

Portfolio Strategy

ARE BOND YIELDS FINALLY MOVING HIGHER?

Equities Kick Off 2012 with Flying Colours

Global equities are off to a solid start in 2012 with January returns (local currency) hovering around +4% in the U.S. and Canada, +6% in China, and +9% in both Germany and Brazil. In USD, the Bovespa index is up a staggering 16% year-to-date. Investor optimism has been fuelled by stronger-than-expected macro data in the U.S. (housing, payrolls), soothing bond auctions in Europe (Italy, Spain, France), and easing hopes in China.

Relative to the barrage of doomsday scenarios circulating back in August and September of last year, the ongoing equity recovery makes sense, in our view. The S&P 500 is up 19% from its October 2011 trough, perpetuating the tight historical correlation with the ISM manufacturing index (see Exhibit 1). Over that same period, long-term bond performance (TLT index) stands at -5.1%. The ISM manufacturing index hit stall speed last summer (50.6 in August) before rebounding to 54 in December.

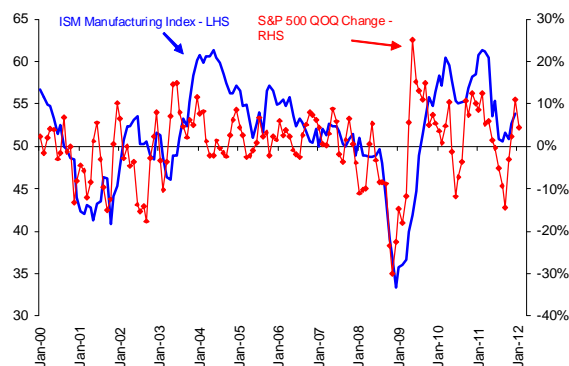
As the S&P 500 and global equity indices rally, long-term bond yields have remained surprisingly low, and the lack of upward adjustment remains perplexing. Although we do not expect a major increase in long-term yields, the recent disconnect versus improving data appears unlikely to persist. U.S. 10-year yields finally moved up last week (+17 bp to close at 2.03%), a sign that broader risk appetite may be emerging. On an absolute basis, the S&P 500 rally is looking overbought. Relative to bonds, however, we could witness further equity outperformance through Q1.

Year-End North American Benchmark Information

	Recent	2012E	2013E
S&P/TSX Composite Index			
TSX Level/Target	12,397.10	13250.00	13,250.00
TSX Earnings	\$828.52	\$925.00	\$975.00
TSX P/E	14.96	14.32	13.58
TSX Dividends	\$334.36	N/A	N/A
TSX Yield	2.70%	N/A	N/A
S&P 500			
S&P 500 Level/Target	1,315.38	1,375.00	1,375.00
S&P 500 Earnings	\$94.73	\$100.00	\$105.00
S&P 500 P/E	13.89	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	2.062%	2.95%	3.30%
Cdn/U.S. Dollar	\$1.0132	\$1.00	\$0.97
U.S. Fed Funds Rate	0.25%	0.25%	1.25%
U.S. 10-Year Treasury	2.0246	3.00%	3.50%
U.S. Dollar/Euro	\$1.2931	U\$1.27	U\$1.27
Commodities			
Gold	\$1,666.65	U\$1675.00	U\$1600.00
Oil (WTI)	\$98.46	U\$100.00	U\$105.00

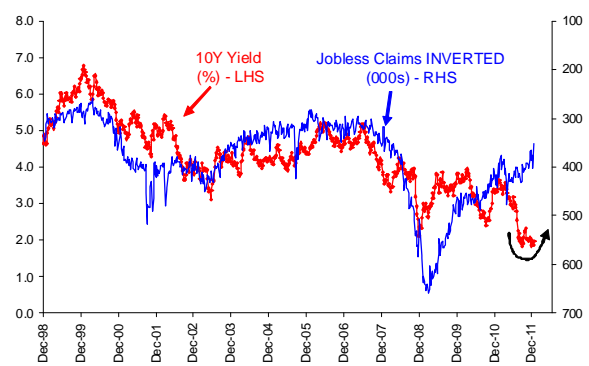
Source: Scotia Capital, Bloomberg.

Exhibit 1: ISM vs. S&P 500 (2000-2012)



Source: Scotia Capital; Bloomberg.

Exhibit 2: U.S. 10-Year Yields & Initial Jobless Claims (1998-2012)



Source: Scotia Capital; Bloomberg.

Contrasting “Risk-On” Signals

Although equities have been in "risk-on" mode since October, a widespread recovery in risk appetite still remains elusive. One of the main disconnects, and persistent warning signs, is the S&P 500/bond yields correlation highlighted in Exhibit 3. As discussed previously, the S&P 500 rebound since October has mirrored ISM improvements. Bond yields have historically moved up and down with the ISM index, but not this time. In the absence of a back-up in yields, significant asset mix shifts will likely remain elusive, challenging a sustained equity rally (P/E expansion).

USD strength (the DXY is flat YTD; +2.1% since October), negligible emerging market, and small cap leadership (S&P 500 outpacing EM by 230 bp since October) add to some of the contrasting signals (see Exhibit 4). U.S. assets and cyclical sectors have also posted strong returns in the last four months, extending last year's U.S. leadership.

Screening Stocks with High S&P 500 Correlation

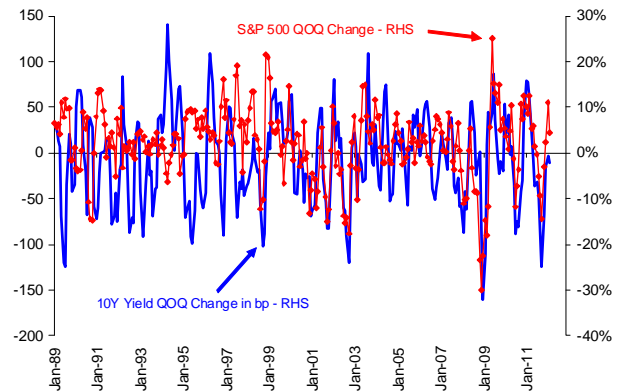
The S&P 500 rallied 2% last week, closing above the 1,300 mark for the first time since July. From their respective October troughs, the S&P 500 and the TSX are up 19% and 10%, respectively (+16% in USD). Equity optimism went up a notch last week following signs of improving homebuilder sentiment and a notable decline in jobless claims. The National Association of Home Builders' January survey jumped to 25, its highest level since 2007, and although the current level remains well below the expansion line (50), the potential for a positive U.S. housing mean-reversion is quite meaningful. Jobless claims declined to 352K last week, further highlighting that the U.S. employment market was improving.

Financials (+1.8%), Technology (+3.0 %), Discretionary (+1.9%), and Energy (+2.1%) led gains on the S&P 500 last week, and even bond yields (+17 bp to 2.03%) participated in the risk-on rally. Utilities are struggling.

U.S. macro improvements (housing, payrolls) have stimulated risk appetite in recent months, sustaining S&P 500 leadership. U.S. equity performance has edged emerging markets over the last 3, 6, 12, and 18 months with outperformances of +2.4%, +11.3%, +17.2%, and +17.8%, respectively. Should this trend continue (U.S. macro improvements offsetting weakening EU/China data), S&P 500-sensitive companies should perform well.

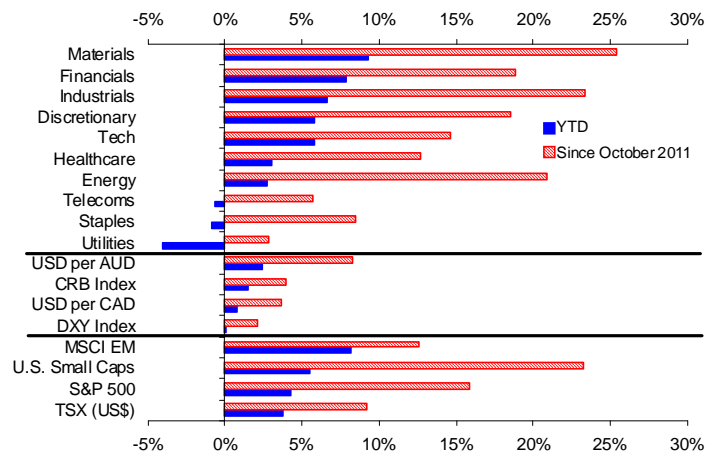
Exhibit 5 highlights the top TSX-listed stocks posting the highest five-year correlation with the S&P 500. YTD, this group of stocks is averaging +5.0% versus +3.1% for the TSX.

Exhibit 3: U.S. Equities & Long-Term Yields – QOQ change (1989-2012)



Source: Scotia Capital; Bloomberg.

Exhibit 4: Market Returns from October 3, 2011 Lows & YTD



Source: Scotia Capital; Bloomberg.



Exhibit 5: Select TSX Companies & Correlation* with S&P 500 (January 19, 2012)

Company Ticker	Correlation	2012 YTD Perf.
CM	0.630	2.0%
BNS	0.615	3.4%
TD	0.614	1.3%
CNR	0.612	-1.9%
SLF	0.596	7.0%
RY	0.582	0.9%
BMO	0.580	5.0%
PWF	0.580	3.2%
CP	0.577	4.2%
IGM	0.573	0.2%
BAM/A	0.570	9.3%
MFC	0.565	9.9%
SNC	0.564	8.7%
CAE	0.549	8.7%
BPO	0.546	6.2%
POW	0.544	4.2%
TRI	0.542	5.5%
ATH	0.542	-7.6%
RUS	0.539	10.6%
ERF	0.536	-9.6%
CWB	0.532	1.9%
BBD/B	0.525	10.8%
MG	0.525	21.1%
THI	0.518	-2.0%
GWO	0.511	7.2%
CLS	0.507	9.1%
PVE	0.507	16.8%
OCX	0.506	2.5%
Average	0.557	5.0%

*5-Yr Weekly Correlation with S&P 500 in CAD\$

Source: Scotia Capital estimates; Bloomberg.

This report is an excerpt from the report titled the 'Strategic Edge Weekly' released January 23rd, 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

RESEARCH IN MOTION (RIM-T, RIMM-N, \$14.95, 2-SP, \$18.50 TARGET)

MANAGEMENT CHANGES ALONE ARE NOT ENOUGH TO BRIGHTEN RIM'S PROSPECTS

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

RIM surrenders to investor demands to change corporate leadership

After a disastrous 2011, which included a botched PlayBook product launch, overly optimistic guidance, delayed BlackBerry 7.0 launch, network outage, market share loss, delay in QNX-based BlackBerry 10 launch, and collapsing stock price, RIM finally caved to investor demand to shake up the executive suite. Unfortunately, the replacement of co-CEOs Jim Balsillie and Mike Lazaridis with COO Thorsten Heins was not considered enough to garner approval from the market. Specifically, Mr. Heins stated that he intends to continue executing RIM's existing strategy and is not interested in selling the company. At the board level, both Mr. Balsillie and Mr. Lazaridis will maintain their board seats, but will relinquish the chair position to Barbara Stymiest. Prem Watsa, CEO of Fairfax Financial, was added to the board as an independent director. Of all the changes, we think the addition of Mr. Watsa is the most meaningful. Fairfax has been accumulating RIM shares in recent months and Mr. Watsa brings much needed credibility and market savvy to the board.

By his own admission, Mr. Heins is process oriented and appears to be a competent operational manager. Mr. Heins is an industry veteran with over 27 years of experience in the mobile industry. He has spent the last 4 years at RIM and previous to that was at Siemens communication group. More recently, Mr. Heins was responsible for both hardware and software engineering at RIM.

Some investors, including Jaguar Financial, have stated the management and board changes are insufficient. In particular, they would like to see the former CEOs to resign their board seats, and are considering a proxy battle to install directors that could provide a fresh perspective.

What should we expect from Thorsten Heins?

By naming Mr. Heins CEO, RIM's board is clearly signaling that it supports the existing strategy of moving to the new BlackBerry 10 platform (based on the QNX operating system). On the conference call, Mr. Heins clearly stated he is not interested in any M&A activity. His focus will be on improving the company's less than stellar record of execution and ushering in the new BB 10 platform.

Mr. Heins will focus on implementing internal process discipline at RIM. The company has grown at an incredibly fast rate from approximately 6,250 employees in 2006 to approximately 20,000 employees in 2011. As a result, RIM's business has grown at a much faster pace than its internal organizational processes could handle, leaving a start-up environment to adapt to a large, global business. Mr. Heins highlighted the need for RIM to finalize a device specification and then execute on building it rather than innovating as the device is being built; currently, it's like trying to hit a moving target and that often results in delayed product launches and incoherent product portfolios. These execution missteps were evident in both the BlackBerry 7 and BlackBerry 10 device launches, where both generations of devices had been delayed as a result of changing device specifications. Mr. Heins will separate innovation from product development, which should allow RIM to lock in device specifications and build upon a fixed target specification, while innovation occurs for next generation devices along a separate track.

Mr. Heins has high confidence in QNX and he highlighted the operating system's key advantages over competing platforms. QNX's security and multi-threaded capabilities allow for enterprise customers to have confidence in the new OS's capabilities. QNX also has significant history and presence in various industrial segments, such as

Weekly Market Strategy

automotive, and RIM is expected to leverage its ties in these adjacent markets to gain an advantage.

With BlackBerry 7 failing to live up to expectations, there is tremendous pressure on Mr. Heins to deliver a BlackBerry 10 portfolio of handsets that catapults RIM back toward the forefront of the smartphone market. He intends to do this by hiring a Chief Marketing Officer and focusing on consumer sales. While a stepped-up consumer marketing plan will be welcome, ultimately RIM needs a great product to sell if it wants to effectively compete in a technologically evolving marketplace. Both Apple and Android have positive inertia at present, setting the hurdle even higher for BlackBerry 10.

Will the new CEO be RIM's savior or sacrificial lamb?

With potential M&A off the table for now, RIM stock is likely to trade flat until the launch of new BlackBerry 10 handsets in the second half of 2012. We think this launch is a make or break event for RIM. A successful launch means flawless hardware/software, savvy marketing, and a product seen as a breakthrough relative to Apple and Android offerings (which in itself is like hitting a moving target). We think the bar is set extremely high for RIM and risk of disappointment remains high. An unsuccessful BB 10 launch would likely open the door to M&A prospects once again. Mr. Heins has been given the reins of a tired and injured horse and is being asked to compete in the Kentucky Derby. We think it is safe to say that the odds are stacked against him and the company. Based on this view, we do not recommend buying the stock at this time.

Himalaya Jain, CFA – Director, Portfolio Advisory Group

Equity Indices - Weekly Performance

Equity Index	Close	Weekly Change		YTD Return
	01/20/2012	Points	%	%
S&P/TSX Composite	12397.1	166.04	+1.4%	3.70%
Dow Jones Ind. Avg.	12720.48	298.42	+2.4%	4.12%
S&P 500 Index	1315.38	26.29	+2.0%	4.59%
Nasdaq Composite	2786.7	76.03	+2.8%	6.97%
FTSE-100 Index (London)	5728.55	-341.35	-5.6%	2.80%
CAC-40 Index (Paris)	3321.5	125.01	+3.9%	5.12%
DAX Index (Frankfurt)	6404.39	261.31	+4.3%	8.58%
Nikkei (Tokyo)	8766.36	-1083.38	-11.0%	3.68%
Hang Seng (Hong Kong)	20110.37	905.95	+4.7%	9.09%

Source: Bloomberg

U.S. Equity Strategy

Q4 EARNINGS UPDATE

We are in the early innings of Q4 earnings season with 77 companies in the S&P 500 Composite Index having reported financial results as of Friday, January 20th. The pace of reporting kicks into high gear this week with 119 companies releasing results. Seventy-five of those companies report on Wednesday and Thursday.

So far, earnings reports reveal a marked slowdown in earnings growth. In fact, according to Bloomberg, earnings growth has stalled with adjusted earnings of US\$23.31 up only 0.7% year-over-year, but that number has a history of gravitating higher as we make our way towards the end of reporting season. As for surprises, only 61% of those that have reported have beat expectations, consistent with its long-term average of 62%, but well off the 69.5% that beat in the third quarter of 2011 and 71.1% in the second quarter of 2011.

According to Thomson Reuters, analysts expect 7.1% earnings growth from the S&P 500, the slowest growth since the third quarter of 2009. Earnings expectations for the quarter have fallen sharply over the last three months due in large part to company guidance. All 10 sectors have seen negative revisions. The quarter has seen negative pre-announcements outpace positive ones by a 3.5-to-1 ratio.

The slower pace of growth is not surprising. Although the U.S. economy continues to grow, the pace is anything but robust. Europe and China have also dampened expectations; and U.S. multinational contribution to S&P 500 earnings is significant. Another growing headwind is the appreciation of the U.S. dollar vis-à-vis other major currencies and stronger oil prices.

As for sectors, according to S&P Capital IQ, Energy, Financials, and Industrials are forecast to deliver the largest year-over-year changes in earnings. The Energy sector should benefit from the significant weighting towards large integrated energy companies and their leverage to rising oil prices. Driving earnings in the financial sector are improving asset quality and an ongoing release of reserves, as well as stronger loan growth in the commercial & industrial segment. Telecommunications, Materials, and Utilities should all see a decline in earnings. Within the telco sector, strong subscriber demand for smartphones and their hefty handset subsidies could impact on margins in the Materials sector. While oil prices are firmer, the prices of many other commodities are not, and likely to weigh on margins.

Looking ahead to 2012, the consensus forecast for S&P 500 earnings is currently US\$105.51. That leaves the market trading at only 12.5 times forward earnings.

A reminder to take a look at our U.S. stock picks for 2012. This list has a cyclical orientation, which may seem to conflict with a core view of sluggish global economic growth. Nevertheless, at recent quotations, many of these companies are trading well off their 52-week highs and discounting near recessionary conditions. In effect, this list was constructed with the belief the U.S. economy will continue to recover in the year ahead and China will avoid a hard landing, hence we see value in the shares of the companies we've chosen. Please contact your ScotiaMcLeod advisor for a copy of our report "Top 10 U.S. Stock Picks for 2012".

Paul Danesi, CIM – Director, Portfolio Advisory Group

Fixed Income Strategy

GOVERNMENT BONDS OFF AS SAFE-HAVENS WEAKENED

U.S. Treasuries sold off last week amidst favorable risk markets and weakness in safe-haven European bonds. The rally in North American sovereign debt, following S&P's downgrade of many European nations on Friday January 13th, might have been overdone. Some arguments supporting that notion are the belief downgrades had already been priced in for some time and the perception the S&P announcement didn't provide the market with any new information. With some positive sentiment coming out of Europe last week, investors reversed course and sold the safety of government debt to move into riskier assets. The two key events to spark the positive sentiment were: (1) Rumors that the IMF may boost its lending power for troubled nations by \$500 billion or so to \$1 trillion via contributions from some of the BRIC countries (Brazil, Russia, India and China); (2) News that an initial deal for the Private Sector Involvement (PSI) had been agreed by the Institute of International Finance (IIF) - representing Greece's private creditors and the Greek government supported equity markets. Economic data in the U.S. was mixed last week but, and in the end, the positive sentiment dominated driving 2-year Treasury yields up by +0.02%, 10-year yields rose by +0.16% and 30-year bond yields rose by +0.19% for the week.

Government of Canada bonds followed the direction of the U.S. and bonds underperformed in the front end of the curve. Two-year Canada yields rose by +0.10% to a rate of 1.044%, 10-year note yields rose by +0.14% and long Canada yields rose by +0.12% for the week. There was little reaction to our domestic

CPI report last week as the headline inflation measure came in lower than expected at 2.3% year-over-year (consensus expectations were for a print of +2.7%). Core CPI also remained well contained printing at 1.9% versus the 2.2% consensus expectation. On Tuesday bonds rallied on the back of the Bank of Canada (BoC) rate announcement after the Bank left the overnight rate unchanged at 1.0%. The BoC noted that the outlook for the global economy had deteriorated and uncertainty increased since the BoC released its October Monetary Policy Report. The Bank also noted the intensification of the sovereign debt crisis in Europe, and tightening credit conditions in international financial markets. Adding to the negative tone, the Bank noted that the recession in Europe is now expected to be deeper and longer than the BoC had previously anticipated in October. Finally, the BoC highlighted their expectations for a U.S. recovery, suggesting that it would proceed at a more modest pace going forward, owing to ongoing household deleveraging, fiscal consolidation and the spillovers from Europe.

Corporate bond markets rallied on both sides of the border on the back of stronger equity markets and "drama-free" European headlines. In the U.S., the North American Investment Grade Index IG17 was better by -8bps for the week. We saw a heavy calendar of new issues in the U.S. financial sector. Despite the supply, new issue bonds performed well in the secondary market. In Canada, the new issue market was less hectic, as it remained focused on the asset-backed securities segment. The real estate sector saw spreads narrow by almost -20 bps for the week after a successful RioCan REIT new issue. Meanwhile, deposit notes tightened between -4 bps to -6 bps and subordinated debentures were better by -6 bps to -8bps. Overall, Canadian credit spreads were better by -5 bps to -8 bps for the week.

Canadian Bond Yields - Weekly Change

	January 20	January 13	Change (bps)
Canada 2-Year Bond	1.04	0.94	10
Canada 10-Year Bond	2.06	1.92	14
Canada 30-Year Bond	2.62	2.50	12
BoC Target Overnight	1.00	1.00	0
Prime	3.00	3.00	0
U.S. 2-Year Bond	0.24	0.22	2
U.S. 10-Year Bond	2.02	1.86	16
U.S. 30-Year Bond	3.10	2.91	19
Federal Funds	0.25	0.25	0
Prime	3.25	3.25	0

Source: Bloomberg

Bond Index Performance (YTD)

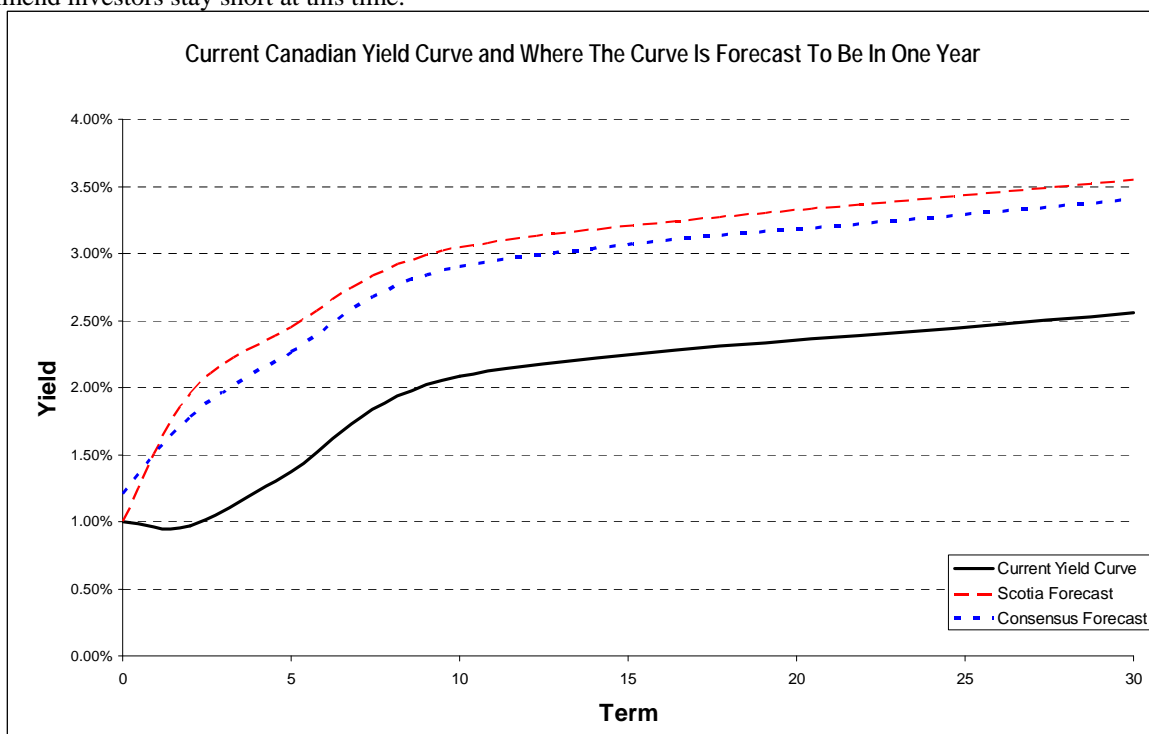
	Jan 20	Jan 13	Change
DEX Universe Bond Index	-0.48%	0.18%	-0.66%
DEX All Government Bond Index	-0.63%	0.10%	-0.73%
DEX All Corporate Bond Index	-0.05%	0.39%	-0.44%

Source: PC-Bond

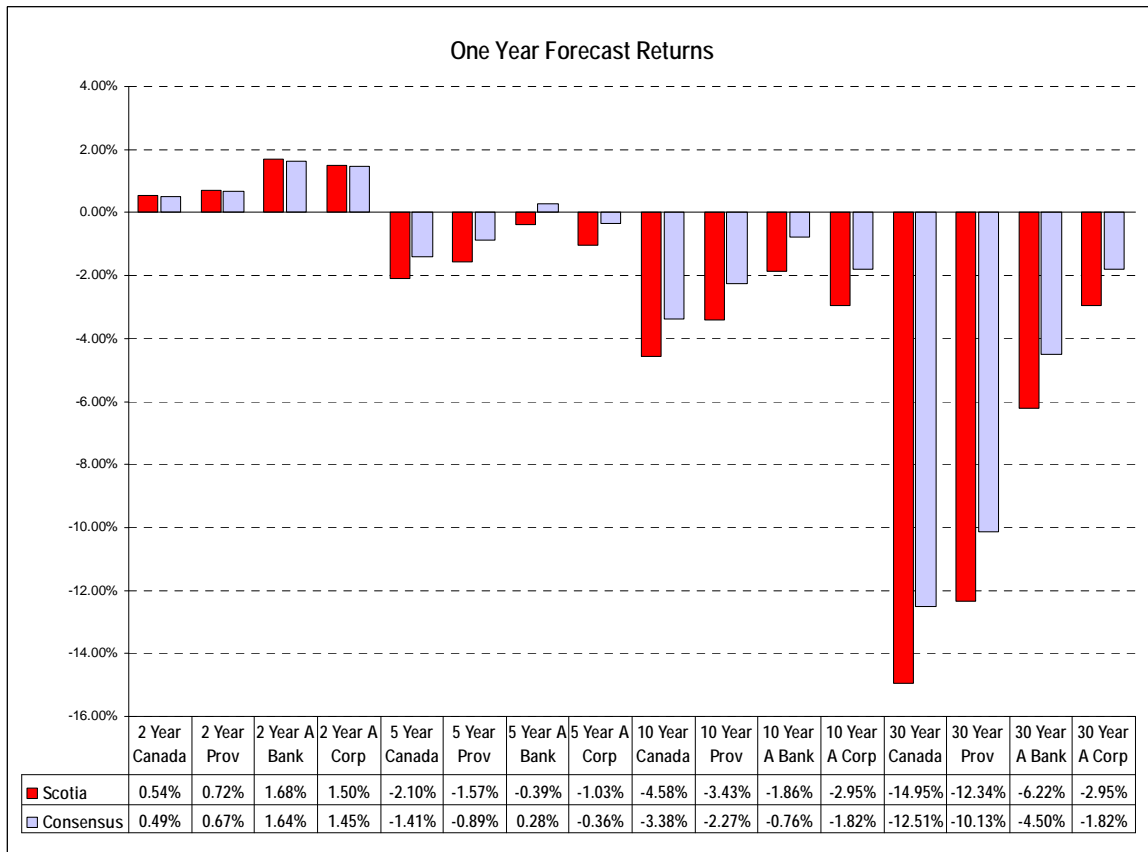
Ahead for this week the market will focus on the FOMC target rate announcement and the accompanying statement. The rate is expected to remain on hold at 0%-0.25%. Also, the U.S. Treasury Department will auction \$35 billion in 2-year notes on Tuesday, \$35 billion in 5-year notes on Wednesday and \$29 billion in 7-year notes on Thursday. In Canada, we will get \$3 billion of supply in 3-year notes on Wednesday; it will be the reopening of the 1% February 1st 2015 bonds. Canadian Retail Sales and the Teranet/National bank Home Price Index will be released on Tuesday and Wednesday respectively.

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.



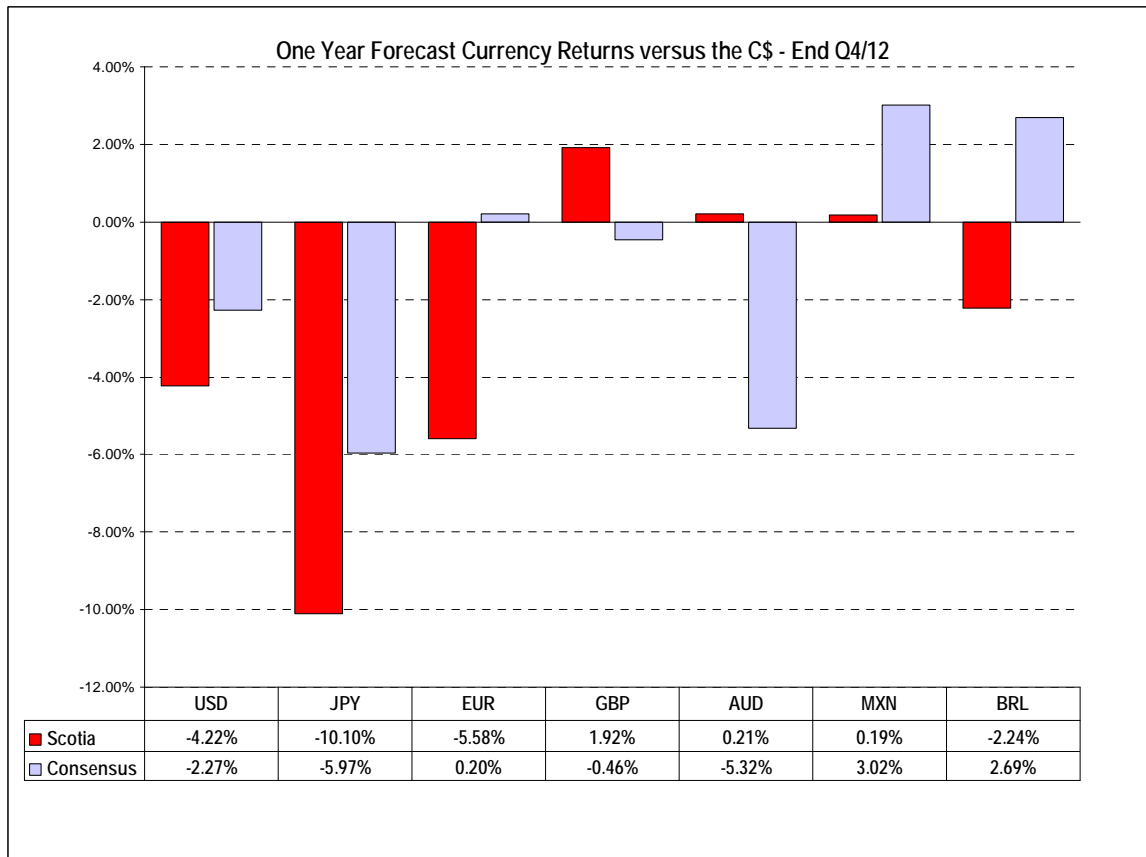
Source: Scotia Economics and Bloomberg



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.



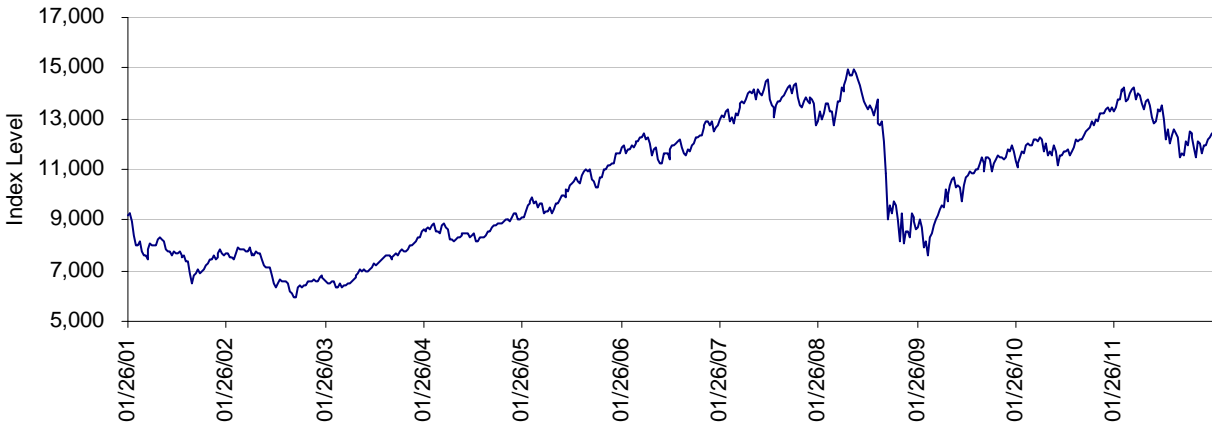
Source: Scotia Economics and Bloomberg

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

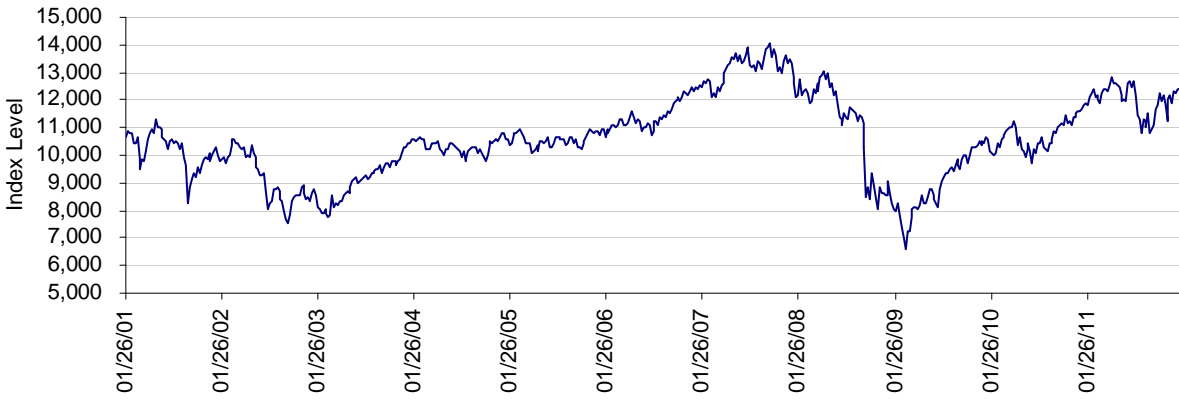
- a) **High Yield** – In conjunction with our continued positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we recommend investors maintain a market weight position in high yield debt.
- b) **Emerging Markets** – Emerging markets sovereign debt has rallied 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

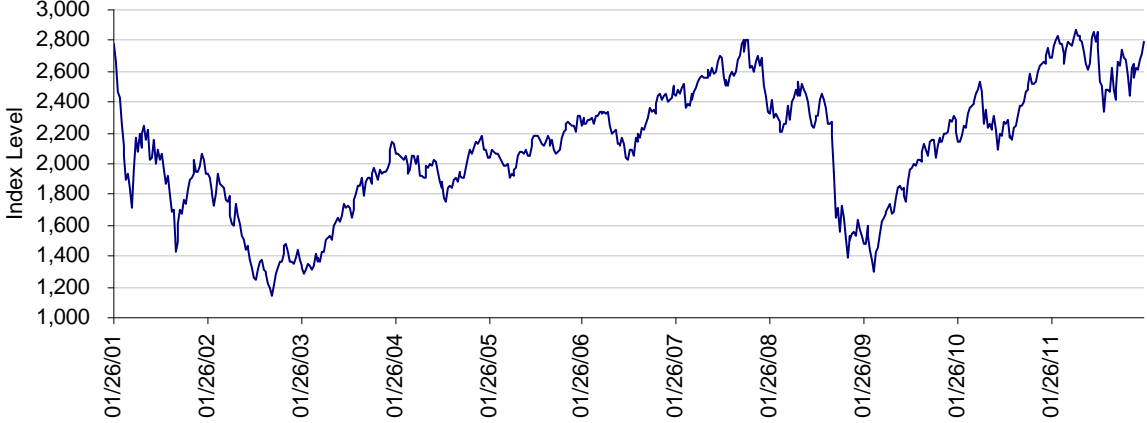
-S&P/TSX Composite Index



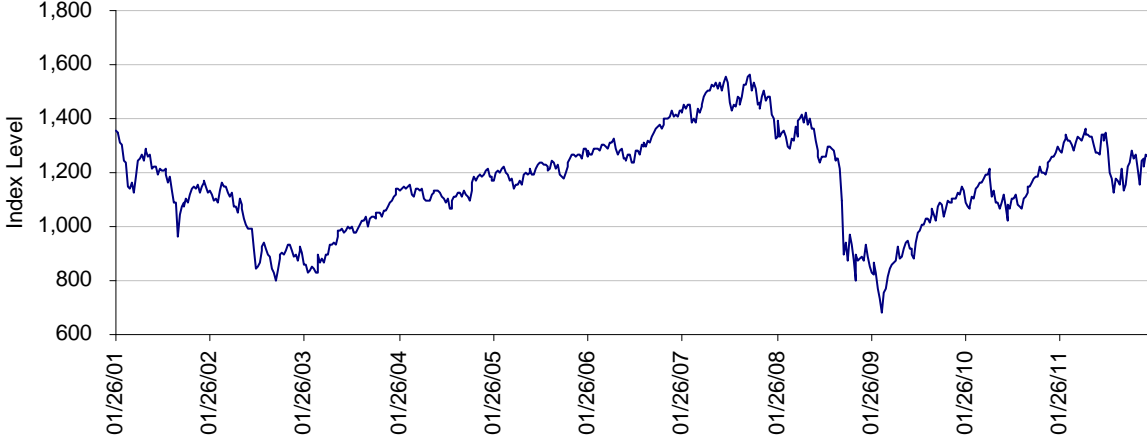
-Dow Jones Industrial Average



-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

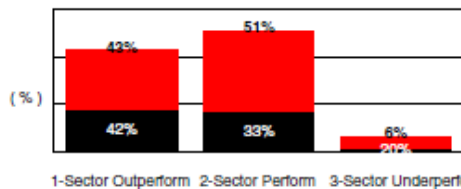
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk tolerant investors only.

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.

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.

Weekly Market Strategy

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.
Bank of Nova Scotia,

Scotia Capital Restriction -- U.S. (American) **Bank of Nova Scotia, Enerplus Corporation, Provident Energy Ltd.**

Scotia Capital Restriction -- Canada **Enerplus Corporation, Provident Energy Ltd.**

Scotia Capital (USA) Inc. or its affiliates has managed or co-managed a public offering in the past 12 months. **Bank of Montreal, Bank of Nova Scotia, Brookfield Asset Management, Brookfield Office Properties, Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Pacific Railway Limited, Canadian Western Bank, Manulife Financial Corporation, Provident Energy Ltd., Royal Bank of Canada, Sun Life Financial Inc., Toronto-Dominion Bank**

Scotia Capital (USA) Inc. or its affiliates has received compensation for investment banking services in the past 12 months. **Bank of Montreal, Brookfield Asset Management, Brookfield Office Properties, Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Pacific Railway Limited, Canadian Western Bank, Enerplus Corporation, IGM Financial Inc., Manulife Financial Corporation, Power Corporation of Canada, Provident Energy Ltd., Royal Bank of Canada, Russel Metals Inc., SNC-Lavalin Group Inc., Sun Life Financial Inc., Thomson Reuters Corporation, Tim Hortons Inc., Toronto-Dominion Bank**

Scotia Capital (USA) Inc. or its affiliates expects to receive or intends to seek compensation for investment banking services in the next 3 months. **Manulife Financial Corporation**

Scotia Capital (USA) Inc. had an investment banking services client relationship during the past 12 months. **Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Canadian National Railway Company, Canadian Pacific Railway Limited, Toronto-Dominion Bank**

Scotia Capital (USA) Inc. had a non-investment banking securities-related services client relationship during the past 12 months. **Research In Motion Limited**

Scotia Capital Restriction **Bank of Nova Scotia, Enerplus Corporation, Provident Energy Ltd.**

Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of the following issuer(s): **Bank of Montreal, Brookfield Asset Management, Brookfield Office Properties, Canadian Imperial Bank of Commerce, Great-West Lifeco Inc., IGM Financial Inc., Manulife Financial Corporation, Power Corporation of Canada, Power Financial Corporation, Royal Bank of Canada, Russel Metals Inc., Sun Life Financial Inc., Thomson Reuters Corporation, Toronto-Dominion Bank**

The Bank of Nova Scotia is the parent company and a related issuer of Scotia Capital Inc. **Bank of Nova Scotia**

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The Fundamental Research Analyst/Associate has visited material operations of the following issuer(s): **Bombardier Inc., Brookfield Office Properties, Canadian National Railway Company, Canadian Pacific Railway Limited, Great-West Lifeco Inc., Manulife Financial Corporation, Provident Energy Ltd., Research In Motion Limited, Sun Life Financial Inc., Thomson Reuters Corporation, Tim Hortons Inc.**

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This issuer owns 5% or more of the total issued share capital of the Bank of Nova Scotia. **Bank of Montreal, Royal Bank of Canada, Toronto-Dominion Bank**

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Comparative Canadian Bank Information

Bank	Symbol	Scotia Capital Recommendation	Risk Rating	1 Yr Target
Bank of Montreal	BMO	3-Sector Underperform	Low	\$66.00
Bank of Nova Scotia	BNS	2-Sector Perform	Low	\$62.00
CIBC	CM	1-Sector Outperform	Low	\$93.00
National Bank	NA	3-Sector Underperform	Low	\$82.00
Royal Bank	RY	1-Sector Outperform	Low	\$63.00
Toronto-Dominion Bank	TD	1-Sector Outperform	Low	\$93.00