

"The financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market."

George Soros

S&P/TSX Composite Index (\$TSX) INDX © StockCharts.com

30-Jun-2005 4:00pm O 10029.33 H 10034.63 L 9902.77 Last 9902.77 Chg -126.56



S&P 500 Large Cap Index (\$SPX) INDX © StockCharts.com

30-Jun-2005 4:00pm O 1199.93 H 1203.27 L 1190.51 Last 1191.33 V 2.08 Chg -8.52



MSCI EAFE Index (SEFV) INDX © StockCharts.com

30-Jun-2005 4:00pm Op 52.44 Hi 52.51 Lo 52.27 Last 52.39 Vol 0 Chg -0.01 (-0.02%)



WATSON DI PRIMIO STEEL

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Investment Perspectives

Welcome

Welcome to the first edition of our market letter *Investment Perspectives*. With this publication, our aim is to provide you with a synopsis of recent market events and how they may have affected the various components of your portfolio. Understanding what has occurred in the past gives us valuable insight into what may occur in the future. We will review the factors that have had the largest impact on equities, fixed income securities, interest rates, currencies, and commodities.

As an independent Investment Counsel and Portfolio Management (ICPM) firm, we have access to a wide range of investment research from firms such as TD Securities Inc., RBC Capital Markets, Scotia Capital, UBS Investment Bank, CIBC World Markets, and National Bank Financial. In addition we use independent research from a variety of sources, which enables us to develop our investment strategy for our clients.

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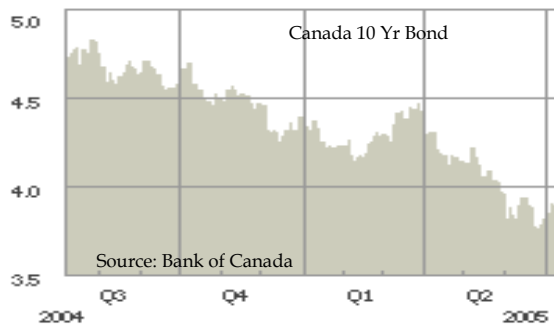
Equities:

The charts, on the left side of this page, show the performance of the TSE Composite (TSX), the S&P 500 and EAFE indices over the past year. The Canadian stock market has by far been the best performer compared to the United States and international (EAFE) indices. From the beginning of this year, the TSX is up 8.1% on a total return basis while the S&P 500 and EAFE both provided negative returns of -0.81% and -1.17% respectively when measured in U.S. dollar currency.

The largest factor affecting equities in 2005

has been energy prices. With the price of oil reaching highs of around \$60 per barrel, oil and gas stocks have risen sharply. As a result, the energy weighting in the TSX has risen from about 15% in March 2004 to almost 24% at the end of June 2005, causing greater volatility in the Canadian market.

As well, further declines in interest rates in Canada have provided support to equity valuations. Lower interest rates are correlated with higher valuations since bond yields have a major influence on the value of stocks.



Fixed Income and Interest Rates:

Since June of 2004, the Canadian bank rate has been raised modestly from 2.25% to 2.75%. Over the same period, the yield on the 10-year Canada bond, as illustrated in the chart to the left, fell from 4.8% to 3.8%.

The United States central bank has increased the Fed funds rate dramatically over this period from 1.25% to 3.25%. In con-

trast, the yield on the 10-year U.S. Treasury declined from 4.7% to 3.9%.

The experience of higher short-term interest rates combined with lower medium and long-term interest rates highlights the different possible economic outlooks that we face at this time.



Currencies:

The Canadian dollar (measured against the U.S. dollar) fell from a high of around \$0.85 in November 2004 to a low of \$0.79 in May 2005. At the end of June 2005, the Canadian dollar had recovered to above \$0.81 and seems to be exhibiting more stability in 2005.

The Euro currency has had troubles with the French and Dutch governments rejecting the European Union's constitution. Just last year, the Euro was touted as replacing the U.S. dollar as the world's reserve currency. During 2005, the European currency has been sold down to about \$1.22 from \$1.35, a decline of about 10% versus the U.S. dollar.



Commodities:

Over the past year, investors' focus has shifted from gold to oil. Like the Euro, there has been a great deal of speculation that gold could become the world's reserve currency. The recent resilience in the U.S. dollar has moved this argument to the back-

ground. Since June 2004, the price of a barrel of oil has risen from under \$40 to over \$60. This increase has been due in large part to continued fears of terrorism, supply disruptions and speculation regarding the supply of oil meeting global demand.



Contact Us:

Watson Di Primio Steel (WDS) Investment Management Ltd.

Carling Executive Park, 1545 Carling Avenue, Suite 100, Ottawa, Ontario, K1Z 8P9

Tel: 613-725-1800 • Fax: 613-725-1900 • Toll Free: 866-581-1800

E-mail: info@wdsinvest.com • Web Site: www.wdsinvest.com

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