ScotiaMcLeod **Daily Market Summary**

Market Data as of Thursday November 20,2008 9:00 a.m.

World Indices

		Change	%	YTD
S&P / TSX Composite Index	8490.56	0.00	0.00%	-38.62%
Dow Jones Industrial Average	7935.23	-62.05	-0.78%	-40.18%
S&P 500	800.14	-6.44	-0.80%	-45.51%
Nasdaq	1378.45	-7.97	-0.57%	-48.03%
FTSE-100 (London)	3892.95	-112.73	-2.81%	-39.71%
CAC 40 (Paris)	2984.16	-103.73	-3.36%	-46.85%
DAX (Frankfurt)	4237.84	-116.25	-2.67%	-47.47%
Nikkei (Tokyo)	7703.04	-570.18	-6.89%	-49.68%
Hang Seng (H.K.)	12298.56	-517.24	-4.04%	-55.78%

Commodities Highest Volume Futures

	Bid	Change	%
Aluminum (lb)	0.88	0.00	0.00%
Copper (lb)	1.56	-0.04	-2.53%
Nickel (lb)	4.50	-0.36	-7.48%
Zinc (lb)	0.52	-0.03	-5.79%
Gold (oz)	744.50	8.50	1.15%
Silver (oz)	9.35	0.04	0.38%
Crude (bbl)	50.70	-2.92	-5.45%
Nat. Gas (mmBtu)	6.65	-0.09	-1.35%
Lumber (Mbf)	197.60	-2.30	-1.15%

Canadian Bonds

	Bid	Change
3 Month	1.87	-0.03
6 Month	1.76	-0.07
2 Year	1.87	-0.04
5 Year	2.59	-0.05
10 Year	3.42	-0.08
30 Year	4.01	-0.06
BoC Overnight Rate	2.25	0.00
Prime Rate	4.00	0.00

U.S. Bonds

	Bid	Change
3 Month	0.01	-0.06
6 Month	0.47	-0.17
2 Year	1.02	-0.06
5 Year	1.96	-0.07
10 Year	3.20	-0.14
30 Year	3.78	-0.14
Fed Funds Rate	1.00	0.00
Prime Rate	4.00	0.00

Currencies

	Bid	Change
$CDN/$U.S.	1.2717	0.0122
$U.S./$CDN	0.7863	-0.0076
$U.S./£Sterling	1.4869	-0.0024
$U.S./$Euro	1.2569	0.0034
¥Yen/$U.S.	94.46	-1.14

Index Futures Dec. Contract

Dow Jones	7865.00	-162.00
Nasdaq	1068.00	-24.50
S&P 500	791.90	-20.60

Market Data is indicative. Source Reuters.

Economic Releases

Canada

Nov 20 — Wholesale Sales MoM for September - Est. -0.6%

Nov 21 — Consumer Price Index YoY for October - Est. 3.2%

Nov 21 — Consumer Price Index MoM for October - Est. -0.6%

Nov 21 — Bank Canada CPI Core MoM for October - Est. 0.0%

Nov 21 — Bank Canada CPI Core YoY for October - Est. 1.9%

United States

Nov 20 — Initial Jobless Claims for November 15 - Est. 503K

Nov 20 — Philadelphia Fed. for November - Est. -35.0

Nov 20 — Continuing Claims for November 8 - Est. 3900K

Nov 20 — Leading Indicators for October - Est. -0.6%

Rating Changes

Company	New	Old
Davis + Henderson Income Fund	2-Sector Perform	1-Sector Outperform
Gaz Metro Limited Partnership	3-Sector Underperform	2-Sector Perform
InStorage REIT	4-Tender	2-Sector Perform

Target Price Changes

Company	New	Old
Gaz Metro Limited Partnership	$14.50	$15.25
InStorage REIT	$4.00	$3.75
Metro Inc.	$33.00	$27.00
Oilexco Incorporated	$5.50	$6.25
Open Text Corporation	U$31.00	U$32.00

Companies Reporting Today

Company	Quarter	Scotia Estimates	Last Year	Previous Quarter
Rogers Sugar Income Fund	4	n.a.	$0.19	n.a.

Canadian Equities

Open Text Corporation (OTC - U$26.53) **Rating: 2-Sector Perform** **Target: U$31.00**

- Coming of Age - Content World 2008

Yesterday, we attended Open Text's 2008 investor day held in conjunction with the firm's Content World 2008 user conference). In our view, Open Text's strategy remains on-track as it continues to increase its customer base and expand its platform. While we believe the firm is well positioned relative to other vendors we remain cautious of economic headwinds. Our view is that the demand for compliance solutions will help the firm offset some of the economic slowdown. Lowering estimates. We are reducing our estimates to reflect the impact of a tough selling environment and the impact of foreign exchange movements on the firm's forward results. We anticipate that the tough selling environment is likely to hit license revenue growth. — **Paul Steep**

Oilexco Incorporated (OIL - $2.49) **Rating: 3-Sector Underperform** **Target: $5.50**

- A Bit of Breathing Room

Oilexco's amended financing terms point toward gross proceeds of US$195M (convertible bonds plus equity), which could help to calm debt obligation fears in the near-term and support a moderate rebound in its share price. That said, we still see potential funding challenges in 2009E should crude prices average less than US$60/bbl and highlight a number of risks over the coming 12-months. Proceeds from the bond/equity issuance are earmarked to repay its predevelopment facility, including US$46M due in January and roughly US$114M in November. The expected amount of US$195M falls short of the company's original target of US$300M and shows how difficult it is to raise funds today. Under this basis we have also cut our 2009 capital budget and incorporated higher interest payments. We are maintaining a 3-Sector Underperform rating on Oilexco and have lowered our one-year target price to $5.50 per share (vs. $6.25). — **Gavin Wylie**

Metro Inc. (MRU.A - $33.00) **Rating: 3-Sector Underperform** **Target: $33.00**

- Solid Q4/F08, But Shares Fairly Valued

Metro reported Q4 adj. EPS of $0.64 compared with $0.57 a year ago. The results were ahead of our $0.62 estimate and consensus of $0.61. Same-store sales growth of 1.5% (2.0% est.) was an improvement from the <1% trend of the past year, but was entirely inflation driven. Adjusted EBITDA increased a healthy 9.9% YOY to $155.4M ($148.1M est.), with the EBITDA margin expanding a robust 46 bp. This reflected the resolution of IT issues, a rational pricing environment, and the lack of foodservice issues from a year ago. At 11.9x calendar 2009E EPS and 6.5x EBITDA, we believe Metro's shares are fairly valued compared to the North American and European grocery average of 10.5x and 5.4x, respectively. In the near-term, we expect Metro's EPS momentum to be strong and have raised our F2009 EPS estimate to $2.75. With Wal-Mart continuing to expand its grocery square footage in Canada, we believe mid-term earnings risk for Metro is high. As such, we reiterate our 3-Sector Underperform rating. Our share price target has been raised to $33.00 to reflect a higher earnings forecast. — **Ryan Balgopal**

Disclosures*: *The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.*

InStorage REIT (IS.UN - $3.46) **Rating: 4-Tender** **Target: $4.00**

- StorageMart Goes Friendly; Raises Bid to $4.00

InStorage has negotiated terms of a definitive support agreement with Canadian Storage Partners (StorageMart) in return for an increase to its all-cash bid from a hostile $3.75/unit bid to a friendly $4.00/unit. StorageMart goes friendly; $3.25 million break fee. Other customary terms and conditions include non-solicitation, data room access, the right to match superior bids, and a $3.25 million break fee (~$0.13/unit or 3.2%). InStorage has agreed not to sign an agreement with any other interested party before 12:00 ET on November 21 (StorageMart offer expires at 5:00 pm ET on the same day). Revised bid in line with expectations; sufficient to get the deal done. We had previously suggested an ultimate takeout in the $3.75-$4.50 per unit range, representing an implied cap rate of 8%-8.5%. With a wellfinanced bidder offering unitholders liquidity amidst volatile markets, we think the revised bid should garner sufficient unitholder support; we consider the prospect of a superior bid emerging is relatively low. Recommendation revised to tender; target in line with offer price. The revised offer price better reflects our NAV estimate of $4.25 (8.25% cap rate); we recommend investors tender to the all-cash offer. — **Mario Saric**

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

Telecommunications and Cable

- Switch to Rogers from TELUS

Rogers and TELUS trade at similar valuations with significantly divergent growth patterns. We highlight five reasons to switch from TELUS to Rogers. 1. Rogers should grow EPS by 18% in 2009 and 24% in 2010 through a slow economy. TELUS' EPS should decline 1% this year and 11% in 2009 (adjusting for one time tax items), before returning to 2% growth in 2011. 2. Valuation levels do not reflect these differences in growth. Rogers trades at 6.7% FCF yield and 13.9x P/E (2009E) vs. TELUS at 5.2% and 12.8x. 3. Rogers' asset mix (65%-70% wireless, 25%-30% Cable, 5% Media) is superior to TELUS', which includes Wireline (47% of EBITDA) and iDen. 4. Rising pension costs are significant for TELUS, but immaterial at Rogers. 5. TELUS is two years behind Rogers on HSPA deployment and it has no backwards compatibility for CDMA, unlike Rogers' EDGE network. Our EPS forecasts for Rogers and TELUS rise modestly, as we remove spectrum amortization costs previously assumed. These costs may reemerge in future years, if license renewal fees are material. — **John Henderson**

Oil & Gas - Junior E&P

- Alberta Throws Industry a Bone - But No Meat

After finally realizing that Alberta is not immune to the current economic weakness, the Provincial government just announced the implementation of a new transitional royalty structure over the next five years to lessen the negative impact that the New Royalty Framework (NRF) announced in October 2007. On average, we expect this to have only a minor but positive impact on Alberta-based production. Based on our initial run through the numbers, a 100% Alberta based conventional oil and gas producer would receive less than a 2% increase to its net asset value based on this new transitional royalty regime. We expect this to have a negligible impact on the senior Canadian producers given their larger international exposures and downstream operations. For the junior producers, in our universe, the most impacted will likely be the Alberta-based producers with intermediate depth drilling targets, like Alberta Clipper, Birchcliff, Compton, Galleon, Iteration, and NuVista. We also expect a small but positive impact for the oilfield services sector as the government take will be reduced by approximately $1.8 billion over the next five years. — **Peter Doig, George Toriola**

Insurance

- Little Parallels to U.S. Lifecos Woes - Predominantly Guilt by Association

LNC's estimated $1.00 EPS hit if S&P500 is down 30% in Q4/08, and concerns over CMBS, down 14% in last seven days, hurt US lifecos yesterday. LNC's potential charge, announced at its Investor Day (sent stock down 38%), was due to U.S. VA business DAC charges. LNC, which assumes markets have a mean reversion aspect and has thus (incorrectly) avoided significant DAC charges YTD Q3/08, explained the sharp market downturn, and significant hedge breakage costs (volatility), caused a change in approach. Hit is overdue, in effect catching up to where it should be, in our opinion. Little parallel to MFC, since it, unlike LNC, uses a more conservative mark-tomarket approach. Significantly less relative VA exposure as well. MFC's VA assets/BV is one-half that of LNC, and 1/3 that of HIG. The 17% decline in equity markets hurt MFC's Q3/08 by $0.37, $0.58 for SLF, $0.37 for IAG and $0.03 for GWO. We expect about 1.5x these charges for Q4/08. MFC's CMBS exposure is <1/2 the U.S. lifeco's average (13% after-tax as a percentage of BV, versus 33% average for the U.S. lifecos, and over 55% for HIG and PFG). 10% write-downs on less than AA CMBS (as we can gather is what some suggest) translates into $0.01-$0.02 EPS hit for MFC, so immaterial. — **Tom MacKinnon**

Diversified Business Trusts

- Q3/08 Review – Industrial Trusts Exhibit DCPU Growth in the Quarter

The latest edition of our Business Trust Bulletin is available on SC Online. Our report provides a sector overview, reviews the performance of the trust market, summarizes our business trust research coverage (including our top picks), and provides an economics snapshot. With the majority of trusts recently reporting third quarter results, we examine the performance of trusts within our coverage universe. On a float weighted capitalization basis, trusts under coverage grew distributable cash per unit (DCPU) by 12.6% in the quarter, with half recording growth, versus half recording declines. Industrial trusts f DCPU increased 22.2% on average during the quarter. On a float capitalization basis, DCPU rose 19.1%. The float capitalization results were skewed by two trusts, Mullen Transport and Chemtrade Logistics, which were responsible for the majority of the increase. Mullen fs results were boosted by acquisitions while Chemtrade continued to benefit from well above average sulphuric acid prices. Excluding MTL.UN and CHE.UN, increases in DCPU would have been 9.3% in the quarter. — **Navdeep Malik, Turan Quettawala**

U.S. Equities

Caterpillar Inc Del (CAT - U$33.87)	Rating: Neutral	Target: U$46.00

- Takeaways From Company Visit

Late Cycle Markets Holding Together For Now. CAT's outlook for long lead time/late cycle products remains largely in-tact as of early November; granted this could change. CAT admitted to minor cancellations within mining; however, the order book is still very healthy. Orders for both solar turbines and MAK engines are secure as they often require upfront payments and the equipment is specific to the end user. Lastly, mgmt was just in Latin America meeting with 10 of their largest dealers; demand trends remain solid although financing issues in Brazil present a risk. Preparing For The Inevitable. In terms of major actions taken to prepare for a downturn, CAT is not in "recession mode" yet. However, there are a number of internal triggers based on severity, in which CAT will look to take action, if required. Some minor changes to better gauge demand include giving dealers a ten-day window to cancel orders and asking for prepayments on specific types of equip. With regards to CAT's announcement to spend $1 billion in capital expenditures, we expect minor tweaks and/or even push outs, but we do not anticipate any major changes in the near-term. Taking A Bite Out Of Costs. We believe lower material costs could prove to be an opportunity as CAT is in the midst of negotiating contracts for 2009; this will likely be offset in part by a lack of pricing power. However, there are a number of L/T initiatives including cutting suppliers, simplifying and standardizing some equip, and reducing parts and wasted materials. In total, CAT's goal is to reduce product costs by 10% as well as improve lead times and quality (should also result in working capital benefits). We reiterate our $46 TP and Neutral rating. — **J. Cook**

Lincoln Natl Corp (LNC - U$7.31)	Rating: Outperform	Target: U$30.00

- Stock Meltdown Creates More Angst for Life Sector, Lowering Estimates

We were initially surprised by the magnitude of the sell off in LNC's stock following its investor day. But after having thought through some questions that still remain related to its variable annuity business related to "hedge breakage" and what that means for economic exposure, its harder for us to argue that the extreme weakness was completely overdone, especially within the backdrop of a vicious market for financial stocks. This combined with the fact that LNC remains one of the more thinly capitalized life insurers that has both equity markets and credit sensitivity, leads us to conclude that LNC is likely to remain depressed as long as equity and credit markets remain under pressure. There were several questions related to TARP, but potential access for LNC and other insurers continues to be an uncertainty though still a possibility. We had expected the stock to be weaker on news of a bad expected 4Q 08 (DAC charge of 250 million) EPS, a 3 billion increase in unrealized losses on its bond portfolio (brining its total to 8b), and the fact that it has been underhedged on its variable annuity block, but none of these issues was a big surprise given how weak the equity and fixed income markets have behaved quarter to date. LNC's thin capital cushion relative to its credit and equity exposure still makes us more inclined to stick with MET and AMP vs LNC given more robust capital levels. The economic hedge performance of vs. the livings benefits variable annuity guarantees has been more impactful, however, with 3Q 08 breakage of $330 million, and this has actually become more severe thus far in 4Q 08. The company had a Vega shortfall at the end of 3Q 08 and has not moved to cover it as it has become too costly in their view. This will likely contribute to a growing loss in 4Q 08. Since LNC does not count hedge breakage through operating EPS (comes through net income less credit spread offsets), we are only lowering estimates to account for the incremental DAC charge. We had previously assumed a DAC charge of $50 million, and now we are raising this to $250 million. Thus our EPS estimate for 4Q 08 declines from 75 cents to a loss of 3 cents. Excluding DAC charges, we are assuming LNC 4Q 08 EPS power will be in the 90 to 95 cent range. With the LNC stock trading at just 0.2 to 0.3x GAAP book value, GAAP book value has clearly become a less relevant metric to rely on for any kind of valuation support levels. If we instead use statutory liquidation value, which takes statutory capital less holding company debt plus holding company assets, we get roughly $5.50 per share. This takes the $5.2 billion of total adjusted statutory capital (as of 9/30/08), subtracts the $3 billion of long term debt and $1.6 billion of capital securities, then adds back $300 million for BAC stock plus the communications business, and lastly applies a $500 million value for Delaware Investments, applying a 1% of AUM to where we expect third party managed assets now stand. — **T. Gallagher**

Gap Inc (GPS - U$10.09)	**Rating: Neutral**	**Target: U$10.00**

- Lowering Estimates and Target Price to $10 (from $17)

Based on a reduction in our 4Q sales and margin forecast, we are reducing our 4Q08E from $0.34 to $0.29. Our F08E is now $1.30. We are also reducing our F09E from $1.28 to $1.00, based on a reduction in our sales and margin expectations. We model a comparable store sales decrease of 12% in F09. GPS has been able to report solid results in 2008 due to its focus on expense savings and inventory management. We are concerned, however, that without top-line improvement, the company will face margin pressure in the future, as there will be fewer expenses left to cut and less benefit from managing inventories well. We are lowering our TP from $17 to $10 based on our Credit Suisse HOLT analysis, in which we assume asset growth consistent with sq ft growth and CFROI remaining at 8.5% between 2008 and 2012. We believe there is some risk to the CFROI forecast, as the company's avg CFROI over the past 5 yrs has been ~8%; however, we believe CEO Glenn Murphy's intense focus on returns make our CFROI assumptions plausible. On 9/12/08, we wrote a note in our Friday Night Fight Series where we recommended a pair trade, long GPS, short LTD. With the trade up 15% since that time, and with our greater concern for GPS' F09 results, we recommend taking profits on that trade. Lastly, in a separate report we published titled "Ten Versus One", we point out that the market cap of GPS (~$7bn) is ~$2bn larger than a basket of 10 retailers in our universe (AEO, ANF, ANN, CHS, JCG, LULU, PSUN, TLB, TWB, and WTSLA) that we believe offers a better relative return profile compared to GPS. — **P. Lejuez**

Honeywell Intl Inc (HON - U$24.38)	**Rating: Outperform**	**Target: U$30.00**

- Lowering Estimates and Target Price to $30 (from $35) But Its Still One To Own

Business and General Aviation Market Could Decline 8-12% in FY09. An aftermarket panel hosted by Aerostrategy and Seabury at the CS Aerospace & Defense Conference forecasts the general aviation aftermarket to weaken in 2009. We had been forecasting 5% declines HON which we've now cut to 10%. Panel confirmed what we've been hearing for the last month; larger bizjet market still seeing heavy utilization with small and midsize utilization slowing. BASF Preannouncement Highlights Spec Mats & Auto Weakness. We also reduced our revenue and profit assumptions at Specialty Materials & Transportation to reflect continued auto industry weakness, underscored in BASF preannouncement yesterday. We have also reduced our non res assumptions in ACS given horrendous ABI data for October. Reducing 2009 & 2010 Estimates But We Reit our Outperform Rating. Our FY09 estimate moves to $3.50 from $3.84. We are introducing FY10 of $3.35. HON announces FY09 guidance on December 15th. At 7.0X our FY09E (vs. 14.3X ten-year average), valuation is compelling. Historically, we've preferred UTX over HON given what we'd characterize as higher quality & consistent execution by UTX however we believe the restructuring actions recently announced position HON well for a tougher 2009. HON is currently trading at a 24% discount to UTX vs. trading on par over the last twenty years. This is a name to own in 2009 and if stock were to revert to mean valuation vs. HON we could see 10% + upside relatively quickly. Since September, HON shares are off 42%, underperforming the group modestly given SPW and TXT impact the avg disproportionately. Target price moves to $30 which equates to 24% upside from current levels. — **N. Parent**

United Technologies Corp (UTX - U$45.99)	**Rating: Outperform**	**Target: U$51.00**

- Lowering Estimates and Target Price to $51 (from $63) But We Still Think The Stock Will Be A Relative Outperformer

Business and General Aviation Market Could Decline 8-12% in FY09. An aftermarket panel hosted by Aerostrategy and Seabury at the CS Aerospace & Defense Conference forecasts the MR&O market and general aviation aftermarket to weaken in 2009. We had been forecasting modest declines at UTX particularly in MR&O which we've now cut substantially. Reducing 2009 & 2010 Estimates. Our FY09 moves to $4.75 from $5.15 reflecting revisions to our top line forecasts given FX headwinds and secular challenges in commercial aerospace, residential and commercial construction markets. October ABI data was abysmal and we've revised our top line assumptions at Carrier and Otis. We are introducing FY10 EPS of $4.65. Despite the macro headwinds we believe UTX is poised to outperform given solid management team, healthy balance sheet and proactive restructuring. UTX announces FY09 guidance on December 11th. Target price moves to $51 from $63 as we mark to market our valuation with industrial peers. Reiterate Outperform. — **N. Parent**

Fixed Income Morning Comments

Inflation is Dead

I know it may be hard to imagine that a late session move in the bond market was a little more troubling than the equity sell program "last hour" trading. But when the long 30-year U.S. benchmark bond moves lower by approximately 0.30% (30bps) over the course of yesterday and early morning, most of that move occurring late yesterday afternoon, we stand up and listen. To put in perspective, the bellwether long bond has gained approximately 6$ or 5.6% price appreciation in this short time. What does it all mean? It means inflation is dead and the markets are in worry mode again.

Looking into this morning, the flight to quality trade continues as the Treasury curve to historical lows. The two year U.S. benchmark is trading at 0.99% an all-time low and five years hit 1.93% which is the lowest yield since 1954. In addition across the pond, we see that the Swiss Central bank has cut their overnight rate by 1.00% to 1.00%.

Lots of talk by the auto firms as they looked for funding....

Concerning GMAC LLC, the company has now "officially" applied to the Federal Reserve to become a bank holding company, and has started a formal exchange process for $38bn of US$ and Euro denominated GMAC and ResCap bonds. Net - step in the right direction....but they will need bondholder buy-in to get the right capital mix....bit of a chicken and egg contest here, but good to see this happening - small upside (very short term) for spreads.

Corporate Update: Robert Follis, Scotia Capital -Today's Comments

Scotia Capital holding its annual Electron Day conference....updates from TransAlta, Emera (Nova Scotia Power), Fortis, AltaGas, TransCanada, EPCOR among others (yes....it is webcast...)

More and more focus being directed to the prospects/outlook for the US financial segment....there has not been any "new" material information come out in the past day (Citigroup did take back $17bn of SIV's (paid $300mm in incremental funding) which won't help the markets view of them), but just more concerns that the weaker economy will hurt these firms basic banking operations (for the banks especially).....on top of the erosion of the capital markets activity. Net - bank should fare better, more concern should continue to be focused on the broker dealers.

Gaz Metro fiscal Q4 results (ended Sept 30) showed the usual Q4 loss, but this time, it was a bit bigger at $40mm vs $28mm y/y. Part of this was a tax adjustment, part was due to a pension catch-up at a subsidiary, while the rest was higher expenses at the Distribution segment. However, in spite of all these changes, the underlying gross margin was up a bit to $109mm vs $99mm. For the full year, cashflow (after working capital) was down y/y to $371mm vs $395mm, due entirely to higher a $94mm y/y swing in inventory/working capital usage (cashflow was better y/y before working capital), while capex/acquisition spending was down to $182mm vs $349mm. Full year profits were higher in each segment, due in part to higher ROE's for Distribution, and better Storage performance. During the year, debt levels increased by $118mm, and management is still looking for a "good" opportunity to issue units to permanently fund recent acquisitions, and to keep leverage at the required level (54% at the QDA segment). Net - the quarter was pretty unremarkable, but the company will be looking for various forms of funding soon - spending will likely be rising (Rabaska, wind power, etc), while the 2009 ROE for distribution operations is scheduled to fall (never good, but not likely a ratings driver). The company has a $100mm bond maturing in November 2011, and had almost $400mm available on various long term bank and operating lines of credit, so no liquidity concerns - neutral for spreads, but keep an eye on this firm for future financing.

Update on the Scotiabank pre-announcement - Moody's reaffirms their rating and stable outlook - more and more focus being directed to the upcoming BMO earnings release (Tuesday), as BMO has many of the same asset classes (SIV's, large "available for sale" asset portfolio) as BNS. Net - still restricted on Scotiabank....but waiting to see if this was a one-off event, or an indication of a broader industry wide trend.

A bit more pain for the banks and institutions that hedged off positions with financial guarantors (ie CIBC), as S&P downgrades Ambac to A from AA, and keeps the outlook at negative. While this is directionally bad (and will likely require more capital from exposed counterparties), it is important to note that Moody's already has Ambac at Baa1, so this is a bit of catch up by S&P. Net - a bit more painful for financial firms.....and CIBC particularly in Canada....just what the market needs.

New filings - Barclays Bank PLC finalizes a US$21bn MTN shelf (useable in C$)

In this environment our recommendations are as follows:

1. Passive investors (Buy and Hold) – We note that high quality corporate bonds such as Canadian Banks and Insurance companies continue to offer a very attractive yield-pick-up versus government bonds, and we recommend investors following the laddered portfolio process add exposure to these sectors when rolling maturities at this time.

2. Active investors –

• Term Call - Continued strong demand for Canadian Government bonds have caused the current yield curve to move well below where Scotia Economics expect yields to be in 12 months time, while the Bloomberg consensus survey forecasts the curve will remain relatively unchanged from current levels. However, with much uncertainty remaining in the capital markets, we would err on the side of caution and would not recommend term extension trades for active investors looking to outperform the index at this time.

Sector Call - Corporate and Asset Backed Securities (ABS) in the medium and longer term range continue to trade at historically cheap levels versus Canada bonds. Investors in this environment can receive equity like returns (7-8%) on long term corporate names, while maintaining the protection of principal that bonds provide. While this may be compelling for clients looking to take on this exposure, with continued uncertainty in the capital markets worldwide we expect further volatility, not only on the credit spreads front, but also the Canada yield curve. Therefore as an overall market call, we recommend and remain in short term corporate positions.

• Currency markets – The capital markets have been extremely volatile of late, with foreign exchange being no exception. Therefore until we see further direction and less volatility, we would recommend clients with Canadian dollars remain in Canadian dollar positions.

Chris Kennedy, CFA - Associate Director, Portfolio Advisory Group – Fixed Income

Important Disclosures

Company	Ticker	Disclosures*
AXC	Addax Petroleum Inc.	T
AGU	Agrium Inc.	H3,H6,U
ATD.B	Alimentation Couche-Tard Inc.	H
ARF.UN	Armtec Infrastructure Income Fund	H3,T,U
ACM.A	Astral Media Inc.	T
ABX	Barrick Gold Corporation	P,T,U
BCE	BCE Inc.	B26,B8,H3,S
BIR	Birchcliff Energy Ltd.	U
BBD.B	Bombardier Inc.	P,S
BLX	Boralex Inc.	T
BPF.UN	Boston Pizza Royalties Income Fund	T,U
WAV	Breaker Energy Ltd.	R,C,A,U
CAE	CAE Inc.	T
KHD	Canadian Hydro Developers Inc.	U
CM	Canadian Imperial Bank of Commerce	H,H3,S,U
CNR	Canadian National Railway Company	H3,T,U
CNQ	Canadian Natural Resources Limited	H3,U
CP	Canadian Pacific Railway Limited	H3,T,U
CTC.A	Canadian Tire Corporation Limited	H3,S
CFP	Canfor Corporation	P
CGX.UN	Cineplex Galaxy Income Fund	T
CLR.UN	Clearwater Seafoods Income Fund	T
CMT	Compton Petroleum Corporation	U
CLL	Connacher Oil and Gas Limited	S
DHF.UN	Davis + Henderson Income Fund	H3
DEE	Delphi Energy Corp.	U
EF	EarthFirst Canada Inc.	U
EFH	EGI Financial Holdings Inc.	T
EMP.A	Empire Company Limited	B3
FFH	Fairfax Financial Holdings Limited	H,S

FTT	Finning International Inc.	H3,P,S,U
GZM.UN	Gaz Metro Limited Partnership	U
WN	George Weston Limited	S
GIL	Gildan Activewear Inc.	T
GWO	Great-West Lifeco Inc.	H3,S,U
HW	Harry Winston Diamond Corporation	P,T
HEQ.UN	Home Equity Income Trust	T
IMG	IAMGOLD Corporation	P,T,U21
IGM	IGM Financial Inc.	H,S
IAG	Industrial-Alliance Insurance and Financial Services Inc.	S,U
IIC	ING Canada Inc.	S
IS.UN	InStorage REIT	T
KFS	Kingsway Financial Services Inc.	U
KGC	Kinross Gold Corporation	R,C,A,D9,P,T,U
L	Loblaw Companies Limited	B27,U
MBT	Manitoba Telecom Services Inc.	B9,S
MFC	Manulife Financial Corporation	H,H3,S,U
MX	Methanex Corporation	S
MRU.A	Metro Inc.	H3
MGX	MGM Energy Corp.	U
NFI.UN	New Flyer Industries Inc.	T,U
NXY	Nexen Inc.	B28,H3
OTEX	OPEN TEXT CORP	S
PKI.UN	Parkland Income Fund	T
PCA	Petro-Canada	B1,H,H3,U
PCC	Plutonic Power Corporation	P
POT	Potash Corporation of Saskatchewan, Inc.	S,T
POW	Power Corporation of Canada	H,H3,S
PWF	Power Financial Corporation	H,H3,S,U
PXE	ProEx Energy Ltd.	R,C,A,U
QBR.B	Quebecor Inc.	T
RCI.B	Rogers Communications Inc.	H3,S,U
RSI.UN	Rogers Sugar Income Fund	T
RON	RONA Inc.	T
RY	Royal Bank of Canada	H,H3,H7,S,U
SCU.UN	Second Cup Royalty Income Fund	T
SJR.B	Shaw Communications Inc.	S
SC	Shoppers Drug Mart Corporation	H3,U
TRE	Sino-Forest Corporation	P
SNC	SNC-Lavalin Group Inc.	H3
SLF	Sun Life Financial Inc.	R,C,A,H,H3,H6,S,U
SU	Suncor Energy Inc.	H3,U
TLM	Talisman Energy Inc.	H3
TCK.B	Teck Cominco Limited	H3,S
T	TELUS Corporation	H3,S,U
TI.UN	TerraVest Income Fund	T
TCM	Thompson Creek Metals Company Inc.	P,T,U
TRI	Thomson Reuters Corporation	H3,S,S2,T,U
TD	Toronto-Dominion Bank	H,H3,H6,S,U
TFL	Trafalgar Energy Ltd.	U
TOG	TriStar Oil & Gas Ltd.	U
VIC.UN	Vicwest Income Fund	T
VT	Viterra Inc.	T,U

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

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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
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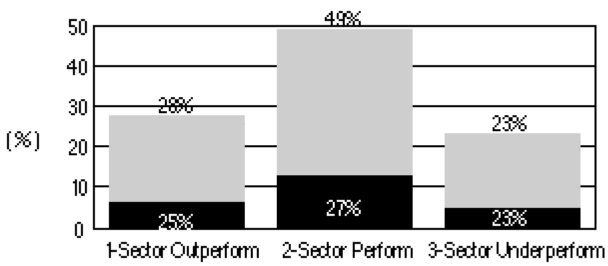

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