The Quarterly Letter

Q-2

2nd Quarter 2010

DalpéMilette
INVESTMENT ADVISORS

Desjardins Securities
Member CIPF

The Quarter in Review:

The reality of the effort still required is starting to sink in

Destination: a world that is economically and financially more stable thanks to a more conservative and transparent management of financial institutions worldwide and to greater austerity in government fiscal policies.

Journey: the next few years, which will be the site of significant volatility and where enlightened portfolio management should have a positive contribution.

The behaviour of the financial markets during the last quarter clearly demonstrates that the *journey* is in progress.

Canadian, American and European stock markets retreated 5.5%, 11.4% and 9.7% respectively during the last three months. The euro lost 15% against the American currency. There is talk of sovereign debt default risk in Greece, Portugal, Spain and Hungary. There is concern about the impact on the world economy caused by the fiscal austerity measures these countries must now take and also about the measures that Great Britain, Japan, Germany and the United States will take to reduce relatively quickly their huge budgetary deficits and the weight of their debt on their economies.

Now that the shock effect of the Fall 2008 - Winter 2009 is over and the economy has turned around significantly almost everywhere in the world, the market has turned its attention to the context that will prevail over the next few quarters and years. The situation in each country and in each financial institution varies, but some common traits are obvious.

It will be difficult but important to obtain an understanding of all of these elements to better manage our clients' assets. Once again, we will be torn between short-term management as opposed to medium or long-term management, and as always, we will favour the long-term.

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Selected Statistics

	Interest Rates/Canada			Stock Exchanges			Currencies		
Month	Short-Term	Mid-Term	Long-Term	CAN TSX/SPX	USA DJII	Intern. EAFE	$USA	EURO	YEN
Dec. 2009	0.19	2.77	3.61	11746	10428	1580	0.9532	0.6651	87.92
Mar. 2010	0.28	2.90	3.57	12038	10857	1584	0.9815	0.7296	90.98
April 2010	0.39	3.00	3.65	12211	11009	1551	0.9855	0.7432	93.20
May 2010	0.50	2.74	3.35	11763	10137	1363	0.9558	0.7786	87.26
June 2010	0.50	2.33	3.08	11294	9774	1348	0.9429	0.7672	83.47

The Bond Market

«The Bank of Canada increases its rates, the Fed stays put.»

As expected, the Bank of Canada has tightened interest rates slightly during its last meeting on June 1st. The Bank raised the target for the overnight rate by 0.25 basis points to 0.50%. This is the first increase in almost three years.

Canada is the first country of the G7 to start dismantling the exceptional apparatus of monetary easing, set up in the worst moments of the global financial and economical crisis. Recent economic statistics were enough to convince the central bank to act and this, despite the financial maelstrom in Europe. The Bank however mentioned that "*considerable uncertainty surrounds the outlook*" and stated that "*any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments*."

Considering the current context and as expected, the Federal Reserve (Fed) left it key bank lending rate unchanged at its current low. Since December 2008, the rate has fluctuated in the range of 0 to 0.25%. The Fed will not likely increase its rates until 2011, or even until 2012.

Worries about bank and government loans in Europe stirred up a renewed global wave of risk aversion; the US dollar and the American Treasury bills have once again benefited from the situation, American Treasury bills being the most liquid financial product in the world. 30-year bond rates fell by more than 30 basis points, crossing the 4% threshold in April, while 10-year bond rates rolled back under 3.3% at the end of May. Canadian bond rates also fell sharply.

As a final note, the Canadian government DEX index reported a return of 3.17% for the quarter, and 4.10% to date. The J.P. Morgan index reported 3.75% and 5.47% respectively.

The Currency Market

« Currencies are embarked on a roller coaster ride.»

The American dollar regained its title as the safe haven currency from the euro, which was severely tested over the last few quarters. The yen also benefited from the euro's decline, while the Canadian and the Australian dollars were both down. The pound sterling was also affected by investors, worried about the election results and their consequences on the management of the already shaky public finances in the United Kingdom.

Our Canadian dollar has not been spared by the latest financial turbulences either. After having come close to parity with the greenback in the first quarter, the Canadian dollar depreciated in May only to regain some ground at the end of the second quarter. Despite the strength of the greenback and falling oil prices, the performance of the Canadian economy and the increase in leading interest rates continue to form solid foundations supporting the loonie.

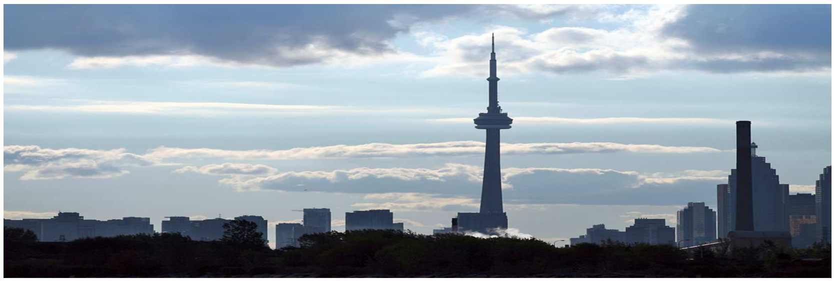
The American dollar is the overall winner in the latest adventure and confirms its status as the only international currency. Indeed, the greenback has hit record highs unseen in over a year.

Improvements in American economic data are also helping to shore up the greenback. In the long term, the currency will benefit from the rise in the Federal Reserve's leading interest rates.

The weakness of the euro does not only have negative effects; it stimulates exporting countries such as Germany and attracts tourists to the old continent from all over the world, thereby helping out the European economy. Some people saw the euro as being able to surpass the greenback, but this possibility is currently rather unlikely.

The yen was rather volatile last May, in the course of a few days it went from almost setting a nine-month high at $95 US to hitting a five-month low at $88 US. The weakness of the Japanese economy justifies the deterioration of the currency.

Canadian Stocks



« The markets experienced a difficult quarter despite solid economic data on the Canadian front. »

The current European crisis has had repercussions well beyond its borders. Indeed, despite evident signs of an economic recovery, the Canadian market experienced a difficult quarter, impacted by investor concerns about various austerity plans that many European governments have presented. Domestic demand, stimulated by an increase in consumer spending, unseen for many quarters, largely explains why Canada has experienced the strongest GDP growth of the G7 countries since the summer of 2009. This situation explains the Bank of Canada's decision to increase its leading rate during the last quarter, becoming the first central bank of the G7 countries to do so since the beginning of the financial crisis in 2008.

The TSX ends the quarter down 5.5% and finds itself in a relatively stable position for the year, down 2.5%**.** The month of May has proven to investors the strong correlation that exists among the world stock markets, at least, on a very short term horizon. Indeed, even though trade with Greece represents only 0.03% of Canada's total exports, the shock wave caused by Greece's financial problems has put the brakes to the year 2010, which until then was shaping up to be rather profitable for investors.

The financial sector was severely hit in the last quarter, ending the quarter down 9.8%. Despite registering lower bad debts, all large banks came under the spotlight due to the limited growth of their profits, which caused several analysts to downgrade their forecasts for the upcoming quarters. The solid financial situation of Canadian banks remains very encouraging, to that end, regulation of the financial sector will get a lot of attention during the next few months as governments try to harmonize their requirements to avoid a repeat of 2008.

The energy sector, for its parts, ends the quarter down 4.9%, as the price of a barrel of oil fell almost $10 during the last three months. Conversely, the price of natural gas has increased sharply during the last quarter (+3.9%), a reversal of fortune for this commodity when compared to the difficult first quarter it experienced. This explains the brilliant performance of Encana Corp (TSX: ECA) against other major energy securities in the sector during the last quarter.

The price of materials was very volatile during the quarter, shaken by the uncertainty of a potentially new economic crisis. The the S&P/TSX materials sub-index was up 0.8% and remains in positive territory since the beginning of the year, up 1.1%. Gold producers have benefited from the precious metal's status as a safe investment in hard times; the yellow metal was trading at $1,242 on June 30th, 2010, up 8.7% since the beginning of the year.

Strong domestic demand and a lower unemployment rate have contributed positively to the turnaround in the performance of some companies composing the S&P/TSX consumer discretionary sub-index. Rona and Shoppers Drug Mart have both announced a significant increase in annualized sales during the last quarter, lifting the sub-index up 8.1% to date this year, 1.7% of which was in the last quarter.

The telecommunications sector ends the quarter up 3.8%, while the information technology sector decreased 25.0%. RIM's results which were under estimates brought havoc in the sector.

The utilities sector ends the quarter at –5.3% and the industrials sector at –6.2%. As for the consumer staples sector, it is down 9.1% this quarter.

US Stocks

« Wall Street regulation: how far will President Obama go? »

The most respected brokerage firm in Lower Manhattan was making the headlines during the last quarter. Summoned to appear in front of a Senate audience in Washington, 2 senior officers of Goldman, including the CEO and chairman Lloyd Blankfein, were attacked from all fronts concerning allegations of fraud with the intent to benefit from the mortgage loan crisis in 2008. These latest accusations sully a public image that is already tarnished in the eyes of the American taxpayers. This should assist President Obama in rallying opponents to his bill following the abuses of the last years, which include among others the level of compensation offered by investment banks and the possible conflict of interest among the various units of these banks. Goldman Sachs shares retreated xx.x% over the last quarter.

The Dow Jones index retreated 9.4% over the quarter and 5.0% to date in 2010 (the S&P 500 11.4% and 6.7% respectively, the NASDAQ 11.8% and 6.6%). The situation of financial institutions remains worrisome for the Federal Reserve and investors still have the sector's recent setbacks etched in their memory. Bank of America retreated 19.5%, while JP Morgan is down 18.2%. The index is also under pressure with regard to the unpleasant news coming from Europe, a worrisome situation felt by investors all over the world.

The latest economic statistics south of the border demonstrate a certain fragility in the current economic recovery. The unemployment rate remains high at 9.7%, housing starts fell by half since last year and the trade deficit continues to increase. The latest employment figures show a significant slowdown in private sector hiring and the public sector is reeling from deficits at all levels of government. The spectre of austerity measures is still hovering close by, the country's debt hitting record highs one quarter after another.

International Stock Exchanges

« Europe in the limelight. »

Strong emotions have moved to the fore on international markets. Who hasn't heard of the volcanic eruption in Iceland that paralysed Europe and caused the worst aviation crisis in its history or of Greece's debt burden and the rescue plan orchestrated to prevent the country from slipping into bankruptcy, and finally what to say about the euro, which, after all the financial problems faced by some countries in the euro zone, hit its lowest level in four years.

In Germany, business confidence is down due to the fact that European debt has shaken the markets and undermined the future of the euro. However, unemployment figures have been a pleasant surprise in May, diminishing twice as fast as expected, thanks to exports. Germany's benchmark index, the DAX is down 3.1% this quarter and up 0.1% to date this year.

In France, the CAC-40 index fell 10.8% this quarter and 10.0% this year. The unemployment rate in the euro zone has increased in April to a new record high of 10.1%, a level never seen since the creation of the euro zone in 1999. Incidentally, consumer confidence mirrors this reality.

In the United Kingdom, despite an increase in retail sales in May, consumer confidence dived to its lowest level in over five months due to pessimism about their economic future and government spending cuts. The benchmark index ends the quarter down 12.5% and 7.2% since the beginning of the year.

As for Asia, the Hong Kong Hang Seng and the Tokyo Nikkei 225 indices end the quarter down 3.5% and 15.4% respectively and 6.1% and 10.4% since the beginning of the year. In China, the trade surplus decreased 87% in April compared to the previous year, imports having increased faster than exports due to the boost in domestic demand encouraged by government stimulus measures.

Review of Portfolio Activities

«Market variations over the last few weeks encouraged us to make some trades.»

Stock markets rose sharply from the beginning of March 2009 to the fall of 2009 and shares in our portfolios fared even better. In June and October 2009, we slightly reduced the equity weighting of our portfolios. In October, we were saying that in case of a temporary downturn in the stock markets, a real possibility taking into consideration the rapid increase of the last six months, we could reuse this room for manoeuvre to eventually buy new shares.

The downturn of the stock markets in 2010, and particularly over the last few weeks, has offered us this opportunity. It was not so much the fall in the markets that incited us to react, as the fact that some sectors and securities were disproportionately penalized, in our opinion. We took advantage of the situation to make the following trades:

1. we sold all of our Manulife securities and bought the equivalent value of Scotia Bank. Manulife represented a small percentage of our portfolios; we had to decide either to buy more or sell. We picked the latter because we think that Manulife's business plan and challenges will be more complex than the ones faced by Canadian banks;

2. we sold a third of our holdings in Brazil (IShares MSCI Brazil). This position, which we bought for the first time in the fall of 2008, has risen sharply and we wish to slightly reduce its weight in favour of China; and

3. we increased our holdings in China (IShares FTSE/XINHUA China 25), through the partial sales of Brazil, as mentioned above, and by drawing down liquidity in the portfolios.

Following these transactions, the equity weighting within the portfolios will be increased only by 1 or 2%, still in line with a neutral weighting.

New Faces At DalpéMilette

«We will strive to offer our clients the highest quality of professional, personalized and caring service.»

A recent increase in workload has required us to hire three new experienced and highly qualified persons, a Customer Service Assistant Advisor and two Administrative Assistants. Please visit our site at *www.dalpemilette.com* for a summary of the experience and the responsibilities of each person. Our team now consists of eleven members.

Véronique Levrey, a member of our team since our inception in 1998, is leaving us to change career path. We are sorry to lose such a pillar of the organization over the years and we wish her the best of luck in her future endeavours.

We are proud to rely on an organization with such a depth of talent and we will strive to offer our customers the highest quality of professional, personalized and caring service.

Thank you again for your confidence.

Assistant Advisor

Jonathan Gravel

Administrative Assistants

Mélanie Campeau

Julie Boulerice

We Launch Our First Webcast

«May 20th, 2010: a first for our new webcasts.»

In our last quarterly newsletter, we announced a series of measures to give our image a make-over and also to enhance the quality of communication with our customers. This quarterly newsletter is the first to adopt the new format. We hope that you will like it.

We have also invested in some video equipment to render Marc Dalpé's message more tangible from time to time.

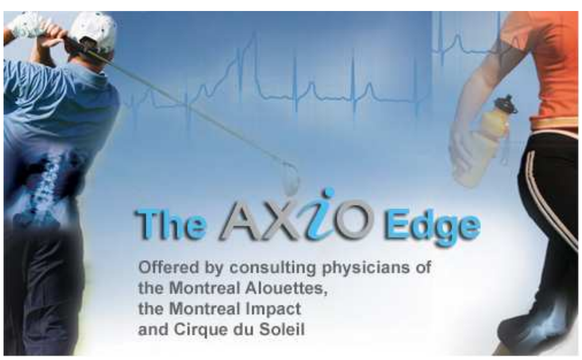
The stormy markets of the last few weeks seemed an appropriate time to test this new channel of communication. On May 20th, 2010, we recorded the message appearing on our site:

www.dalpemilette.com

from the 'Webcasts' tab

We announced this recording via our daily Info DalpéMilette (on May 20th). Over 300 of our customers have seen the recording and seem to appreciate this new addition to our communication arsenal. A good start, but we would like to triple this number with our next webcasts.

Axio Health Group



«It seems opportune to refer high quality health services offered by one of our clients.»

Personalized Health Solutions for Active People!

AXIO Health Group is an interdisciplinary health promotion centre founded and operated by sport medicine physicians who are leaders in their field and affiliated with the McGill University hospital network.

AXIO Health Group was created by three friends and colleagues who have worked for a combined 50 years in the field of elite sport medicine: Dr. Vincent J. Lacroix, Dr. J. Scott Delaney, and Mr. Gaétan Lefebvre, CAT(C), MBA.

They share a passion for sport medicine, a passion for sport, and a passion for making their knowledge and expertise available to the active-minded public.

Working with leading professional sports teams and performing arts companies in the city, **AXIO Health Group** helps active individuals, or those who wish to become more active, reach their performance goals at work, in sport or at play. **AXIO Health Group** provides evidence-based, comprehensive and personalized health services and ensures continuity of care to its clients through a medical concierge service.

In addition, through strategic alliances with leading health service providers in Quebec, **AXIO Health Group** provides its clientele with a full range of diagnostic and health promotion services in a timely fashion (medical analysis services, sleep care services, exercise stress tests and VO_2 Max tests, concussion evaluation services, medical imaging services, office ergonomic evaluation services, orthotic services, nutrition services, psychological health services).

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Information

Dalpé-Milette' s mission is to be the primary financial advisor for its clients. Within the framework of a courteous, attentive, professional and personalized service, the service offering is based on an experienced team, endowed with high calibre analytical skills as well as the necessary tools to provide its clients with exceptional financial services. A well-balanced, dynamic and systematic approach in addition to competitive management fees exempt of any potential conflict of interest characterize its portfolio management activities.

DALPÉMILETTE
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Info DalpéMilette

For our clients who wish to obtain more information about financial markets as well as the views and thoughts which direct our portfolio management decisions, our Info DalpéMilette meets these requirements. It is sent on a daily basis by e-mail to our clients who wish to be kept abreast of their portfolios and the many issues which affect them. Please do not hesitate to contact us should you be interested in receiving it.