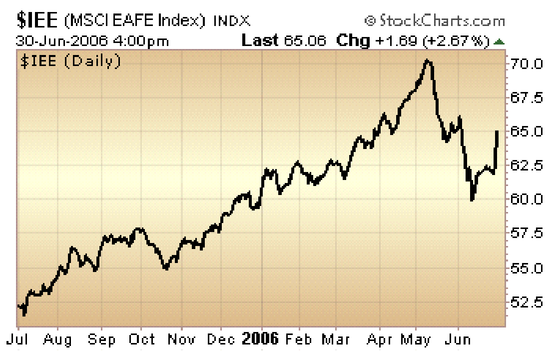
"There are two times in a man's life when he should not speculate - when he can't afford it and when he can."
- Mark Twain



WATSON DI PRIMIO STEEL
Investment Management
Knowledge Discipline Integrity

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Investment Perspectives

Inflation Concerns Rising

In 2003, deflation was a global economic concern. As a result, the U.S. Federal Reserve and to a lesser extent other central banks around the world pushed short interest rates to historic lows. This coordinated policy of monetary easing was successful in stimulating economic growth and avoiding a potentially harmful deflationary period.

Today the primary concern is too much economic growth, which is leading to higher commodity prices and could lead to higher inflation. This latest worry has prompted central banks around the world to orchestrate a global tightening campaign. As a consequence, both the Bank of Canada and the U.S. Federal Reserve have raised interest rates over the last three years, causing the yield curve to become very flat (meaning short interest rates at or near levels of long rates). The question that the central banks are attempting to assess is whether these new higher levels of short interest rates are sufficient to control inflation or whether further rate increases will be necessary.

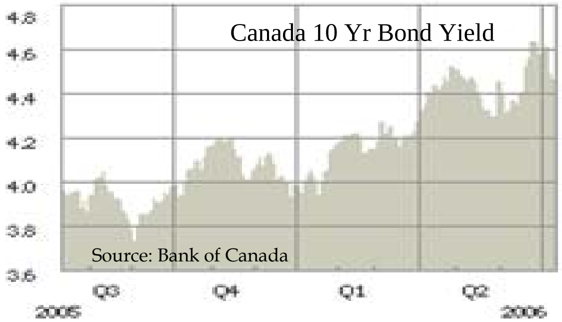
Although we believe that it is important to continually understand the investment environment, WDS uses a disciplined value-oriented style of investment management in its decision making process. This means focusing on undervalued securities or buying inexpensive and growing cash flows. In the long term, this methodology of avoiding short-term predictions has shown to yield superior results and helps to ensure that we protect our clients' assets. ***Thank you for your business and continued support.***

Equities:

The charts, on the left side of this page, show the 12-month performance of the S&P/TSX Composite (TSX), the S&P 500 and EAFE indices. For the first six months of this year, the TSX was up 4.2% while the S&P 500 fell 1.8% and the EAFE rose 5.7%, measured in Canadian dollar terms.

Most markets were performing well until the end of April, when apprehensions about how the U.S. Federal Reserve, under a new chairman, would handle the issues of slowing growth and rising inflation. These concerns caused almost a two month drop in global equity markets and commodity prices, as market liquidity declined and investors worldwide became more risk averse. Uncertainty, especially about rising global interest rates, caused world financial markets to be fairly volatile in both May and June.

Income trusts lagged the performance of the TSX over the past six months, in part due to the continued effects of uncertainty regarding past government policy. Rising long-term interest rates and a flight to higher quality trusts also acted as a strong headwind for this sector.



Fixed Income and Interest Rates:

Since December 2005, the Canadian bank rate rose from 3.50% to 4.50%. Similarly, the U.S. Fed funds rate increased from 4.25% to 5.25% over the same time period. The yield on the 10-year Canada bond, as illustrated in the chart to the left, changed a lesser amount from 3.74% to 4.60%. In the United States, the yield on the 10-year U.S. Treasury moved up the least from 4.40% to 5.14%. In Canada, we continue to observe a positive, albeit flat, yield curve. The situation is similar in the U.S. with their yield curve remaining very flat. It is interesting to note however, that the U.S. yield curve did invert briefly in February this year when 91-day t-bills reached 4.62% and the 10-year bond was at 4.54%. Inverted yield curves, when present over extended periods of time, generally indicate a coming economic slowdown.

Currencies:

In 2006, the Canadian dollar has remained strong against the U.S. dollar and continues to dampen returns from international investments. It has appreciated from $0.86 at the beginning of the year to just under $0.90 at the end of June 2006, which is an increase of about 4.5%. The Canadian dollar continues to be sensitive to movements in commodity prices and a large portion of this appreciation occurred in the last quarter when the price of all commodities rose dramatically. The Euro continued to gain strength against the U.S. dollar, rising 5.6% over the past 6 months. When measured against the Canadian dollar, the Euro rose 3.2% over the same time period.

Commodities:

Higher commodity prices continued to be the main theme over the past six months. Copper, nickel, and zinc prices were up almost 40% on average this year due to limited supply and strong demand, primarily from China. Oil has climbed 16% from $64 per barrel to almost $74. Many analysts cite political instability in the Middle East as reasons for this strength. Also noteworthy, gold rose $100 an ounce from $513 in December 2005 to $613 at the end of June 2006, and reached a high of $725 in May 2006. The decline in gold since May has been attributed to hawkish statements out of the U.S. Federal Reserve, where concern is rising about inflationary pressures.

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