

Market review

- The Canadian equity market continued its upward march during the fourth quarter as investors continued to bet on an economic recovery. The TSX gained 3.9% in the fourth quarter and finished the year up 35.1%. The fourth quarter was led by Utilities (up 11.7%), Industrials (up 8.1%) and Consumer Staples (up 7.7%). The only sub-groups which experienced negative returns in the quarter were Financials (down 1.8%) and Health Care (down 3.0%).
- The bond market experienced modest losses during the fourth quarter while bond yields generally increased. Ten-year treasury yields increased 53 basis points to 3.84%, with Canadian yields increasing 30 basis points to 3.61%. The Canadian dollar rallied against the U.S. dollar during the quarter, trading up at 95.1 U.S. cents.

Portfolio review

Performance contributors

By Sector:

- The portfolio's overweight position in Utilities and Telecom Services were positive contributors to the return in the quarter.

By Stock:

- The primary individual stock contributors were: First Capital Realty and Vermillion Energy Trust.

Performance detractors

By Sector:

- The performance detractors by sector were the portfolio's overweighting in Financials and the underweighting of Materials.

By Stock:

- The primary individual stock detractors were: Thomson Reuters and Ritchie Brothers Auctioneers Inc.

Outlook and strategy

- The last quarter of the decade was a positive one for the equity markets, with the TSX closing near the year's high.
- As the economic data is improving, we expect that markets could sustain a move higher, as long as the economic outlook remains constructive.

- The two main risks to the positive scenario are 1) the economy fizzles when the government stimulus is removed and 2) a bond market retreat causes interest rate levels to rise posing problems for the economy and stiff competition for equities.
- We are not expecting a return to the panic markets witnessed in Fall 2008 and early 2009.
- Our expectation is that in 2010, the returns on stocks will outperform cash and bonds but will not likely be as high as the returns in 2009.
- Our strategy continues to be one of selectively adding to positions as valuations of individual stocks decline to attractive levels.

Any amount that is allocated to a segregated fund is invested at the risk of the contract holder and may increase or decrease in value.

This report is published to provide additional information on economic conditions and investment performance. It was prepared by Laketon Investment Management.