July 20, 2010

Portfolio Strategy

CONFLICTING SIGNALS

Bottom-up Numbers Looking Good

The Q2 earnings parade got off to a solid start last week, highlighting that the profit recovery, which started 15 months ago in Q1/09, was still going relatively strong. Although it is still early days in the reporting season, the string of above-average "beat ratios" could remain intact in Q2. The S&P 500 beat ratio is hovering near the 80% level so far in Q2, above its historical average.

Cracks in the Top-Down Data

Although U.S. consumer-related data (housing and retail sales) has been weakening since May, manufacturing and industrial production remained strong through the second quarter. Based on recent figures, however, this divergence appears to be over.

The most recent Empire and Philly Fed manufacturing surveys were released last week, and both came in weaker than expected. The Empire index (NY region) dropped to 5.1 from 19.6 in June, while the Philly Fed declined to 5.1 (from 8.0), its lowest level since August 2009.

Although regional surveys can exhibit more volatile behaviour than the broader ISM manufacturing index, the ongoing moderation suggests imminent softness for the July ISM reading scheduled for release on August 2. The July Philly Fed is pointing towards an ISM level of approximately 52 (currently at 56.2).

Year-End North American Benchmark Information

	Recent	2010F	2011F
S&P/TSX Composite Index			
TSX Level/Target	11,569.65	12,300	
TSX Earnings	$635.48	$750.00	$825.00
TSX P/E	18.21	16.40	N/A
TSX Dividends	$320.14	N/A	N/A
TSX Yield	2.77%	N/A	N/A
S&P 500			
S&P 500 Level/Target	1,064.88	1,225	
S&P 500 Earnings	$70.73	$78.00	$82.00
S&P 500 P/E	15.05	15.71	N/A
S&P 500 Dividends	$21.97	N/A	N/A
S&P 500 Yield	2.06%	N/A	N/A
Fixed Income & Currency			
BoC Overnight Rate	0.50%	1.25%	2.75%
Canada 10-Year Bond	3.163%	3.85%	4.10%
Cdn/U.S. Dollar	$1.0582	$1.01	$0.98
U.S. Fed Funds Rate	0.25%	0.25%	2.25%
U.S. 10-Year Treasury	2.9215	4.10%	4.40%
U.S. Dollar/Euro	$1.2930	U$1.23	U$1.23
Commodities			
Gold	$1,193.00	U$1200.00	U$1300.00
Oil (WTI)	$76.01	U$79.00	U$80.00

Source: Scotia Capital, Bloomberg.

Risk to the Bottom-Up Recovery

It may be premature to conclude that there is an imminent U.S. recession, but, in our opinion, we are most certainly heading for visibly weaker U.S. macro data through Q3 and Q4. Sputtering consumer confidence is a stark reminder of the recovery's fragile state. Unless monthly payrolls materially surprise on the upside in August, confidence barometers should stay at depressed levels.

Hence, we believe double-digit profit appreciation in 2011 will be near impossible as a slower pace of growth sets in. We took down our numbers at the end of June and we are now forecasting a modest 5% growth in S&P 500 EPS in 2011 (to US$82). S&P 500 "quarterly" earnings are currently trending near the US$20 level (US$80 annual pace) and it will be very hard to improve on this "US$20 quarterly pace" in a neutral-50 ISM level environment. Consequently, the current 2011 bottom-up forecast of US$95 has material downside risk and forward revisions could turn negative once the post-Q2 earnings comfort winds die down.

A 20% correction in S&P 500 earnings would bring quarterly/annual earnings near the US$16/US$64 level. We believe the mid-US$80 level will represent the upper end of the profit range, and, under that scenario, we would expect the S&P 500 to find a floor near the 950 level, with 1,200 representing the upper end of the trading range.

Vincent Delisle, CFA – *Portfolio Strategist, Scotia Capital*

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Canadian Equity Strategy

PENGROWTH ENERGY TRUST (PGF.UN)

Consistent with our thesis of focusing on sustainable yields and clean balance sheets in this volatile environment, the Portfolio Advisory Group added units of Pengrowth Energy (PGF.un) to the Canadian recommended list last week. In a more normalized environment, equity returns of approximately 10% would be fairly respectable and PGF provides somewhat of a bird-in-hand in that regard as the units offer a sustainable distribution and equivalent yield of 8.6%. In our opinion, this is an excellent vehicle to weather the volatility and provides investors with some upside potential when the economy eventually recovers. The units are attractively valued and the recent weakness has created a good entry point; we believe the current yield will serve as support for the unit price.

- **Profile:** Pengrowth operates across the entire Western Canadian Sedimentary Basin as well as offshore east coast Canada and produces over 75,000 boe/d. Capital spending for 2010 is focused on Carson Creek and Deer Mountain properties located in central Alberta, Cardium development at Garrington, Alberta, Horn River delineation and development in northeast B.C., and pilot project work at Lindbergh. Current production consists of 51% oil and 49% gas.
- **Attractive valuation:** Pengrowth is currently trading at a P/NAV of 1.1x, a 2011E EV/DACF multiple of 6.0x, and currently provides a yield of 9% (versus the group averages of 1.5x, 7.2x, and 9%, respectively).
- **Sustainable distributions:** The units currently offer an attractive, sustainable 8.6% yield. Based on the current distribution of $0.84 per annum, Scotia Capital estimates the effective payout (after capex) to be 93%.
- **Conversion details:** As a corporation, Pengrowth plans to operate a hybrid model of asset growth and yield in the form of a monthly dividend payment to unitholders. Conversion to a corporation is expected to occur in late 2010. Scotia Capital expects the current distribution of $0.84 per annum to remain intact in 2011.
- As per Scotia Capital's recent initiating coverage report on Pengrowth, some key merits to the investment thesis include:
  - Pengrowth remains a business in transition and we are favourable towards its prospects. Management is dedicated to the goals of financial prudence, capital efficiency, and sustainability. Good strides have been made to reshape the business since the executive was rejuvenated, and we expect the units to benefit. Specifically, there is greater focus on capital efficiency, but the executive has also challenged its staff to dig deep into the asset base to more fully assess the depth of the company's inventory and test new concepts. Acquisitions may supplement the business plan but we foresee a much greater emphasis on internally generated organic growth prospects with an emphasis on resource-style opportunities.
  - Redoubled exploitation initiatives in the Swan Hills/Beaverhill Lake complex positive. We believe opportunities exist to capture more original oil- and gas-in-place in this legacy region with the near-term application of new completions techniques and long-term prospects from enhanced recovery initiatives given net exposure to original resources-in-place of at least ~2.0 billion boe. Management has established that acid fracture treatments in its completions of horizontal wells can yield strong rates at Carson Creek, and the potential for longer-term CO_2-driven tertiary recoveries is now established given the results of its pilot work in the area
  - Gunnel/Horn River and Lindbergh – shale gas and oil sands potential with scale. Acreage owned at Gunnel/Horn River could prove highly material given exposure to the Evie formation and close proximity to key regional players Imperial/ExxonMobil and TAQA North. The land provides option exposure to one of North America's high growth-potential natural gas plays. The Lindbergh oil sands leases offer opportunity with 241 mmbbl of contingent resources, almost double current booked reserves.
- Scotia Capital currently rates the units **1-Sector Outperform with a one-year target price of $12 per unit**. For more details on Pengrowth, please contact your ScotiaMcLeod Wealth Advisor.

Geoff Ho, CFA – *Director, Portfolio Advisory Group*

U.S. Equity Strategy

Q2 Earnings Preview

Earnings reporting season for large cap U.S. companies kicks into high gear this week with 128 companies in the S&P 500 reporting financial results. The consensus call for Q2 earnings for the Index is now U$19.80 compared with earnings of U$15.81 in the second quarter of 2009, representing a healthy 25% year-over-year increase.

According to Credit Suisse, the Materials, Energy, Information Technology, and Consumer Discretionary sectors will deliver the strongest year-over-year earnings comparisons. Telecommunications is the only sector that is expected to report a year-over-year decline in profitability. Earnings in the Utilities sector should be roughly flat while growth in the Utilities and Consumer Staples will be modest.

Thus far, about 10% of S&P 500 companies have reported results with 76% reporting positive earnings surprises and 71% positive revenue surprises according to data compiled by Credit Suisse. At the sector level, Industrials, Materials, and Financials have reported the highest percentage of earnings surprises. All of the eleven Technology companies that have reported so far have reported positive revenue surprises. Profit margins in the Materials sector are expanding at a faster pace than analysts are forecasting as 100% of Materials companies have topped profit expectations while only 33% reported better-than-forecast revenue. Conversely, margins appear to be under pressure in the Consumer Staples sector as only 33% of companies beat on the bottom line, while 67% reported positive revenue surprises.

While the headline numbers themselves have been impressive, the market is taking a more critical view of the results. Investors and analysts are both scrutinizing the quality of reported profits and listening closely to company guidance for signs the recovery in corporate profits is petering out. Managements' forward looking comments should set the tone for trading over the next few weeks.

Earnings troughed in the first quarter of 2009 and began a meaningful rebound in the second quarter reinforcing the rally which began that spring. However, the pace of growth is beginning to slow. Earnings this quarter will be essentially flat with the first quarter and moving forward, year-over-year comparisons will also become more challenging.

Consensus earnings for 2010 and 2011 for the S&P 500 currently stand at U$81.84 and U$95.44, respectively. The 2010 estimate appears achievable with earnings tracking towards U$40 for the first half of the year. However, the 2011 estimate appears aggressive and is assuming an upward trajectory in the global economy well into next year.

Paul Danesi, CIM – *Director, Portfolio Advisory Group*

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Economic Outlook

In the U.S. last week, retail sales data was generally inline with expectations, however are pointing towards a weaker second quarter for consumer spending. While consumer spending is increasing, it is doing so at a slower pace. Retail sales climbed 1% q/q leading up to June, while discretionary spending saw a 0.4% decline month over month, which was its second straight month of retreat, however at a more modest pace then in May. In addition to retail sales data, Scotia economics notes that, consumer prices fell 0.1% month over month in June mainly due to lower gasoline prices. On a yearly basis, headline CPI is up 1.1% but has declined in each of the last three months, compared to core CPI which has held a steady reading at 0.9% over the same amount of time.

Equity Indices - Weekly Performance

	Close	Weekly Change		YTD Return
Equity Index	07/16/2010	Points	%	%
S&P/TSX Composite Index	11569.65	-0.80	-0.0%	-1.50%
Dow Jones Industrial Avg.	10097.9	-100.13	-1.0%	-3.17%
S&P 500	1064.88	-13.08	-1.2%	-4.50%
Nasdaq Composite	2179.05	-17.40	-0.8%	-3.97%
FTSE-100 (London)	5158.85	25.91	+0.5%	-4.69%
CAC-40 (Paris)	3500.16	-54.32	-1.5%	-11.08%
DAX (Frankfurt)	6040.27	-24.97	-0.4%	1.39%
Nikkei (Tokyo)	9408.36	-176.96	-1.8%	-10.79%
Hang Seng (H.K.)	20250.16	-128.50	-0.6%	-7.42%

Canada's trade activity was the focus last week, as the trade figures for May revealed the largest jump in exports since August of last year. Externally bound shipments increased by 5.2%, while Canadian imports also rose 5.7%. As a result, the trade deficit expanded approximately $500 million. Export growth was mainly due to auto shipments, while an increase in consumer goods, machinery & equipment, and industrial goods made up the majority of import growth. In contrast to the U.S., Canadian consumer demand continues to boost imports, as Canada continues to have healthy employment gains, a pick up in business investment, a continued strength in manufacturing shipments, a strong Canadian dollar, as well as rising corporate profits, which evidently has caused earlier then usual consumer activity during this recovery period, as well as an expansion in imports at an earlier stage. In addition to the trade data, the BoC Business Outlook Survey was also released last week with positive results. On the sales side, the attitude from the respondents was that sales would continue to improve over the next 12 months. They also concluded that approximately 50% of the firms are planning to increase employment over the next year, while 41% plan on no staffing changes, and the remainder plan on decreasing employment. These figures are slightly higher then the last quarter.

This week in the U.S; housing starts & building permits will be released on Tuesday, while FHFA House Price Index, existing home sales and leading indicators will all be released on Thursday. In Canada, International Securities Transactions will come out on Monday, the BoC Policy announcement will come out on Tuesday, and wholesale trade will be released on Wednesday. Retail sales, and the BoC Monetary Policy Report will come out on Thursday, and CPI will be released on Friday.

Amy Billinghurst – *Associate, Portfolio Advisory Group – Fixed Income*

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Fixed Income Strategy

INVESTORS FOUND A SAFE HAVEN IN NORTH AMERICAN GOVERNMENT DEBT

A handful of negative economic reports drove equities down while U.S. bond markets traded on the upside. U.S. government debt sold off earlier in the week on the back of a positive tone to the start of the Q2 earnings season. The net selling of bonds went on in spite of USD$56 billion in new Treasury supply auctioned on Monday and Tuesday. However, Treasury yields began to fall on the release of the worse-than-expected June Retail Sales report (actual at -0.5% vs. an expected -0.1%). The release renewed investor concerns about the pace of the U.S. recovery and long term issues related to the European debt crisis. By Friday, these worries were confirmed by the disappointing U.S. Consumer Confidence report. The markets did welcome the news of Goldman Sachs' settlement with the Securities and Exchange Commission (SEC) and the successful halt of the oil spill in the Gulf of Mexico by BP plc. Nevertheless, investors' search for safety pushed U.S. Treasury yields down by -0.04% to -0.17% on the front end of the curve and by -0.10% on the long end.

Canadian Bond Yields - Weekly Change

	July 16	July 9	Change (bps)
Canada 2-Year Bond	1.57	1.43	14
Canada 10-Year Bond	3.22	3.10	12
Canada 30-Year Bond	3.75	3.64	11
BoC Target Overnight	0.50	0.50	0
Prime	2.50	2.50	0
U.S. 2-Year Bond	0.63	0.63	0
U.S. 10-Year Bond	3.05	2.98	7
U.S. 30-Year Bond	4.03	3.94	9
Federal Funds	0.25	0.25	0
Prime	3.25	3.25	0

Source: Bloomberg

Bond Index Performance (YTD)

	July 16	July 9	Change (bps)
DEX Universe Bond Index	3.43%	4.13%	-0.70%
DEX All Government Bond Index	3.26%	4.13%	-0.87%
DEX All Corporate Bond Index	3.88%	4.43%	-0.55%

Source: PC-Bond

Government of Canada bonds followed the direction of the U.S. Along with the new supply of CAD$3 billion in 10-year government bonds, Canada yields fell across all terms. This was in a week where we saw the domestic trade deficit widen by CAD$500 million. But overall, the pressure and negative sentiment coming from south of the border drove Government of Canada bonds yields lower by -0.07% to -0.14% on the front end of the term structure and by -0.03% on the long end of the curve. With these moves, the DEX Universe Bond Index and the DEX ALL Government Bond Index advanced +0.62% and +0.61% respectively on a year-to-date basis compared to last week.

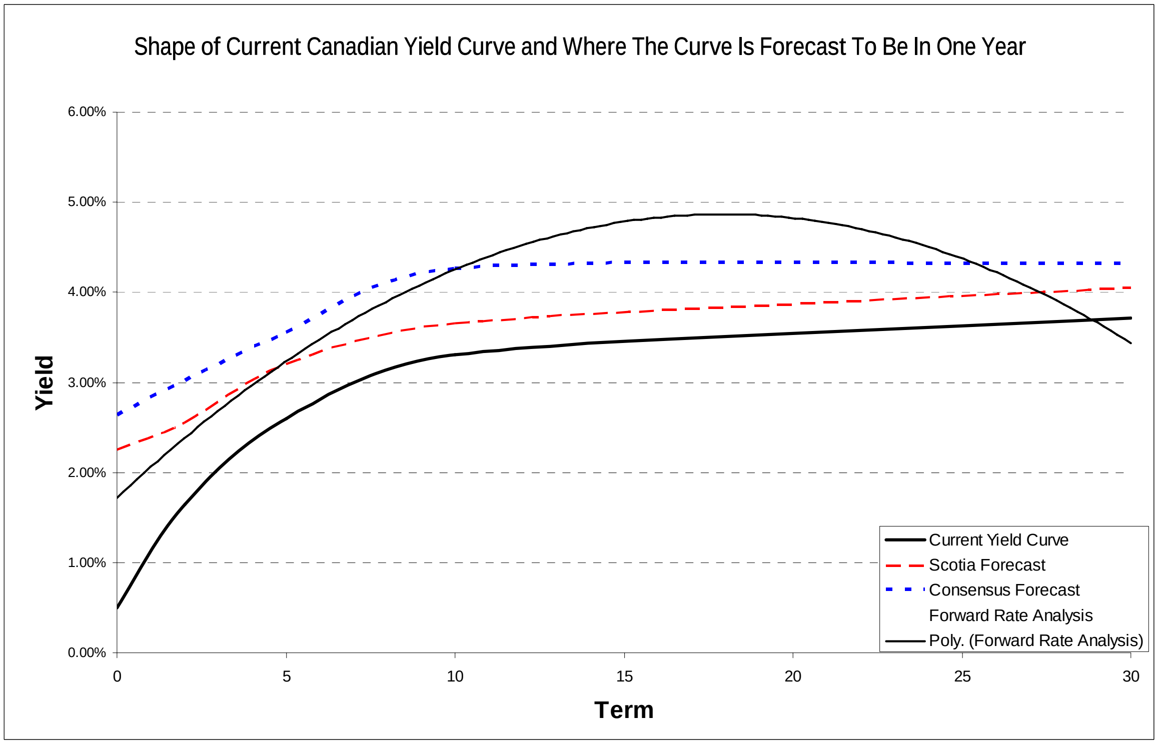
The optimism that was fueled by the beginning of the second quarter earnings season was offset by the level of new issuance in the Canadian corporate bond market. The CAD$1.5 billion in senior notes that were priced into the market for the week moved deposit note credit spreads (yield pick-up over the benchmark) out by +0.03 to +0.04%, with subordinated debentures widening out by approximately +0.05 to +0.06%. CIBC issued $1 billion of 3.95% coupon bonds due in 2017 and RBC raised $500 million through the issuance of 4.95% coupon bonds due 07/16/2025. RBC's 2025 bond was the first of a long deposit note issue the Canadian corporate credit market had seen in a while. In contrast, the U.S. corporate bond market saw credit spreads slightly improve as the investment grade index IG14 was -0.01% to -0.02% for the week.

There are no U.S. government bond auctions this week but the Bank of Canada (BoC) will have a rate announcement on Tuesday July 20th. Scotia Economics as well as the consensus are calling for a hike of 0.25% to bring the overnight rate to 0.75%, which has already been mostly priced into the markets.

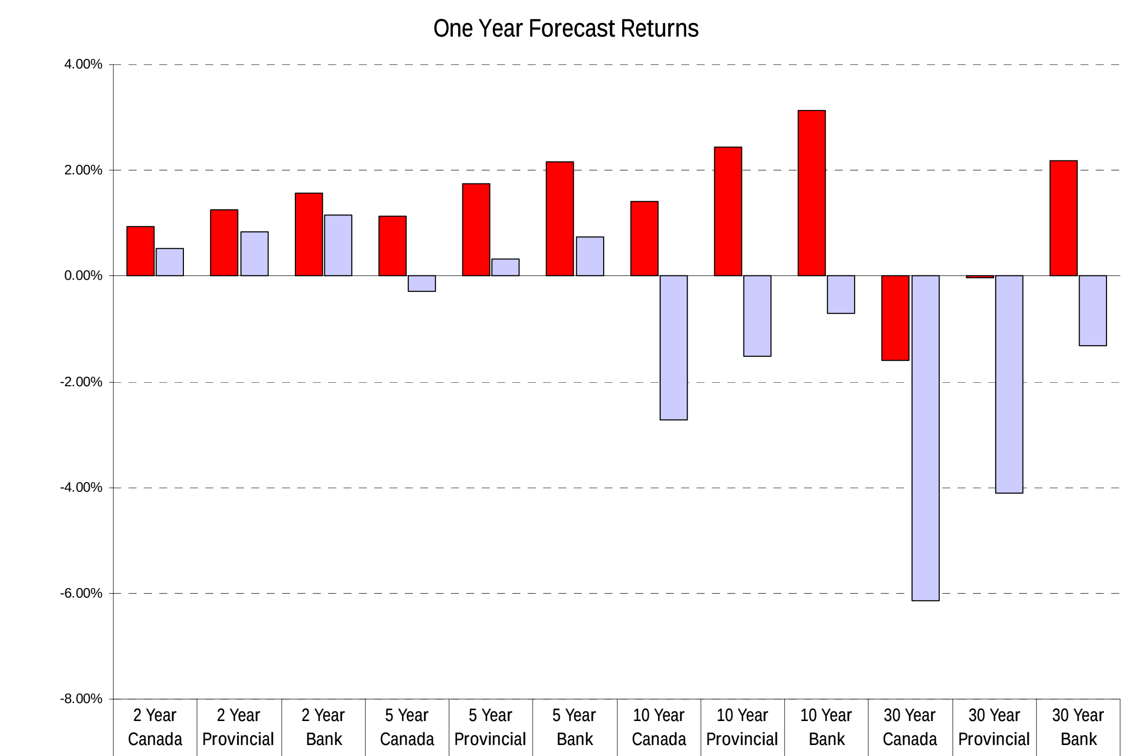
Portfolio Advisory Group Fixed Income – Current Recommendations (changes in blue)

1. **Term Call –** You should no longer sit in cash but instead start to extend term
2. **Sector Call –** Underweight Canada's, overweight provincials, municipals and corporates
3. **Currency Call –** We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt.
4. **Alternative Strategies –** Overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

1. **Term Call –** Scotia Economics is now forecasting a much flatter yield curve over the next 12 months, with the forecast now indicating much lower longer term yields than previously expected. This creates a more neutral outlook for bond returns, which in turn means you should no longer sit in cash but instead start to extend term.



Source: Scotia Economics and Bloomberg



	2 Year Canada	2 Year Provincial	2 Year Bank	5 Year Canada	5 Year Provincial	5 Year Bank	10 Year Canada	10 Year Provincial	10 Year Bank	30 Year Canada	30 Year Provincial	30 Year Bank
Scotia	0.94%	1.25%	1.57%	1.14%	1.74%	2.15%	1.40%	2.44%	3.14%	-1.60%	-0.03%	2.18%
Consensus	0.52%	0.84%	1.16%	-0.30%	0.32%	0.74%	-2.71%	-1.51%	-0.71%	-6.14%	-4.11%	-1.32%

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 –** We see opportunities for Canadian dollar based investors in short term Australian dollar denominated debt. Although at current levels the Australian dollar is expected to fall slightly versus the Canadian dollar, this is more than offset by 4%+ in incremental yields. Hence, we continue to recommend Canadian investors add exposure to the Australian dollar.

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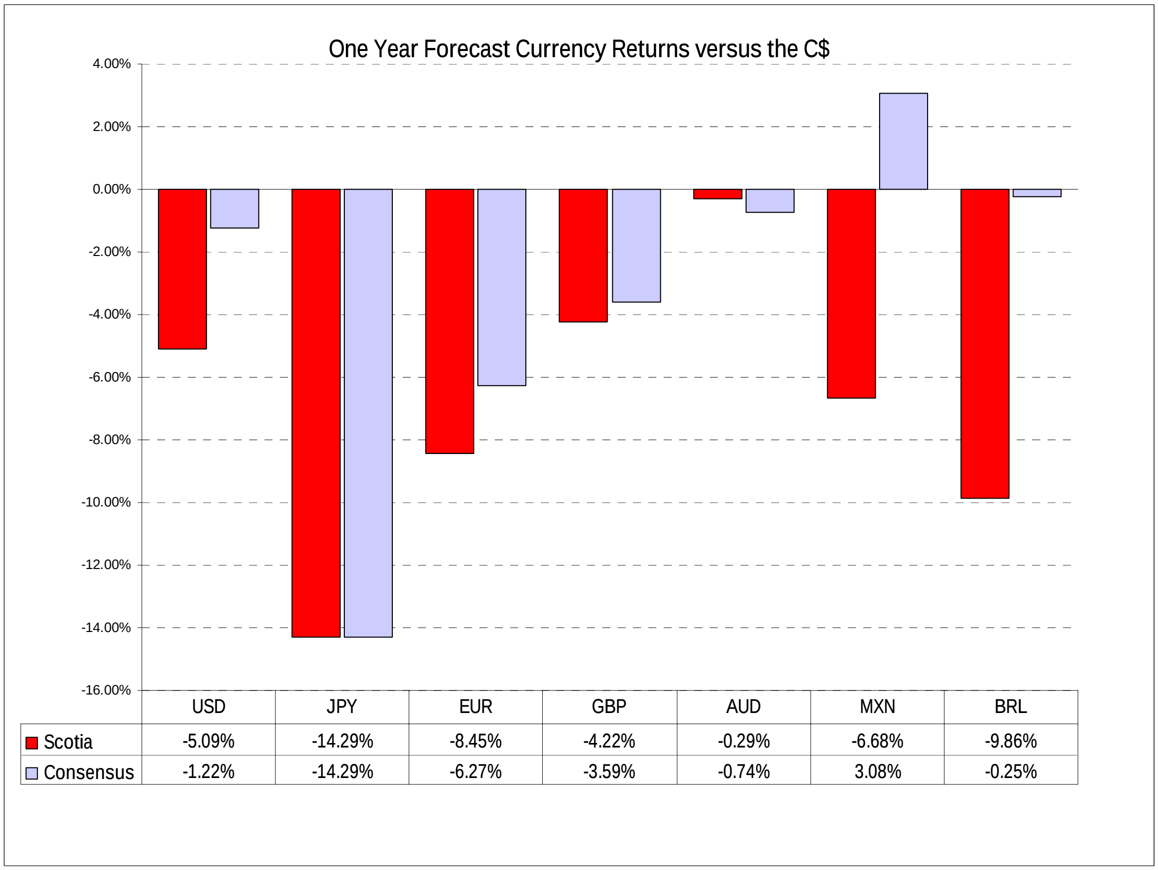

Source: Scotia Economics and Bloomberg

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 continue to recommend investors maintain an overweight position in high yield debt. Although the yield pick up on this asset class has narrowed, we see still see some room for further narrowing, and absolute yields of over 8.5% remain attractive.

b) Emerging Markets – Similar to our outlook for high yield and equities, we continue to see value in this sector versus both investment grade and high yield, based both on absolute yields in excess of 5.5%, and based on positive underlying fundamentals. Hence, we continue to recommend maintaining an overweight exposure.

c) Inflation Protected Bonds – with current real yields in the area of 1.53%, and the market pricing in an effective long term inflation rate of 2.54%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

Anthony Mentor – *Associate, Portfolio Advisory Group – Fixed Income*

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-S&P/TSX Composite Index

-Dow Jones Industrial Average

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-NASDAQ

- S&P 500 Index

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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.

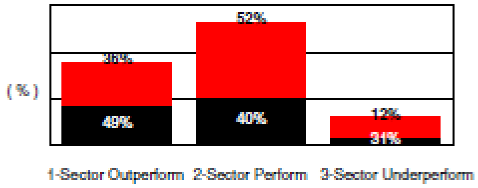
High
High financial and/or operational risk, low predictability of financial results, high stock volatility.

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*



* *As at June 30, 2010.*
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.

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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.
None.

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Canadian Equity Recommended List

Sector	Symbol	Rating	Risk	Date Added	Price Added	Price 19JUL10	Target Price	Target ROR	Div.	Div. Yield
Financials (S&P/TSX Weight 30.4%, Recommend Underweight)										
* Artis REIT	AX.UN	2-SP	High	19-Jun-07	$ 17.15	$ 11.38	$ 11.75	12.7%	$ 1.08	9.5%
* Brookfield Asset Management Inc.	BAM	n.a.	n.a.	13-May-08	U$35.24	U$ 24.01	N.A.	N.A.	U$0.52	2.2%
Bank of Montreal	BMO	1-SO	Low	11-Aug-09	$ 50.76	$ 61.46	$ 70.00	18.5%	$ 2.80	4.6%
Bank of Nova Scotia	BNS	n.a.	n.a.	25-Mar-09	$ 31.68	$ 51.00	N.A.	N.A.	$ 1.96	3.8%
* Great-West Lifeco Inc.	GWO	n.a.	n.a.	28-May-09	$ 23.41	$ 24.30	N.A.	N.A.	$ 1.23	5.1%
Manulife Financial Corporation	MFC	n.a.	n.a.	11-Oct-02	$ 16.95	$ 14.79	N.A.	N.A.	$ 0.52	3.5%
* National Bank	NA	2-SP	Low	24-Nov-09	$ 62.75	$ 57.19	$ 70.00	26.7%	$ 2.48	4.3%
* Power Corporation of Canada	POW	2-SP	Low	21-Nov-01	$ 18.11	$ 25.96	$ 33.00	31.6%	$ 1.16	4.5%
* Power Financial Corporation	PWF	2-SP	Low	15-Sep-99	$ 12.25	$ 27.83	$ 34.00	27.2%	$ 1.40	5.0%
* Royal Bank of Canada	RY	2-SP	Low	19-May-05	$ 38.10	$ 53.63	$ 68.00	30.5%	$ 2.00	3.7%
* Sun Life Financial Inc.	SLF	n.a.	n.a.	19-Jul-06	$ 44.15	$ 26.81	N.A.	N.A.	$ 1.44	5.4%
* Toronto-Dominion Bank	TD	1-SO	Low	1-Sep-09	$ 66.04	$ 71.49	$ 90.00	29.3%	$ 2.44	3.4%
Telecommunication Services (S&P/TSX Weight 4.6%, Recommend Market Weight)										
* Rogers	RCI.B	2-SP	Medium	3-Jan-05	N.A.	$ 36.92	$ 40.00	11.8%	$ 1.28	3.5%
TELUS Corporation	T	2-SP	Medium	6-Apr-06	$ 46.84	$ 41.69	$ 39.00	-1.7%	$ 2.00	4.8%
Utilities (S&P/TSX Weight 1.7%, Recommend Underweight)										
Consumer Discretionary (S&P/TSX Weight 4.7%, Recommend Market Weight)										
* Cogeco Cable Inc.	CCA	2-SP	Medium	5-Jul-07	$ 47.35	$ 34.67	$ 40.00	17.0%	$ 0.56	1.6%
Shaw Communications Inc.	SJR.B	2-SP	Medium	12-May-09	$ 19.30	$ 20.38	$ 22.00	12.3%	$ 0.88	4.3%
Thomson Reuters Corporation	TRI	1-SO	Low	1-Sep-09	$ 34.66	$ 38.85	$ 45.00	19.2%	U$1.22	3.3%
Consumer Staples (S&P/TSX Weight 2.7%, Recommend Market Weight)										
Shoppers Drug Mart Corporation	SC	1-SO	Low	8-Jul-05	$ 41.65	$ 36.38	$ 48.00	34.4%	$ 0.90	2.5%
Health Care (S&P/TSX Weight 0.5%, Recommend Underweight)										
Industrials (S&P/TSX Weight 5.8%, Recommend Overweight)										
CN Rail	CNR	n.a.	n.a.	22-Nov-04	$ 33.25	$ 62.56	N.A.	N.A.	$ 1.08	1.7%
Canadian Pacific Railway Limited	CP	n.a.	n.a.	23-Jun-08	$ 67.91	$ 59.30	N.A.	N.A.	$ 1.08	1.8%
* Finning International Inc.	FTT	n.a.	n.a.	12-Dec-05	$ 18.38	$ 18.93	N.A.	N.A.	$ 0.48	2.5%
SNC-Lavalin Group Inc.	SNC	2-SP	Medium	23-Jun-08	$ 59.73	$ 45.10	$ 53.00	19.0%	$ 0.68	1.5%
Toromont Industries Ltd.	TIH	n.a.	n.a.	14-Oct-09	$ 23.83	$ 24.75	N.A.	N.A.	$ 0.60	2.4%
Technology (S&P/TSX Weight 2.9%, Recommend Overweight)										
* Research In Motion Limited	RIM	1-SO	Medium	23-Jun-08	$ 145.50	$ 57.27	$ 117.00	104.3%	U$0.00	0.0%
Energy (S&P/TSX Weight 27.0%, Recommend Overweight)										
Cameco Corporation	CCO	2-SP	High	23-Jun-08	$ 39.64	$ 25.22	$ 31.00	24.0%	$ 0.28	1.1%
* Canadian Natural Resources Limited	CNQ	1-SO	High	18-Nov-08	$ 23.29	$ 36.50	$ 48.00	32.3%	$ 0.30	0.8%
* Crescent Point Energy Corp.	CPG	1-SO	High	2-Feb-10	$ 38.40	$ 37.39	$ 49.00	38.4%	$ 2.76	7.4%
Enbridge Inc.	ENB	1-SO	Low	6-Nov-01	$ 22.26	$ 51.48	$ 57.00	14.0%	$ 1.70	3.3%
* Husky Energy Inc.	HSE	2-SP	Medium	3-Dec-09	$ 27.45	$ 26.15	$ 30.00	19.3%	$ 1.20	4.6%
Inter Pipeline Fund	IPL.UN	1-SO	Medium	13-Feb-08	$ 9.36	$ 12.32	$ 11.75	2.7%	$ 0.90	7.3%
* Nexen Inc.	NXY	2-SP	High	5-Jul-07	$ 33.05	$ 21.33	$ 25.00	18.1%	$ 0.20	0.9%
* Pengrowth Energy Trust	PGF.UN	1-SO	High	14-Jul-10	$ 9.92	$ 9.84	$ 12.00	30.5%	$ 0.84	8.5%
* Suncor	SU	1-SO	Medium	11-Nov-08	$ 26.55	$ 32.55	$ 40.00	24.1%	$ 0.40	1.2%
Talisman Energy Inc.	TLM	1-SO	High	6-Apr-06	$ 21.88	$ 16.45	$ 22.00	35.3%	$ 0.25	1.5%
* TransCanada Corporation	TRP	1-SO	Low	5-Apr-06	$ 33.51	$ 36.27	$ 44.00	25.7%	$ 1.60	4.4%
Basic Materials (S&P/TSX Weight 19.6%, Recommend Market Weight)										
* Barrick Gold Corporation	ABX	1-SO	Medium	29-Mar-06	U$26.70	U$ 41.15	U$69.00	67.7%	U$0.00	0.0%
* Agrium Inc.	AGU	1-SO	High	--0	N.A.	$ 61.21	$ 80.00	30.7%	U$0.00	0.0%
IAMGOLD Corporation	IMG	1-SO	High	12-Jan-09	U$ 5.42	U$ 15.56	U$30.00	92.8%	U$0.00	0.0%
* Potash Corp	POT	1-SO	High	18-May-10	$ 104.76	$ 100.94	$ 138.00	37.2%	U$0.42	0.4%
Silver Wheaton Corp.	SLW	1-SO	High	12-Jan-09	U$ 5.56	U$ 17.96	U$28.00	55.9%	U$0.00	0.0%
Teck Resources Limited	TCK.B	1-SO	High	5-Jul-07	$ 46.71	$ 33.09	$ 52.00	58.4%	$ 0.40	1.2%
Thompson Creek	TCM	n.a.	n.a.	23-Jun-08	$ 20.39	$ 9.23	N.A.	N.A.	U$0.00	0.0%
* Yamana Gold Inc.	YRI	1-SO	High	3-Mar-10	U$11.14	U$ 9.28	U$16.25	75.1%	U$0.00	0.0%

** indicates that the Portfolio Advisory Group are buyers of these securities today.*

Comparative Canadian Bank Information

Bank	*Symbol*	*SC-Rec*	*Risk*	*1 Yr Target*
Bank of Montreal	*BMO*	*1-SO*	*Low*	*$65.00*
Bank of Nova Scotia	*BNS*	*2-SP*	*Low*	*$55.00*
CIBC	*CM*	*3-SU*	*Low*	*$75.00*
National Bank	*NA*	*2-SP*	*Low*	*$75.00*
Royal Bank	*RY*	*1-SO*	*Low*	*$75.00*
Toronto-Dominion Bank	*TD*	*2-SP*	*Low*	*$80.00*

Rating definitions:
1-SO = Sector Outperform
2-SP = Sector Perform
3-SU = Sector Underperform
T = Tender
UR = Under Review
R = Restricted

*<img src='http://smtorwww0001.tor.scotia-mcleod.com/retail/trading_research/home/bank.bmp' border=>

The supervisors of the Portfolio Advisory Group own securities of the followi*
Bank of Nova Scotia, Manulife Financial Corporation, TELUS Corporation

The author of the report owns securities of the following companies.
Barrick Gold Corporation, Bank of Nova Scotia, Cogeco Cable Inc., Canadian National Railway Company, Enbridge Inc., Great-West Lifeco Inc., Inter Pipeline Fund, Manulife Financial Corporation, Power Financial Corporation, Rogers Communications Inc., Royal Bank of Canada, Shoppers Drug Mart Corporation, Sun Life Financial Inc., TELUS Corporation, Toronto-Dominion Bank, Talisman Energy Inc.

The Bank of Nova Scotia is a Related Issuer of Scotia Capital Inc.
Bank of Nova Scotia

Scotia Waterous acted as exclusive financial advisor to Nexen Inc. on its sale of heavy oil properties in Western Canada to Northern Blizzard Resources Inc.
Nexen Inc.

Scotia Capital Inc acted as financial advisor to Silver Wheaton Corp. on its agreement to amend its silver purchase agreement relating to the San Dimas mine, in conjunction with Goldcorp Inc.'s proposed sale of the mine to Mala Noche Resources Corp.
Silver Wheaton Corp.

Kevin Choquette, a member of Kevin Choquette's household and/or an account related to Kevin Choquette own securities of this issuer.
Bank of Montreal, Bank of Nova Scotia, Power Corporation of Canada, Power Financial Corporation, Royal Bank of Canada, Toronto-Dominion Bank

Scotia Capital Restriction -- U.S. (American)
Bank of Nova Scotia, Thompson Creek Metals Company Inc.

Scotia Capital Restriction -- Canada
Thompson Creek Metals Company Inc.

The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.
Barrick Gold Corporation, Agrium Inc., Bank of Montreal, Bank of Nova Scotia, Canadian Natural Resources Limited, Canadian National Railway Company, Canadian Pacific Railway Limited, Crescent Point Energy Corp., Enbridge Inc., Finning International Inc., Great-West Lifeco Inc., Manulife Financial Corporation, Nexen Inc., Power Corporation of Canada, Power Financial Corporation, Rogers Communications Inc., Research In Motion Limited, Royal Bank of Canada, Shoppers Drug Mart Corporation, Sun Life Financial Inc., SNC-Lavalin Group Inc., Suncor Energy Inc., TELUS Corporation, Teck Resources Limited, Toronto-Dominion Bank, Toromont Industries Ltd., Talisman Energy Inc., Thomson Reuters Corporation, TransCanada Corporation

Thomas C. O Neill is a director of Nexen Inc. and is a director of the Bank of Nova Scotia.
Nexen Inc.

Vincent Delisle, a member of Vincent Delisle's household and/or an account related to Vincent Delisle own securities of this issuer.
National Bank

Scotia Capital USA Inc. or its affiliates has managed or co-managed a public offering in the past 12 months.
Barrick Gold Corporation, Artis REIT, Brookfield Asset Management Inc., Bank of Montreal, Bank of Nova Scotia, Cameco Corporation, Canadian Pacific Railway Limited, Crescent Point Energy Corp., Enbridge Inc., Great-West Lifeco Inc., IAMGOLD Corporation, Inter Pipeline Fund, Manulife Financial Corporation, Pengrowth Energy Trust, Power Financial Corporation, Royal Bank of Canada, Shaw Communications Inc., Sun Life Financial Inc., Silver Wheaton Corp., TELUS Corporation, Thompson Creek Metals Company Inc., Toronto-Dominion Bank, TransCanada Corporation

Scotia Capital USA Inc. or its affiliates has received compensation for investment banking services in the past 12 months.
Barrick Gold Corporation, Agrium Inc., Artis REIT, Brookfield Asset Management Inc., Bank of Montreal, Cogeco Cable Inc., Cameco Corporation, Canadian Pacific Railway Limited, Enbridge Inc., Husky Energy Inc., IAMGOLD Corporation, Inter Pipeline Fund, Manulife Financial Corporation, National Bank, Pengrowth Energy Trust, Power Corporation of Canada, Rogers Communications Inc., Shaw Communications Inc., Sun Life Financial Inc., Silver Wheaton Corp., SNC-Lavalin Group Inc., TELUS Corporation, Toronto-Dominion Bank, Talisman Energy Inc., Thomson Reuters Corporation, TransCanada Corporation

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

Yamana Gold Inc.

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, TELUS Corporation

Royal Bank of Canada

David Noseworthy, a member of David Noseworthy's household and/or an account related to David Noseworthy own securities of this issuer.
Inter Pipeline Fund

Scotia Capital USA Inc. had an investment banking services client relationship during the past 12 months.
Bank of Nova Scotia, Nexen Inc., Potash Corporation of Saskatchewan, Inc., Royal Bank of Canada, Thomson Reuters Corporation, Yamana Gold Inc.

This issuer paid a portion of the travel-related expenses incurred by the Fundamental Research Analyst/Associate to visit material operations of this issuer.
Barrick Gold Corporation, Cameco Corporation, IAMGOLD Corporation, Silver Wheaton Corp., Thompson Creek Metals Company Inc.

Scotia Capital Restriction
Bank of Nova Scotia, Thompson Creek Metals Company Inc.

Yamana Gold Inc.

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 this issuer.
Artis REIT, Brookfield Asset Management Inc., Bank of Montreal, Enbridge Inc., Finning International Inc., Great-West Lifeco Inc., Husky Energy Inc., Inter Pipeline Fund, Manulife Financial Corporation, National Bank, Power Corporation of Canada, Power Financial Corporation, Rogers Communications Inc., Royal Bank of Canada, Shaw Communications Inc., Sun Life Financial Inc., TELUS Corporation, Toronto-Dominion Bank, Thomson Reuters Corporation, TransCanada Corporation

The Fundamental Research Analyst/Associate has visited material operations of this issuer.
Barrick Gold Corporation, Artis REIT, Cogeco Cable Inc., IAMGOLD Corporation, Potash Corporation of Saskatchewan, Inc., Rogers Communications Inc., Research In Motion Limited, Shoppers Drug Mart Corporation, Shaw Communications Inc., Silver Wheaton Corp., TELUS Corporation, Thompson Creek Metals Company Inc., Thomson Reuters Corporation

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.
Barrick Gold Corporation, Agrium Inc., Artis REIT, Brookfield Asset Management Inc., Bank of Montreal, Bank of Nova Scotia, Cameco Corporation, Canadian Pacific Railway Limited, Crescent Point Energy Corp., Enbridge Inc., Great-West Lifeco Inc., Husky Energy Inc., Inter Pipeline Fund, Manulife Financial Corporation, Nexen Inc., Pengrowth Energy Trust, Potash Corporation of Saskatchewan, Inc., Power Financial Corporation, Rogers Communications Inc., Royal Bank of Canada, Shaw Communications Inc., Sun Life Financial Inc., Silver Wheaton Corp., TELUS Corporation, Thompson Creek Metals Company Inc., Toronto-Dominion Bank, Talisman Energy Inc., Thomson Reuters Corporation, TransCanada Corporation

Royal Bank of Canada

The Bank of Nova Scotia (the Bank) is the parent company of Scotia Capital Inc. (SCI). This Report includes comparative information regarding a substantial number of competitors of the Bank where such comparable information is known or ascertainable by SCI and in equal prominence to the information in respect of the Bank.
Bank of Nova Scotia

Scotia Capital is an affiliate of The Bank of Nova Scotia Trust Company (Scotiatrust). Under the estate arrangements of the late Kenneth R. Thomson, Scotiatrust is Trustee of the 2003 TIL Settlement (TIL Settlement), a trust of which members of the Thomson family are beneficiaries. The TIL Settlement holds holding company shares of The Woodbridge Company Limited (Woodbridge), who is the principal shareholder and controlling shareholder of Thomson Reuters Corporation. Under the estate arrangements, the directors and officers of Woodbridge are responsible for its business and operations. In certain limited circumstances, including a very substantial disposition of Thomson Reuters Corporation common shares by Woodbridge, Scotiatrust's approval may be required.
Thomson Reuters Corporation

Petro-Canada (International) Holdings B.V., a subsidiary of Suncor Energy, has engaged Scotia Waterous Inc. to assist with assessing the market for the sale of its Dutch subsidiary Petro-Canada Netherlands B.V. (Petro-Canada).
Suncor Energy Inc.

Scotia Waterous is acting as financial advisor to Talisman Energy Inc. on their sale of certain assets in Western Canada.
Talisman Energy Inc.

U.S. Equity Recommended List

ScotiaMcLeod

Sector	Symbol	Rating	Risk	Date Added	Price Added	Price 19JUL10	Target Price	Target ROR	Div.	Div. Yield
Financials (S&P 500 Weight 16.2%, Recommend Underweight)										
Bank Of America Corporation	BAC	Outperform	Medium	7-Jan-10	U$ 16.93	U$ 13.61	U$ 23.00	69.3%	U$0.04	0.3%
Citigroup Inc	C	Neutral	High	26-Mar-10	U$ 4.31	U$ 3.98	U$ 5.00	25.6%	U$0.00	0.0%
Metlife Inc	MET	Restricted	Low	21-Aug-07	U$ 63.86	U$ 37.42	N.A.	N.A.	U$0.74	2.0%
State Str Corp	STT	Outperform	Medium	02-Jun-09	U$ 47.00	U$ 37.35	U$ 52.00	39.3%	U$0.04	0.1%
Telecommunication Services (S&P 500 Weight 3.0%, Recommend Market Weight)										
At&t Inc	T	Neutral	Medium	12-Jun-06	U$ 26.66	U$ 24.88	U$ 27.00	15.3%	U$1.68	6.8%
Utilities (S&P 500 Weight 3.8%, Recommend Underweight)										
Southern Co	SO	Neutral	Low	18-Nov-08	U$ 35.00	U$ 35.42	U$ 34.00	0.9%	U$1.75	4.9%
Consumer Discretionary (S&P 500 Weight 10.1%, Recommend Market Weight)										
Mcdonalds Corp	MCD	Outperform	Low	28-Jul-09	U$ 56.47	U$ 69.91	U$ 79.00	16.1%	U$2.20	3.1%
Nike Inc	NKE	Outperform	Medium	05-Jul-07	U$ 59.35	U$ 68.61	U$ 85.00	25.5%	U$1.08	1.6%
Consumer Staples (S&P 500 Weight 11.5%, Recommend Market Weight)										
Colgate Palmolive Co	CL	Neutral	Low	12-Feb-08	U$ 76.72	U$ 83.11	U$ 87.00	7.2%	U$2.12	2.6%
Kellogg Co	K	Outperform	Low	2-Apr-08	U$ 53.08	U$ 51.31	U$ 63.00	25.7%	U$1.50	2.9%
Kraft Foods Inc	KFT	Outperform	Low	18-Nov-08	U$ 27.12	U$ 28.83	U$ 35.00	25.4%	U$1.16	4.0%
Mead Johnson Nutrition Co	MJN	Neutral	Low	7-Jan-10	U$ 45.96	U$ 53.60	U$ 54.00	2.2%	U$0.80	1.5%
Altria Group Inc	MO	Neutral	Low	17-Jan-08	U$ 23.69	U$ 21.38	U$ 21.00	4.8%	U$1.40	6.5%
Pepsico Inc	PEP	Outperform	Low	24-Aug-07	U$ 68.22	U$ 62.05	U$ 76.00	25.4%	U$1.80	2.9%
Procter & Gamble Co	PG	Outperform	Low	27-Jun-07	U$ 61.43	U$ 61.86	U$ 74.00	22.5%	U$1.76	2.8%
Wal Mart Stores Inc	WMT	Neutral	Low	10-May-05	U$ 48.72	U$ 49.52	U$ 58.00	19.3%	U$1.09	2.2%
Health Care (S&P 500 Weight 11.8%, Recommend Underweight)										
Health Mgmt Assoc Inc New	HMA	Outperform	Medium	26-Mar-10	U$ 8.68	U$ 7.13	U$ 11.00	54.3%	U$0.00	0.0%
Mckesson Corp	MCK	Outperform	Low	25-Feb-09	U$ 43.70	U$ 67.08	U$ 80.00	20.0%	U$0.48	0.7%
Pfizer Inc	PFE	Outperform	Low	02-Jun-09	U$ 14.98	U$ 14.73	U$ 21.00	47.5%	U$0.72	4.9%
Industrials (S&P 500 Weight 10.2%, Recommend Overweight)										
Fluor Corp New	FLR	Outperform	Medium	20-Oct-09	U$ 50.60	U$ 43.10	U$ 56.00	31.1%	U$0.50	1.2%
General Electric Co	GE	Outperform	Medium	8-Jan-10	U$ 16.60	U$ 14.62	U$ 23.00	60.1%	U$0.40	2.7%
Claymore Exchange Traded Fd	TAN	n.a.	n.a.	06-Jun-08	U$ 27.80	U$ 7.71	N.A.	N.A.	U$0.00	0.0%
Terex Corp New	TEX	Outperform	Medium	13-May-08	U$ 72.59	U$ 17.77	U$ 39.00	119.5%	U$0.00	0.0%
United Technologies Corp	UTX	Outperform	Low	11-Apr-07	U$ 64.08	U$ 66.39	U$ 93.00	42.6%	U$1.70	2.6%
Waste Mgmt Inc Del	WM	Neutral	Low	28-Oct-08	U$ 28.83	U$ 32.47	U$ 36.00	14.6%	U$1.21	3.7%
Technology (S&P 500 Weight 19.1%, Recommend Overweight)										
Apple Computer Inc	AAPL	Not Rated	High	9-Jan-07	U$ 92.57	U$245.58	U$320.00	30.3%	U$0.00	0.0%
Cisco Sys Inc	CSCO	Outperform	Medium	12-Dec-06	U$ 27.08	U$ 22.73	U$ 35.00	54.0%	U$0.00	0.0%
E M C Corp Mass	EMC	Not Rated	Medium	5-Nov-09	U$ 16.81	U$ 20.46	U$ 14.00	-31.6%	U$0.00	0.0%
Intel Corp	INTC	Outperform	Low	17-Nov-09	U$ 20.32	U$ 21.59	U$ 32.00	51.1%	U$0.63	2.9%
Ishares Tr	IYW	n.a.	n.a.	5-Jun-08	U$ 60.25	U$ 54.93	N.A.	N.A.	U$0.26	0.5%
Microsoft Corp	MSFT	Outperform	Low	21-Aug-07	U$ 28.07	U$ 25.23	U$ 40.00	60.6%	U$0.52	2.1%
Oracle Corp	ORCL	Outperform	Low	10-May-05	U$ 11.52	U$ 23.59	U$ 30.00	27.2%	U$0.00	0.0%
Energy (S&P 500 Weight 10.8%, Recommend Overweight)										
Peabody Energy Corp	BTU	Outperform	High	25-Apr-08	U$ 64.01	U$ 42.31	U$ 58.00	37.7%	U$0.28	0.7%
Marathon Oil Corp	MRO	Outperform	Medium	27-Apr-10	U$ 31.98	U$ 31.79	U$ 44.00	41.6%	U$1.00	3.1%
Occidental Pete Corp Del	OXY	Outperform	Medium	22-Jul-08	U$ 77.00	U$ 79.52	U$ 92.00	17.4%	U$1.32	1.7%
Transocean Ltd	RIG	Neutral	Medium	8-Jan-10	U$ 93.00	U$ 48.08	U$ 63.00	31.0%	U$0.00	0.0%
Valero Energy Corp New	VLO	Outperform	Medium	1-Oct-09	U$ 18.99	U$ 17.15	U$ 25.00	46.9%	U$0.20	1.2%
Exxon Mobil Corp	XOM	Neutral	Low	22-Jan-09	U$ 78.23	U$ 58.43	U$ 75.00	31.4%	U$1.76	3.0%
Basic Materials (S&P 500 Weight 3.5%, Recommend Market Weight)										
Freeport Mcmoran Copper&Gold	FCX	Outperform	Medium	14-Nov-07	U$104.00	U$ 60.86	U$ 95.00	57.1%	U$0.60	1.0%

The supervisors of the Portfolio Advisory Group own securities of the following companies.
General Electric Co, Pfizer Inc

The author of the report owns securities of the following companies.
Cisco Sys Inc, Intel Corp, Pfizer Inc

Scotia Capital USA Inc. had an investment banking services client relationship during the past 12 months.
Altria Group Inc

Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.
Altria Group Inc, Marathon Oil Corp,

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