defence capital spending (+2.9% in December; +5.5% six-month annualized). The capex versus bond yield trend is also disconnecting. Artificially low bond yields are at odds with the macro signals emanating from the U.S. economy.

Agreeing or disagreeing with the Fed's decisions, comments, or outlook is not the point of our note. However, recognizing that yield curve behaviour is unlikely to react to normal/typical factors is key. Hence, current disconnects could continue and provide a challenging environment for investors.

Year-End North American Benchmark Information

	Recent	2012E	2013E
S&P/TSX Composite Index			
TSX Level/Target	12,466.50		13250.00
TSX Earnings	\$829.00	\$925.00	\$975.00
TSX P/E	15.04	14.32	13.58
TSX Dividends	\$335.29	N/A	N/A
TSX Yield	2.69%	N/A	N/A
S&P 500			
S&P 500 Level/Target	1,316.33		1,375.00
S&P 500 Earnings	\$95.91	\$100.00	\$105.00
S&P 500 P/E	13.72	13.75	13.09
S&P 500 Dividends	\$26.83	N/A	N/A
S&P 500 Yield	2.04%	N/A	N/A
Fixed Income & Currency			
BoC Overnight Rate	1.00%	1.00%	0.97%
Canada 10-Year Bond	1.986%	2.95%	3.30%
Cdn/U.S. Dollar	\$1.0018	\$1.00	\$0.97
U.S. Fed Funds Rate	0.25%	0.25%	1.25%
U.S. 10-Year Treasury	1.891	3.00%	3.50%
U.S. Dollar/Euro	\$1.3220	US\$1.27	US\$1.27
Commodities			
Gold	\$1,739.07	US\$1675.00	US\$1600.00
Oil (WTI)	\$99.56	US\$100.00	US\$105.00

Source: Scotia Capital, Bloomberg.

Fed Remarks Shift " RISK - ON" Leadership

Global equity indices initially rallied hard after last Wednesday's FOMC comments and bond yields declined under 2%. However, optimism quickly faded in the United States, and the S&P 500 rally lost steam on Thursday and Friday (-1.3%). Granted that the S&P 500 rally was looking overbought and in "euphoria" territory, leadership reversed notably after the Fed statement. If the Fed's objective was to support risk appetite by keeping rates low, it failed miserably. "Risk-on" sentiment accompanied by falling bond yields is always suspicious, in our view.

Sector leadership (TSX Golds +10% since Wednesday; TSX Financials -3%) was also different than the behaviour witnessed in the last three months. The TSX gold index had been lagging the overall market recently, and prospects of continued low rates triggered favourable mean-reversion in gold equities. Indicators point to further TSX gold equity outperformance if markets embark on QE hopes and broad risk appetite wanes.

Elevated systemic risks warrant cautious policy measures, and last week's Fed remarks were a stark reminder of the challenges investors face in these abnormal times. Policy is exerting huge influence on the yield curve, sustaining appetite for yield products and hard assets. Until monetary normalization kicks in and real rates increase, volatility is expected to persist and sporadic leadership between equities/cyclicals and bonds/defensives is expected to continue.

This report is an excerpt from the report titled the 'Strategic Edge Weekly' released January 30th, 2012, by Vincent Delisle, Portfolio Strategist, Scotia Capital and Hugo Ste-Marie, Portfolio Strategist, Scotia Capital. For a full copy of the report, please contact your ScotiaMcLeod advisor.

Vincent Delisle, CFA – Portfolio Strategist, Scotia Capital

Hugo Ste-Marie, CFA – Portfolio Strategist, Scotia Capital

Canadian Equity Strategy

CP RAILWAY: TURNAROUND POTENTIAL OVER THE LONG-TERM BUT CURRENT VALUATION LOOKS RICH

Segments of this report are based on research reports by Scotia Capital analyst Turan Quettawala. The analyst's complete research is available on ScotiaView.com or from your ScotiaMcLeod advisor.

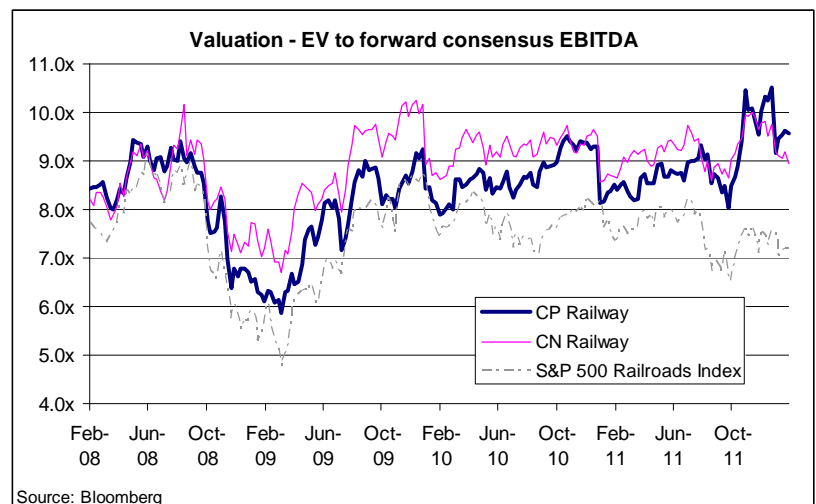
In part reflecting the recent return of risk appetite and an uptick in fund flows towards cyclical sectors, railway companies have performed particularly well since September, outperforming the broader index by a wide margin. Understandably the sector has garnered tremendous investor attention given the stability of cash flows and excellent earnings visibility, in combination with good leverage to general commodity demand. For those reasons, the S&P 500 Railroads Index has rallied 31% since September and is currently up 6.5% so far in 2012. This represents outperformance of 14.5 percentage points and 182 basis points over the broader S&P 500 Index over those time periods.

With sector strength acting as a tailwind, the performance of CP Railway shares have been even more impressive as the stock price has advanced 41.5% since September and is up 7.1% on a year-to-date basis. The outperformance versus other railway companies can largely be attributed to the recent news that an activist hedge fund, Pershing Square Capital Management, had accumulated shares of CP and was seeking ways to boost efficiency via changes in management. From observation, based on past investments, Pershing Square certainly has established a reasonable track record of affecting change and in driving a turnaround in results. Given the recent strength in the shares of CP, however, we are of the view that some of this near-term upside potential has now been discounted in the stock price. While we believe that CP Railway presents an interesting long-term turnaround story with room for improvements via operational efficiencies, it is important to note that the shares of CP are now valued at 9.5x forward consensus EBITDA, which is ahead of the long-term historical average of 8.1x (range of 5.9x to 10.5x over the past ten years). This is a healthy premium to the S&P 500 Railroads Index which trades at 7.2x and also CN Railway, which is valued at 8.9x. Current valuation reflects some substantial changes in the near-term outlook of CP but we note the battle between Pershing and CP Railway could intensify and could possibly become somewhat drawn out. Also, even if Pershing is successful in their endeavors, a substantial operational turnaround will likely require time and patience.

From a tactical standpoint, considering relative valuation and recent share price performance, the Portfolio Advisory Group believes that shares of CP Railway appear fully valued at current levels. Further, following a recent pullback in the stock price, we believe that shares of CN Railway presents a better risk reward proposition.

Below, we provide some recent updates on CP from Scotia Capital's Transportation Analyst, Turan Quettawala. The analyst's complete research is available on Scotiaview.com or from your ScotiaMcLeod advisor.

- The long-term earnings potential at CP is solid if the operating plan is delivered; however, we continue to believe that it is back-end loaded and patience is required. We believe that CP shares are expensive at current levels - 16.5x and 13.7x 2012 and 2013 EPS.
- We are maintaining our 2-SP rating on CP based on its valuation. At current levels, CP is trading at 16.5x and 13.7x our revised 2012E and 2013E EPS estimates. We reduced our valuation multiple by 0.5x to 15x. We had raised our valuation multiple in the past as we were accounting for possible EPS upside based on faster than expected operating ratio (OR) reduction and Pershing's move. As we are now assuming higher margins, we are reducing our valuation multiple to 15x which is still at a premium to CNR based on Pershing's involvement.



Weekly Market Strategy

- Fundamentals matter little right now. In our view, fundamentals will have little impact on CP's share price movements until the proxy battle is over particularly as the market has already looked through several earnings disappointments in the last year.
- Adjustments to our model resulted in 2%-4% higher EPS in 2012-2013. The changes were generally driven by slightly higher revenue forecasts on the back of strength in merchandise volumes as well as pricing. We also reduced our operating ratio forecasts slightly in those years on the back of fine-tuning of guidance. We continue to believe that the OR improvement is back-end loaded and management implied that 2012E operating ratio is likely to be in-line with 2010. We are currently at 77.1% OR for 2012 vs. 77.6% in 2010. In 2013, we are assuming that pension expenses will rise by about \$80 million to \$125 million and will likely stay at those elevated levels for a few years. Furthermore, if interest rates remain low, the pension headwind could be even more significant.
- We are assuming a more significant drop in OR in 2014 as the capex plan starts to bear fruit and the pension headwind starts to ease. As far as compensation is concerned, we are assuming a 2% increase in costs per employee excluding the pension headwind. Some risks to our forecast are highlighted below:
 1. Higher than expected revenue growth would lead likely to a faster improvement in OR. We are assuming revenue CAGR of 7% which is slightly above CNR's and, in our view, reasonable considering Scotia Economics view of about 2% growth in GDP in 2012 and 2013.
 2. There may be more efficiency gains on the purchased services side which would push OR lower faster. We are assuming improvements in all major areas; however, considering that this is somewhat of a catch-all item, the improvement could be better than expected.
 3. Lower interest rates could further negatively impact pension expenses. Our current forecasts are in-line with guidance.
 4. OR reduction would be hurt if fuel prices continued to rise significantly. Although fuel is covered by surcharges, higher fuel does hurt OR.

Equity Indices - Weekly Performance

Equity Index	Close	Weekly Change		YTD Return
	01/27/2012	Points	%	%
S&P/TSX Composite	12466.5	69.40	+0.6%	4.28%
Dow Jones Ind. Avg.	12660.46	-60.02	-0.5%	3.63%
S&P 500 Index	1316.33	0.95	+0.1%	4.67%
Nasdaq Composite	2816.55	29.85	+1.1%	8.11%
FTSE-100 Index (London)	5733.45	-336.45	-5.5%	2.89%
CAC-40 Index (Paris)	3318.76	-2.74	-0.1%	5.03%
DAX Index (Frankfurt)	6511.98	107.59	+1.7%	10.40%
Nikkei (Tokyo)	8841.22	-1008.52	-10.2%	4.56%
Hang Seng (Hong Kong)	20501.67	391.30	+1.9%	11.21%

Source: Bloomberg

Geoff Ho, CFA – Director, Portfolio Advisory Group

Fixed Income Strategy

CREDIT MARKETS AND GOVERNMENT BONDS RALLY AFTER THE FOMC ANNOUNCES IT WILL STAY ON HOLD UNTIL 2014

U.S. Treasuries rallied last week and the yield curve flattened after the FOMC's dovish fed funds target rate update. Government bonds were searching for direction earlier in the week, switching between buying and selling trends. Bond markets were moving to the usual European rumour mill initially. Institutional investors also absorbed new supply of \$35 billion in 2-year Treasury notes, \$35 billion in 5-year notes and \$29 billion in 7-year notes last week. Despite some better than expected economic releases and positive developments in Europe, demand for U.S. Treasuries pushed yields further down after the Federal Open Market Committee's (FOMC) rate announcement on Wednesday.

The FOMC left the fed funds target rate unchanged at 0.25%, as the market expected. Last Wednesday marked the first time the U.S. central bank began the practice of releasing more detailed economic projections from Federal Reserve (Fed) board members and Federal Reserve Bank presidents. The Fed statement at the meeting was more aggressive than had been the case in previous meetings noting that economic conditions are likely to warrant exceptionally low levels of fed funds rate at least through late 2014. Also, in addition to stating that it would be "regularly reviewing the size and composition of its securities holdings" as it has in the past, the Fed opened the door for further quantitative easing adding that it "is prepared to adjust those holdings as appropriate to promote a stronger economic recovery". After the Fed's release, Treasuries rallied significantly especially in the 7 and 10 year area. For the week, 2-year note yields fell by -0.03%, 10-year note yields fell by -0.13% and long dated Treasury yields fell by -0.04%.

The domestic sovereign bond market was mimicking the moves out of U.S. Treasuries last week and 4 Canadian provinces came to the new issue market. Initially, markets focused on Greek news and supply from the Treasury Department. Bonds then rallied on the back of the FOMC's statement and the prospect of remaining on hold until 2014. On Thursday morning, 4 provinces issued bonds. The Province of Ontario (rated AA-/AA low/Aa1) first issued \$600 million in bonds due in 2043. Then the Province of New Brunswick (rated AA-/A high/Aa2) came to market with a two-tranche deal with the reopening of 10-year notes and bonds maturing in 2041. The 3rd provincial issue came from Saskatchewan (rated AAA/AA/Aa1) with a \$300 million deal of 3.40% coupon bonds due 02/03/2042. Lastly, Financement Québec (rated A+/A high) reopened the 2.40% coupon bonds due 12/01/2018.

Corporate bond markets on both sides of the border performed well thanks to positive moves in equity markets and the lack of negative news out of Europe. Credit markets rallied even further after the FOMC's announcement. There were some negative implications with lower rates for some corporate issuers. Low rates could cause more issues for defined benefit plans and worsen plan deficits for companies such as BCE, Bell Aliant, CP Rail and the auto companies. Further, the more immediate impact could be felt by insurance companies. Nevertheless, credit spreads (yield pick-up over the benchmark) in the U.S. tightened by about 2 to 3 bps on the week. New issues were the main focus in the Canadian market. We saw \$1 billion of National Bank of Canada deposit note issuance. Overall, deposit notes were 3 to 6 bps tighter on the week in spite of the supply

Canadian Bond Yields - Weekly Change

	January 27	January 20	Change (bps)
Canada 2-Year Bond	0.99	1.04	-5
Canada 10-Year Bond	1.98	2.06	-8
Canada 30-Year Bond	2.60	2.62	-2
BoC Target Overnight	1.00	1.00	0
Prime	3.00	3.00	0
U.S. 2-Year Bond	0.21	0.24	-3
U.S. 10-Year Bond	1.89	2.02	-13
U.S. 30-Year Bond	3.06	3.10	-4
Federal Funds	0.25	0.25	0
Prime	3.25	3.25	0

Source: Bloomberg

Bond Index Performance (YTD)

	Jan 27	Jan 20	Change
DEX Universe Bond Index	-0.04%	-0.48%	0.44%
DEX All Government Bond Index	-0.24%	-0.64%	0.40%
DEX All Corporate Bond Index	0.47%	-0.05%	0.52%

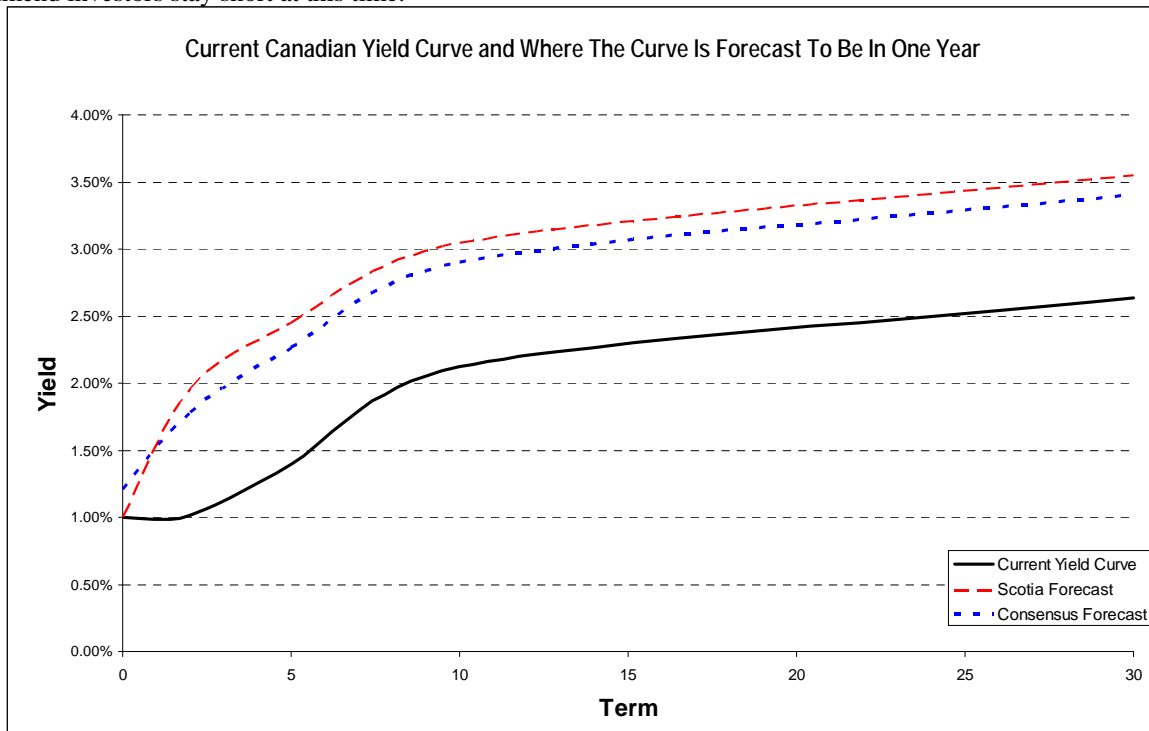
Source: PC-Bond

and subordinated debentures (i.e.: fixed floaters) outperformed by narrowing 6 to 8 bps. Insurance company bond performance was mixed but the best performing was GE Capital Canada which saw their new issue bonds coming in by -30bps in the secondary market. GE raised \$950 million in floating rate notes and 3-year bonds.

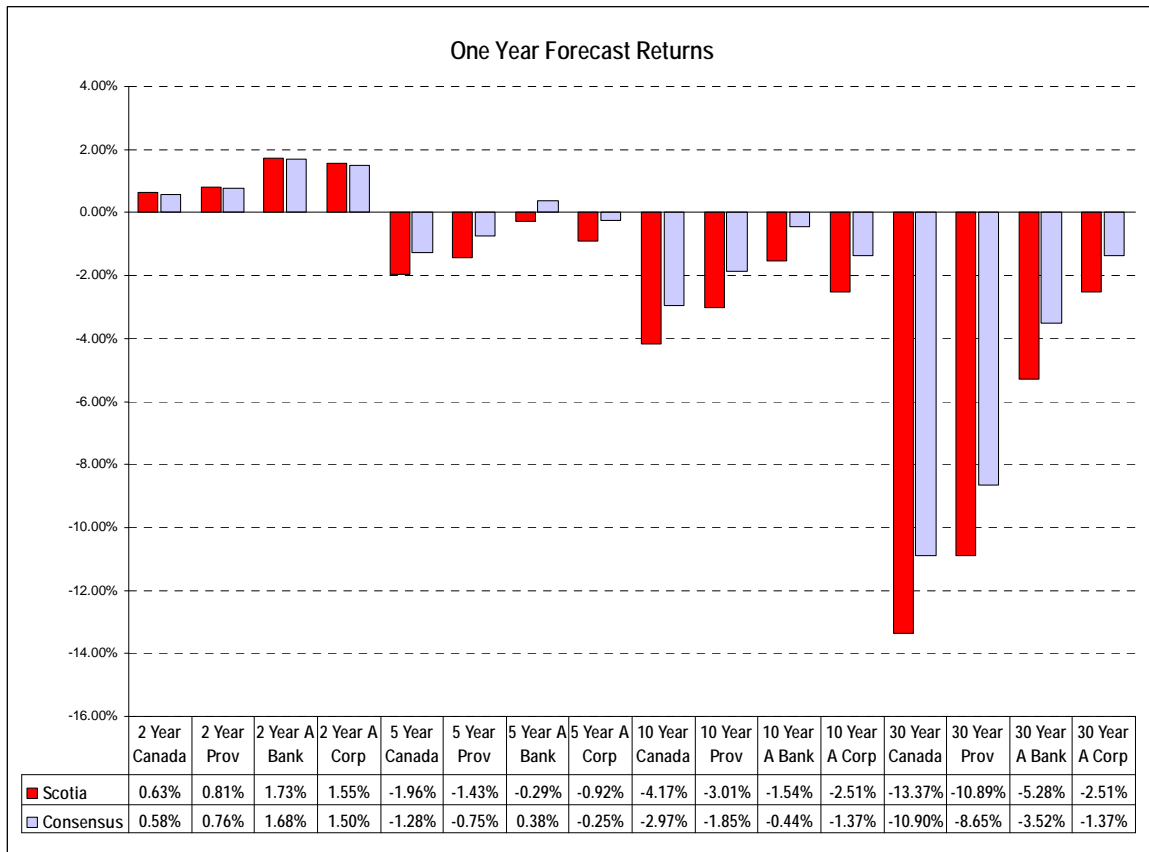
On schedule for this week, the focus will be on employment numbers being released out of both Canada and the U.S. on Friday. A job gain of 145,000 is expected south of the border for the month of January. In Canada, 22,000 jobs are expected to have been added to the economy GDP numbers will be released on Tuesday. There is no new government supply for this week.

Portfolio Advisory Group Fixed Income – Current Recommendations (changes in blue)

1. **Term Call** – Given the recent decline in yields, we no longer see value in the mid to long end of the curve and recommend investors stay short at this time.
 2. **Sector Call** – Underweight Canada's, overweight provincials, municipals and corporates
 3. **Currency Call** – We recommend Canadian investors remain in Canadian dollars for their fixed income holdings.
 4. **Alternative Strategies** – Market weight high yield, market weight emerging markets debt, underweight inflation protected debt.
1. **Term Call** – Scotia Economics is forecasting a flatter yield curve over the next 12-15 months. With current 10 and 30 year yields trading well below Scotia Capital's current rate forecast, we do not expect the rally in bonds to continue; therefore we recommend investors stay short at this time.



Source: Scotia Economics and Bloomberg

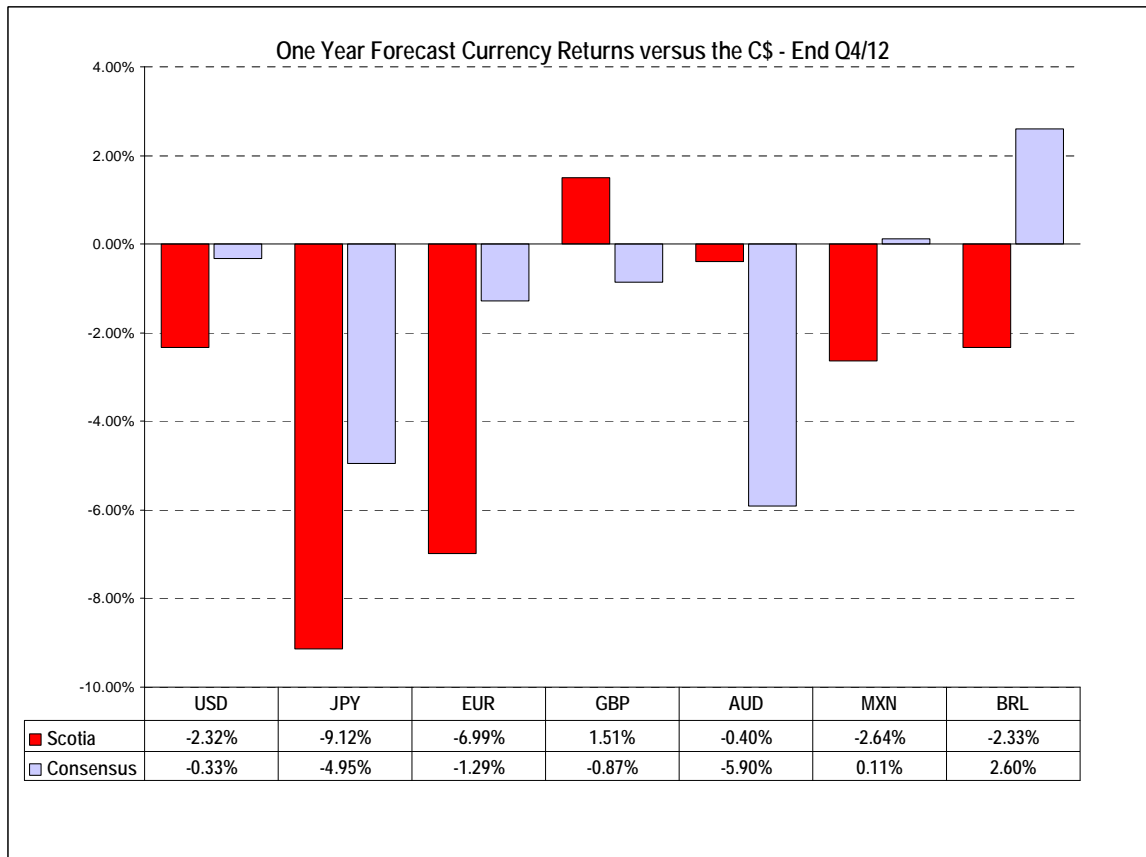


Source: Scotia Economics and Bloomberg

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** – Scotia Economics’ and consensus forecast expectations are for the Canadian dollar to outperform most major currencies over the next year, therefore we recommend Canadian investors remain in Canadian dollars for their fixed income holdings at this time.





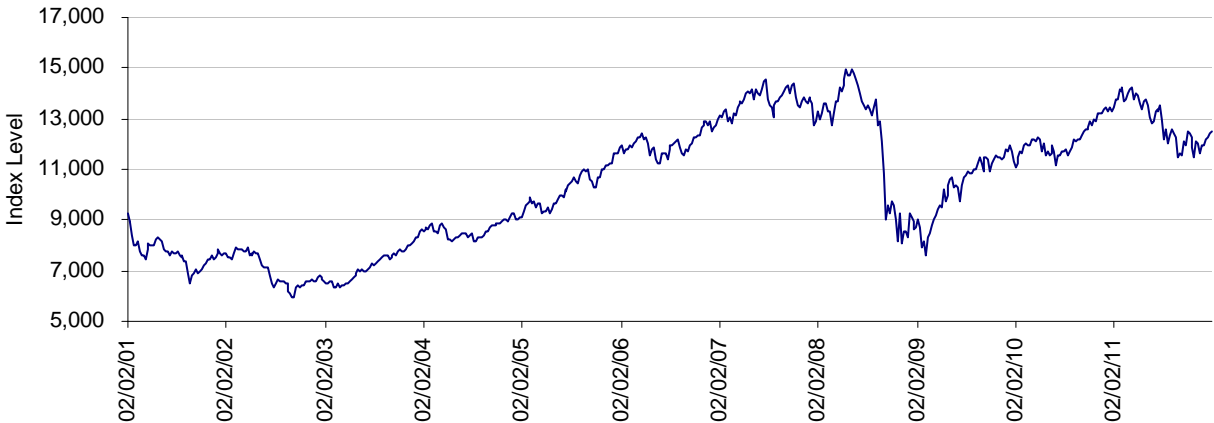
Source: Scotia Economics and Bloomberg

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

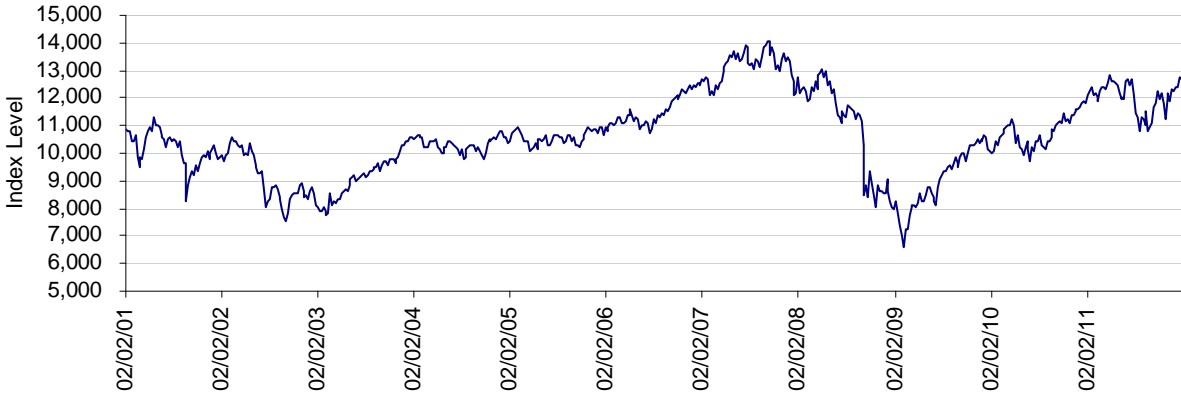
- a) **High Yield** – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we recommend investors maintain a market weight position in high yield debt.
- b) **Emerging Markets** – Emerging markets sovereign debt has rallied significantly over the past 12 months. With the benchmark JPMorgan Emerging Markets Bond Index Plus (EMBI+) at a yield-to-maturity of 6.19% and a return of 7.61% for the last year, we now feel this sector is fairly valued. There remains value in the corporate and local currency sectors; however we suggest being market weight high yield and emerging markets debt at this juncture.
- c) **Inflation Protected Bonds** – with current real yields in the area of 0.39%, and the market pricing in an effective long term inflation rate of just 2.12%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Jean-Anthony Mentor – Associate, Portfolio Advisory Group – Fixed Income

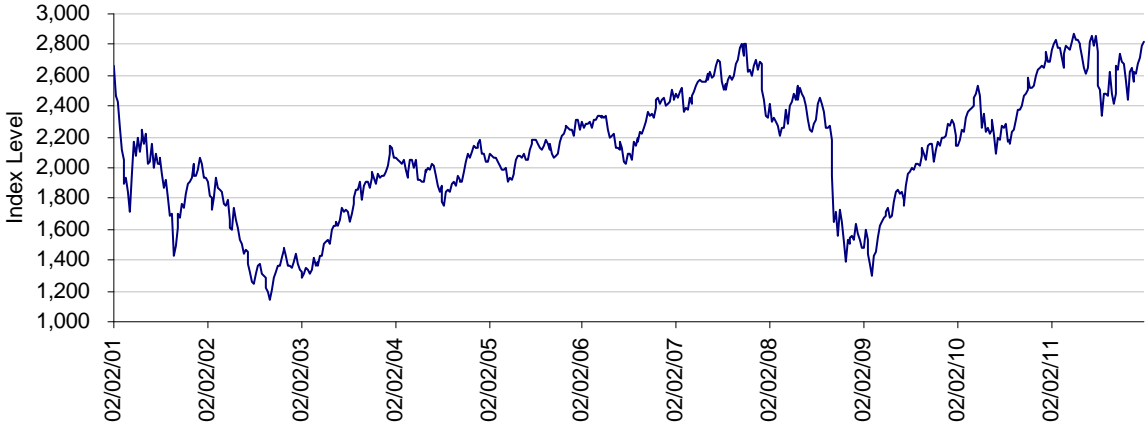
-S&P/TSX Composite Index



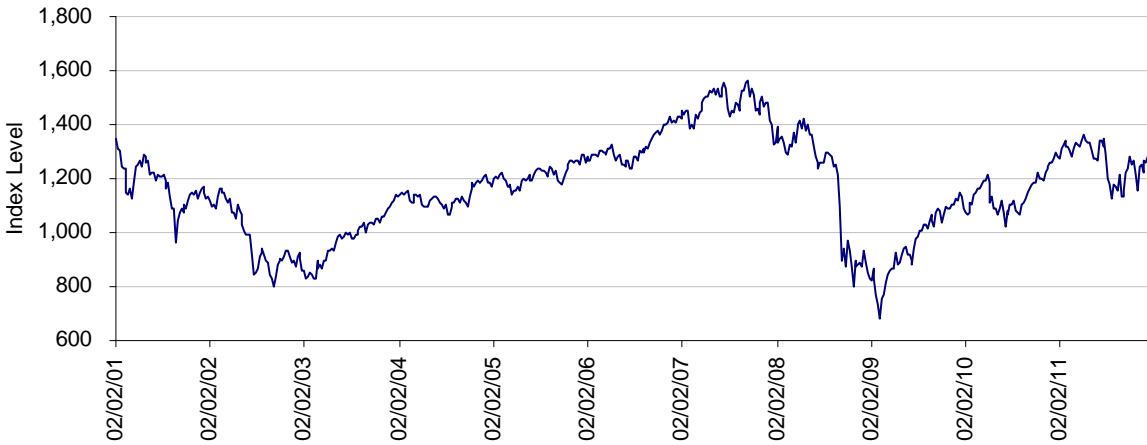
-Dow Jones Industrial Average



-NASDAQ



- S&P 500 Index





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

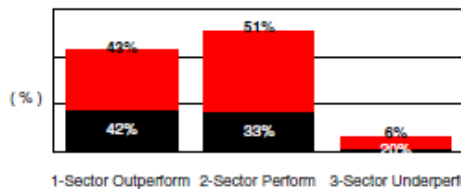
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk tolerant investors only.

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*



1-Sector Outperform 2-Sector Perform 3-Sector Underperform

* As at December 31, 2011.

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.

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Weekly Market Strategy

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None.*

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Canadian Equity Recommended List



Sector	Symbol	Rating	Risk	Date Added	Price Added	Price 30JAN12	Target Price	Target ROR	Div.	Div. Yield
Financials (S&P/TSX Weight 28.9%, Recommend Market Weight)										
* Artis REIT	AX.UN	2-SP	High	19-Jun-07	\$ 17.15	\$ 14.94	\$ 15.25	9.3%	\$ 1.08	7.2%
Brookfield Asset Management	BAM	1-SO	Medium	13-May-08	US\$35.24	US\$ 30.20	US\$ 34.25	15.1%	US\$0.52	1.7%
Bank of Nova Scotia	BNS	n.a.	n.a.	25-Mar-09	\$ 31.68	\$ 51.96	N.A.	N.A.	\$ 2.08	4.0%
* Brookfield Office Properties	BPO	1-SO	Medium	13-Dec-11	US\$15.19	US\$ 17.25	US\$ 19.00	13.4%	US\$0.56	3.2%
Chartwell Seniors Housing REIT	CSH.UN	1-SO	High	13-Dec-11	\$ 8.20	\$ 8.78	\$ 9.50	14.4%	\$ 0.54	6.2%
* Calloway REIT	CWT.UN	2-SP	Medium	08-Feb-10	\$ 19.39	\$ 27.09	\$ 27.75	8.2%	\$ 1.55	5.7%
* Manulife Financial Corporation	MFC	1-SO	Medium	11-Oct-02	\$ 16.95	\$ 11.81	\$ 15.50	35.6%	\$ 0.52	4.4%
* Power Corporation of Canada	POW	2-SP	Low	31-Mar-11	\$ 28.73	\$ 24.19	\$ 27.00	16.4%	\$ 1.16	4.8%
* Power Financial Corporation	PWF	2-SP	Low	15-Sep-99	\$ 12.25	\$ 26.45	\$ 28.50	13.0%	\$ 1.40	5.3%
* Royal Bank of Canada	RY	1-SO	Low	19-May-05	\$ 38.10	\$ 52.43	\$ 63.00	24.3%	\$ 2.16	4.1%
* Toronto-Dominion Bank	TD	1-SO	Low	07-Sep-10	\$ 73.58	\$ 77.46	\$ 93.00	23.6%	\$ 2.72	3.5%
Telecommunication Services (S&P/TSX Weight 4.9%, Recommend Underweight)										
Rogers Communications Inc.	RCI.B	2-SP	Medium	31-Mar-11	\$ 35.24	\$ 38.87	\$ 39.00	4.0%	\$ 1.42	3.7%
TELUS Corporation	T	2-SP	Medium	31-Mar-11	\$ 49.57	\$ 56.49	\$ 55.00	1.3%	\$ 2.20	3.9%
Utilities (S&P/TSX Weight 1.9%, Recommend Underweight)										
* Brookfield Renewable Energy Partners L.P.	BEP.UN	n.a.	n.a.	27-Sep-11	\$ 26.45	\$ 26.23	N.A.	N.A.	\$ 1.30	5.0%
* Emera Incorporated	EMA	2-SP	Low	15-Feb-11	\$ 32.06	\$ 32.42	\$ 33.00	6.0%	\$ 1.35	4.2%
Consumer Discretionary (S&P/TSX Weight 4.0%, Recommend Underweight)										
Cogeco Cable Inc.	CCA	1-SO	Medium	5-Jul-07	\$ 47.35	\$ 48.90	\$ 56.00	16.6%	\$ 1.00	2.0%
Dollarama Inc.	DOL	1-SO	High	20-Jun-11	\$ 31.85	\$ 43.10	\$ 48.00	12.2%	\$ 0.36	0.8%
Magna International Inc.	MG	1-SO	High	13-Dec-11	US\$33.81	US\$ 41.99	US\$ 57.00	38.1%	US\$1.00	2.4%
* Shaw Communications Inc.	SJR.B	1-SO	Medium	31-Mar-11	\$ 20.44	\$ 19.73	\$ 25.00	31.6%	\$ 0.97	4.9%
Consumer Staples (S&P/TSX Weight 2.7%, Recommend Underweight)										
Health Care (S&P/TSX Weight 1.4%, Recommend Underweight)										
Industrials (S&P/TSX Weight 5.7%, Recommend Overweight)										
CN Rail	CNR	1-SO	Medium	22-Nov-04	\$ 33.25	\$ 75.62	\$ 86.00	15.7%	\$ 1.50	2.0%
Canadian Pacific Railway Limited	CP	2-SP	Medium	23-Jun-08	\$ 67.91	\$ 71.52	\$ 76.50	8.6%	\$ 1.20	1.7%
Finning International Inc.	FTT	2-SP	Medium	12-Dec-05	\$ 18.38	\$ 27.24	\$ 31.00	15.7%	\$ 0.52	1.9%
* SNC-Lavalin Group Inc.	SNC	1-SO	Medium	23-Jun-08	\$ 59.73	\$ 51.98	\$ 62.00	20.9%	\$ 0.84	1.6%
Toromont Industries Ltd.	TIH	2-SP	Medium	14-Oct-09	\$ 14.57	\$ 22.42	\$ 22.00	0.1%	\$ 0.44	2.0%
Technology (S&P/TSX Weight 1.3%, Recommend Overweight)										
Energy (S&P/TSX Weight 26.9%, Recommend Overweight)										
* ARC Resources Ltd.	ARX	1-SO	High	20-Dec-10	\$ 23.75	\$ 24.36	\$ 30.00	28.1%	\$ 1.20	4.9%
* Cameco Corporation	CCO	n.a.	n.a.	23-Jun-08	\$ 39.64	\$ 23.66	\$ N.A.	N.A.	\$ 0.40	1.7%
* Canadian Natural Resources Limited	CNQ	1-SO	High	18-Nov-08	\$ 23.29	\$ 39.85	\$ 44.00	11.3%	\$ 0.36	0.9%
Crescent Point Energy Corp.	CPG	1-SO	High	02-Feb-10	\$ 38.40	\$ 45.49	\$ 55.00	27.0%	\$ 2.76	6.1%
* Encana Corporation	ECA	2-SP	Medium	24-Aug-10	US\$26.59	US\$ 19.40	US\$ 22.00	17.5%	US\$0.80	4.1%
Enbridge Inc.	ENB	1-SO	Low	6-Nov-01	\$ 11.13	\$ 37.32	\$ 42.00	15.6%	\$ 1.13	3.0%
Husky Energy Inc.	HSE	2-SP	Medium	31-Mar-11	\$ 29.46	\$ 24.29	\$ 28.00	20.2%	\$ 1.20	4.9%
* Inter Pipeline Fund	IPL.UN	1-SO	Medium	27-Sep-11	\$ 16.17	\$ 17.29	\$ 22.00	33.3%	\$ 1.05	6.1%
Pengrowth Energy Corporation	PGF	1-SO	High	14-Jul-10	\$ 9.92	\$ 10.16	\$ 13.00	36.2%	\$ 0.84	8.3%
* Penn West Petroleum	PWT	1-SO	High	5-Jul-11	\$ 22.48	\$ 21.69	\$ 24.00	15.6%	\$ 1.08	5.0%
* Suncor Energy Inc.	SU	1-SO	Medium	31-Mar-11	\$ 43.48	\$ 34.34	\$ 40.00	17.8%	\$ 0.44	1.3%
* Trican Well Service Ltd.	TCW	1-SO	High	11-Oct-11	\$ 17.18	\$ 16.25	\$ 34.00	109.8%	\$ 0.10	0.6%
* Talisman Energy Inc.	TLM	1-SO	High	06-Apr-06	\$ 21.88	\$ 12.06	\$ 20.00	68.1%	\$ 0.27	2.2%
* TransCanada Corporation	TRP	1-SO	Low	05-Apr-06	\$ 33.51	\$ 41.19	\$ 47.00	18.2%	\$ 1.68	4.1%
Vermilion Energy Inc.	VET	2-SP	High	16-Aug-11	\$ 44.33	\$ 46.00	\$ 45.00	2.8%	\$ 2.28	5.0%
Basic Materials (S&P/TSX Weight 22.4%, Recommend Market Weight)										
* Barrick Gold Corporation	ABX	1-SO	Medium	29-Mar-06	US\$26.70	US\$ 49.18	US\$ 64.00	31.4%	US\$0.60	1.2%
* Agrium Inc.	AGU	1-SO	High	24-Aug-10	US\$66.55	US\$ 80.06	US\$105.00	31.7%	US\$0.45	0.6%
* Claymore Gold Bullion ETF	CGL	n.a.	n.a.	13-Sep-11	US\$16.54	US\$ 15.42	N.A.	N.A.	US\$0.00	0.0%
* First Quantum Minerals Ltd.	FM	1-SO	High	5-Jan-12	\$ 21.98	\$ 21.74	\$ 43.00	98.6%	US\$0.17	0.8%
* IAMGOLD Corporation	IMG	1-SO	High	12-Jan-09	US\$ 5.42	US\$ 16.62	US\$ 23.00	39.9%	US\$0.25	1.5%
* Potash Corporation of Saskatchewan, Inc.	POT	1-SO	High	5-Jan-12	US\$43.04	US\$ 47.25	US\$ 56.00	19.7%	US\$0.56	1.2%
Silver Wheaton Corporation	SLW	n.a.	n.a.	12-Jan-09	US\$ 5.56	US\$ 35.60	N.A.	N.A.	US\$0.36	1.0%
* Teck Resources Limited	TCK.B	n.a.	n.a.	05-Jul-07	\$ 46.71	\$ 42.64	N.A.	N.A.	\$ 0.80	1.9%
* Thompson Creek Metals Company Inc.	TCM	2-SP	High	23-Jun-08	\$ 20.39	\$ 8.57	\$ 11.50	34.2%	US\$0.00	0.0%
Yamana Gold Inc.	YRI	2-SP	High	3-Mar-10	US\$11.14	US\$ 17.31	US\$ 19.00	10.9%	US\$0.20	1.2%

* indicates that the Portfolio Advisory Group are buyers of these securities today.

Comparative Canadian Bank Information

Bank	Symbol	SC-Rec	Risk	1 Yr Target
Bank of Montreal	BMO	3-SU	Low	\$66.00
Bank of Nova Scotia	BNS	n.a.	n.a.	\$
CIBC	CM	1-SO	Low	\$93.00
National Bank	NA	3-SU	Low	\$82.00
Royal Bank	RY	1-SO	Low	\$63.00
Toronto-Dominion Bank	TD	1-SO	Low	\$93.00

Rating definitions:

- 1-SO = Sector Outperform*
- 2-SP = Sector Perform*
- 3-SU = Sector Underperform*
- T = Tender*
- UR = Under Review*
- R = Restricted*

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First Quantum Minerals Ltd., Thompson Creek Metals Company Inc.

Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada, Toronto-Dominion Bank

Scotia Capital Restriction -- U.S. (American)

Brookfield Renewable Energy Partners L.P., Bank of Nova Scotia

Barrick Gold Corporation, IAMGOLD Corporation, Yamana Gold Inc.

First Quantum Minerals Ltd., Thompson Creek Metals Company Inc.

Scotia Capital Restriction -- Canada

Brookfield Renewable Energy Partners L.P.

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Vermilion Energy Inc.

Finning International Inc., Magna International Inc.

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Manulife Financial Corporation

Royal Bank of Canada

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This issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of this issuer.

Vermilion Energy Inc.

Canadian Imperial Bank of Commerce

Yamana Gold Inc.

Scotia Capital Restriction

Brookfield Renewable Energy Partners L.P., Bank of Nova Scotia

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The Fundamental Research Analyst/Associate has visited material operations of this issuer.

Artis REIT, Brookfield Office Properties, Cogeco Cable Inc., Dollarama Inc., Potash Corporation of Saskatchewan, Inc., Rogers Communications Inc., Shaw Communications Inc., TELUS Corporation

Agrium Inc., Potash Corporation of Saskatchewan, Inc.

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Bank of Nova Scotia*

Emera Incorporated, Enbridge Inc., Inter Pipeline Fund

Agrium Inc.

Barrick Gold Corporation, IAMGOLD Corporation, Yamana Gold Inc.

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U.S. Equity Recommended List



Sector	Symbol	Rating	Risk	Date Added	Price Added	Price 30JAN12	Target Price	Target ROR	Div.	Div. Yield
Financials (S&P 500 Weight 14.0%, Recommend Market Weight)										
* Citigroup Inc	C	Not Rated	High	26-Mar-10	US\$ 43.10	US\$ 30.23	US\$ 42.40	40.4%	US\$0.04	0.1%
* Jpmorgan Chase & Co	JPM	Not Rated	Low	01-Feb-11	US\$ 45.93	US\$ 37.01	US\$ 46.00	27.0%	US\$1.00	2.7%
* Metlife Inc	MET	Not Rated	Low	21-Aug-07	US\$ 63.86	US\$ 35.71	US\$ 46.00	30.9%	US\$0.74	2.1%
* State Str Corp	STT	Not Rated	Medium	02-Jun-09	US\$ 47.00	US\$ 38.83	US\$ 47.30	23.7%	US\$0.72	1.9%
* Wells Fargo & Co New	WFC	Not Rated	Low	05-Jan-12	US\$ 29.02	US\$ 29.25	US\$ 32.30	12.1%	US\$0.48	1.6%
Telecommunication Services (S&P 500 Weight 2.7%, Recommend Market Weight)										
* At&T Inc	T	Not Rated	Medium	12-Jun-06	US\$ 26.66	US\$ 29.34	US\$ 31.10	12.0%	US\$1.76	6.0%
Utilities (S&P 500 Weight 3.6%, Recommend Underweight)										
Southern Co	SO	Not Rated	Low	01-Feb-11	US\$ 37.94	US\$ 45.04	US\$ 45.10	4.3%	US\$1.89	4.2%
Consumer Discretionary (S&P 500 Weight 10.8%, Recommend Market Weight)										
* Hasbro Inc	HAS	Not Rated	Medium	05-Jan-12	US\$ 32.64	US\$ 34.46	US\$ 42.40	26.5%	US\$1.20	3.5%
* Mcdonalds Corp	MCD	Not Rated	Low	28-Jul-09	US\$ 56.47	US\$ 98.69	US\$104.00	8.2%	US\$2.80	2.8%
Nike Inc	NKE	Not Rated	Medium	05-Jul-07	US\$ 59.35	US\$103.39	US\$107.00	4.9%	US\$1.44	1.4%
Yum Brands Inc	YUM	Not Rated	Low	14-Feb-11	US\$ 50.30	US\$ 63.68	US\$ 63.50	1.5%	US\$1.14	1.8%
Consumer Staples (S&P 500 Weight 10.9%, Recommend Underweight)										
* Kraft Foods Inc	KFT	Not Rated	Low	18-Nov-08	US\$ 27.12	US\$ 38.18	US\$ 40.00	7.8%	US\$1.16	3.0%
Altria Group Inc	MO	Not Rated	Low	17-Jan-08	US\$ 23.69	US\$ 28.39	US\$ 29.10	8.3%	US\$1.64	5.8%
Pepsico Inc	PEP	Not Rated	Low	17-Nov-10	US\$ 63.94	US\$ 65.41	US\$ 69.20	8.9%	US\$2.06	3.1%
Health Care (S&P 500 Weight 11.7%, Recommend Market Weight)										
* Mckesson Corp	MCK	Not Rated	Low	25-Feb-09	US\$ 43.70	US\$ 78.69	US\$ 96.50	23.6%	US\$0.80	1.0%
* Pfizer Inc	PFE	Not Rated	Low	02-Jun-09	US\$ 14.98	US\$ 21.58	US\$ 24.00	14.9%	US\$0.80	3.7%
Industrials (S&P 500 Weight 11.0%, Recommend Overweight)										
* Deere & Co	DE	Restricted	Medium	05-Jan-12	US\$ 81.64	US\$ 87.41	N.A.	N.A.	US\$1.64	1.9%
* Fluor Corp New	FLR	Not Rated	Medium	20-Oct-09	US\$ 50.60	US\$ 56.19	US\$ 71.00	27.2%	US\$0.50	0.9%
* General Electric Co	GE	Not Rated	Low	07-Jun-11	US\$ 18.48	US\$ 18.90	US\$ 21.00	14.7%	US\$0.68	3.6%
* Terex Corp New	TEX	Not Rated	Medium	13-May-08	US\$ 72.59	US\$ 20.41	US\$ 21.40	4.9%	US\$0.00	0.0%
* Waste Mgmt Inc Del	WM	Not Rated	Low	28-Oct-08	US\$ 28.83	US\$ 34.76	US\$ 34.10	2.0%	US\$1.36	3.9%
Technology (S&P 500 Weight 19.6%, Recommend Overweight)										
* Apple Computer Inc	AAPL	Not Rated	Low	15-Mar-11	US\$345.43	US\$453.01	US\$507.60	12.1%	US\$0.00	0.0%
* E M C Corp Mass	EMC	Restricted	Medium	05-Nov-09	US\$ 16.81	US\$ 25.75	N.A.	N.A.	US\$0.00	0.0%
* Intel Corp	INTC	Not Rated	Low	17-Nov-09	US\$ 20.32	US\$ 26.74	US\$ 26.50	2.2%	US\$0.84	3.1%
* Microsoft Corp	MSFT	Not Rated	Low	21-Aug-07	US\$ 28.07	US\$ 29.61	US\$ 30.75	6.6%	US\$0.80	2.7%
* Oracle Corp	ORCL	Not Rated	Low	10-May-05	US\$ 11.52	US\$ 28.60	US\$ 32.90	15.9%	US\$0.24	0.8%
Visa Inc	V	Not Rated	Low	18-Nov-10	US\$ 76.94	US\$ 99.88	US\$111.00	12.0%	US\$0.88	0.9%
Energy (S&P 500 Weight 12.0%, Recommend Overweight)										
* Peabody Energy Corp	BTU	Not Rated	High	25-Apr-08	US\$ 64.01	US\$ 35.45	US\$ 59.10	67.7%	US\$0.34	1.0%
* Halliburton Co	HAL	Not Rated	Low	05-Jan-12	US\$ 34.56	US\$ 36.67	US\$ 52.60	44.4%	US\$0.36	1.0%
* Marathon Pete Corp	MPC	Not Rated	Medium	30-Jun-11	US\$ 41.40	US\$ 37.48	US\$ 47.40	29.1%	US\$1.00	2.7%
* Occidental Pete Corp Del	OXY	Not Rated	Medium	22-Jul-08	US\$ 77.00	US\$ 99.62	US\$119.70	22.0%	US\$1.84	1.8%
* Transocean Ltd	RIG	Not Rated	Medium	08-Jan-10	US\$ 93.00	US\$ 46.85	US\$ 59.70	34.2%	US\$3.16	6.7%
* Valero Energy Corp New	VLO	Not Rated	Medium	01-Oct-09	US\$ 18.99	US\$ 24.28	US\$ 29.00	21.9%	US\$0.60	2.5%
* Exxon Mobil Corp	XOM	Not Rated	Low	22-Jan-09	US\$ 78.23	US\$ 85.49	US\$ 91.80	9.6%	US\$1.88	2.2%
Basic Materials (S&P 500 Weight 3.7%, Recommend Market Weight)										
* Alcoa Inc	AA	Not Rated	Low	05-Jan-12	US\$ 9.36	US\$ 10.32	US\$ 11.40	11.6%	US\$0.12	1.2%
* Freeport-mcmoran Copper & Go	FCX	Not Rated	Medium	14-Nov-07	US\$ 52.00	US\$ 46.10	US\$ 52.20	15.4%	US\$1.00	2.2%
* Stillwater Mng Co	SWC	Not Rated	High	28-Apr-11	US\$ 21.93	US\$ 13.09	US\$ 16.70	27.6%	US\$0.00	0.0%

U.S. Equity Recommended List



*The author(s) of the report own(s) securities of the following companies:
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