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GENERAL COMMENTS:

Financial markets experienced a series of global negative shocks during November resulting in a fall off in performance that an end of month rally could not overcome. The financial effect of the media microscope on Europe's restructuring is uncertainty, political unrest, and having to pay higher sovereign debt rates. It seems the restructuring process may continue for some time.

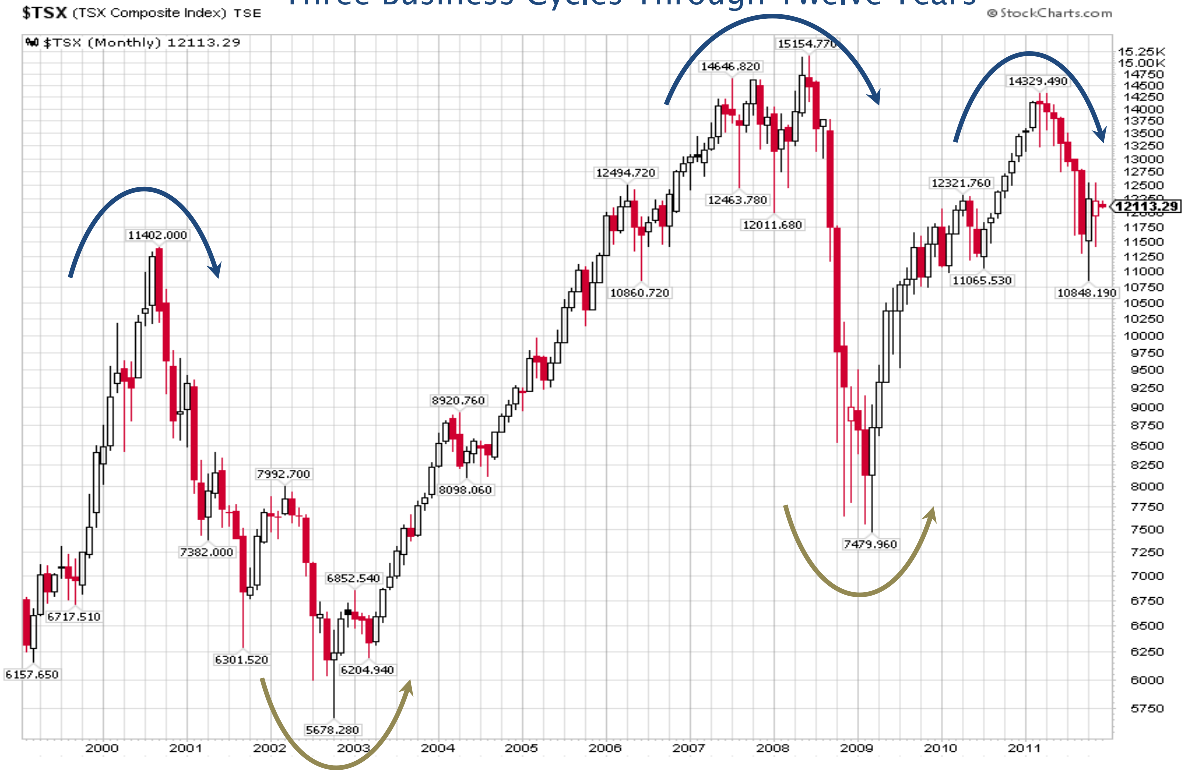
The strategy for addressing sovereign debt problems in both Europe and the U.S. is similar. Keep things running, buy time, push debt maturities out, avoid any significant individual disaster, provide economic assistance where necessary, speak optimistically, and hope that things improve.

Some financial experts are overly critical at the short-sighted nature of the current strategy described above. The collapse of Lehman should be a potent and recent reminder of how painful the short-run can be when policymakers don't think of how their decisions affect market confidence. A small entity might be able to declare bankruptcy and clean its slate with relatively small repercussions to others, but a large entity or a whole country being "cleaned" from the economic system in a swift and decisive but surprising move could lead to a massive devaluation of all assets.. The solution is not simple.

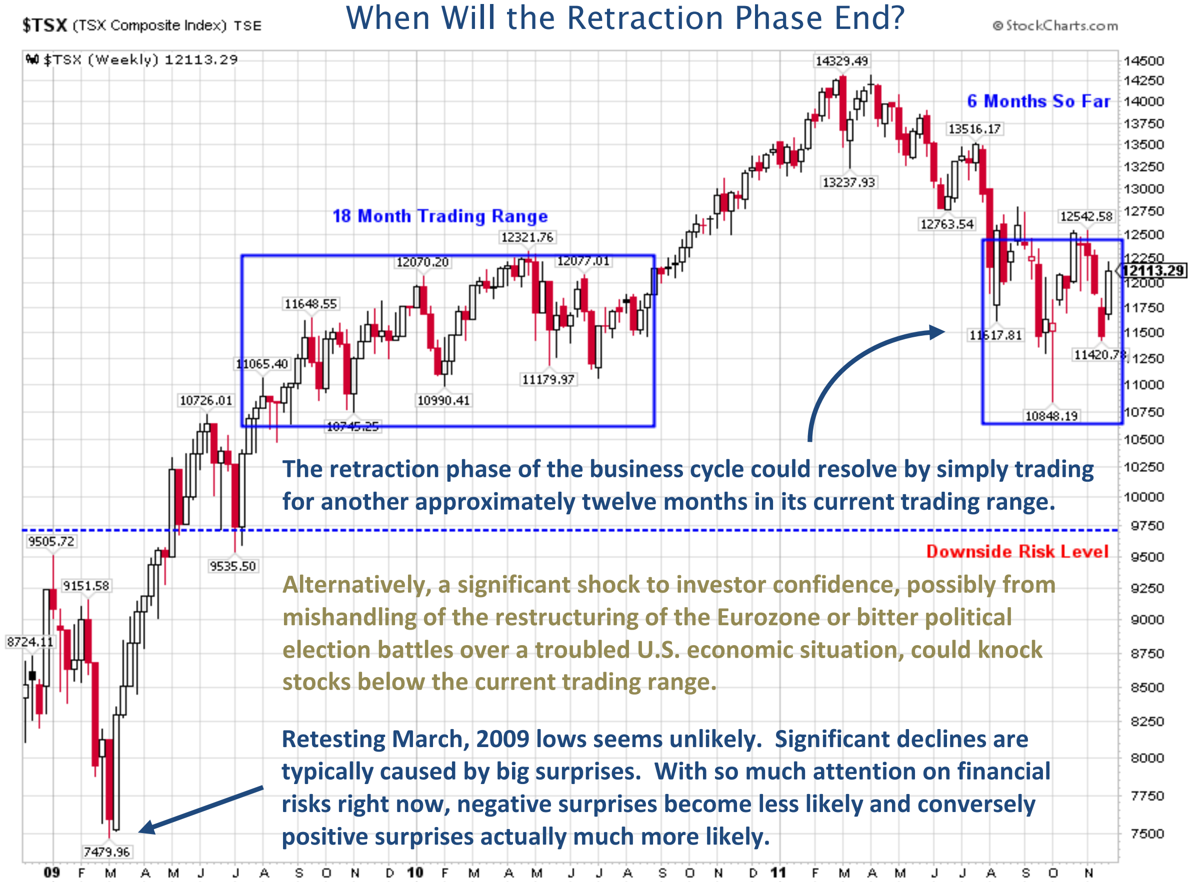
The problems of the world may really just be economic noise, drawing attention away from simply following repetitious market trends. Business cycles have existed likely as long as there have been businesses. Every historic cycle peak has its reasons, and this time it seems more to do with governmental issues than corporate ones. The Canadian market clearly peaked in April of 2011, which made it a shorter growth cycle than typical, but then every cycle is different.

I suggest investors be cautious during the retraction phase of the business cycle. It is possible that indexes simply remain in their current trading range, which happens to be the same area they traded in for the latter half of 2009 and most of 2010. In this case a combination of obtaining income, owning defensive securities and occasionally trading might prove to be good strategies.

Three Business Cycles Through Twelve Years



When Will the Retraction Phase End?



There are several reasons to be optimistic about stocks, especially after the next year of restructuring: Corporations have significant cash on hand, inventories are low, and leading indicators like the Purchasing Managers Index and Housing Construction statistics still point to growth (although at lower than average levels). Possibly **most importantly, fear of markets is high** meaning that participation and buying of assets that have any risk associated with them is low. Lots of money is on the sidelines in cash and low-yielding North American government bonds.

The chart on page 2 suggests that a shock could push Canadian markets down 10-20% from current levels, putting indexes back to levels they traded at early in the 2009 recovery. A drop to equivalent Lehman Brothers crisis levels would need a significant surprise catalyst, and with so many investors already considering disasters, it will be hard for an unanticipated one to emerge.

If most of the bad news is already reflected in the market, then securities may simply trade in the current range for the next year, more or less. This could end up forming the bottom for a new business cycle with growth possibly in 2013 through 2015. Investors should manage their portfolios cautiously as though a collapse might happen, but not design their portfolios so that one *must* happen.

MANAGED ACCOUNTS – NOVEMBER TRANSACTIONS

Managed accounts are discretionary accounts I can proactively manage in a client's best interest based on a written Investment Policy Statement and an intimate understanding of their financial goals. All client trades are done simultaneously at the same price to ensure fairness. Conflicts of interest from commission are eliminated since all trades are free. Clients are removed from having to make detailed regular decisions with their securities and instead can focus on the results and having their investments focused on their needs.

The comments below represent changes I have already made for managed clients, but also represent a good source of ideas for those that manage their own portfolio and rely on me for implementation, ideas and a source of professional feedback.

Summary:

Markets dropped during most of November, with the exception of the typical U.S. post-Thanksgiving rally at the end of the month. There were primarily opportunities to purchase beaten-down stock. Gold was an area specifically added to the model, while most other trades revolved around implementing the existing managed portfolio to several clients. Fixed income remains an area of specific attention, with three new preferred shares added and continued yield upgrading.

Alamos Gold Added:

Almos produces gold primarily from two areas: Mexico and Turkey. Production in 2011 is estimated somewhere close to 165,000oz and expected to rise to approximately 350,000oz by 2014. The company is considered a low-cost producer, averaging a cost close to U$460/oz, leaving it highly profitable at today's gold prices. The stock traded as high as C$19-20 per share from August to early November, but dipped to $15-16 during November's turbulence. It closed November around $17 and I hope to write covered calls on it for income should the price rise a further $1.50 or so.

Equity Positions Added To:

There are several client portfolios that are still in the implementation stage and do not yet have all model positions. The most significant securities bought in bulk for managed clients that already exist in the model portfolios were **Apple, Keyera, Open Text,** and **iShares MSCI Germany Index**. **National Bank, Shaw Communications and Oracle** were also added to or have outstanding buy orders at month end.

Covered Calls Written:
Rogers Communications January $40 calls.

Fixed Income Positions:
Fixed Income continues to be one of the greatest areas of change in my managed portfolios. The dealer system that bonds trade through doesn't allow all portfolios to be necessarily identical, because there are thousands of bond issues and they are not always available. A mixture if individual portfolio analysis and bulk allocation for good issues is being used to slowly add bonds to portfolios.

Neo Material Technology 2017 convertible debentures positions were increased, as well as three new preferred shares issued by **Sun Life, Royal Bank** and **Manulife**. Preferred shares have a tax advantage in that the investor receives a dividend tax credit, but has a weaker claim to underlying assets than most other fixed income vehicles should something go wrong with the issuing company. Preferred shares used to be primarily perpetual in nature, meaning they would never mature. In the last few years, rate-reset issues have been more common, which effectively create an implied maturity usually within five years of issue. Investors are able to receive closer to a 4½% to 6% pre-tax, interest-equivalent yield on investment grade debt with a fairly short term to maturity.

Franklin Templeton Global Bond Fund was added to obtain exposure to global bonds, mostly with high-quality, investment grade ratings. This fund's largest bond holdings are in Sweden, Indonesia, Poland, Mexico, Australia, Brazil, South Korea, and Russia. The manager decides whether each currency will be hedged to the Canadian dollar or not. Over the last ten years this fund has averaged 5.3% net of fees and has actually performed better than its average over the last three years (9.7%).

COMMUNCATION: AN APPEAL FOR REFERRALS

I have two easy ways for you to pass on my name and allow friends, family or co-workers to get a taste of the financial management services I offer: Emailed market commentary and periodic seminars.

If someone you know might benefit from my emails, let me know and I'll add them to my distribution list. I publish:

- A concise *weekly* market comments written by Richardson GMP that occasionally includes some of my own observations.
- A *weekly* oil & gas publication written by GMP Capital focused on the energy sector
- A *monthly* market comments written by myself that describes my general view of financial markets and details the transactions I have actively completed for the clients that have given me discretionary authority to do so. This is one of them.
- A *monthly* Housing and Construction publication written by GMP analysts.

I hope to host **my next seminar in mid- to late-February.** More details on that will come.

MERRY CHRISTMAS!

Brad