

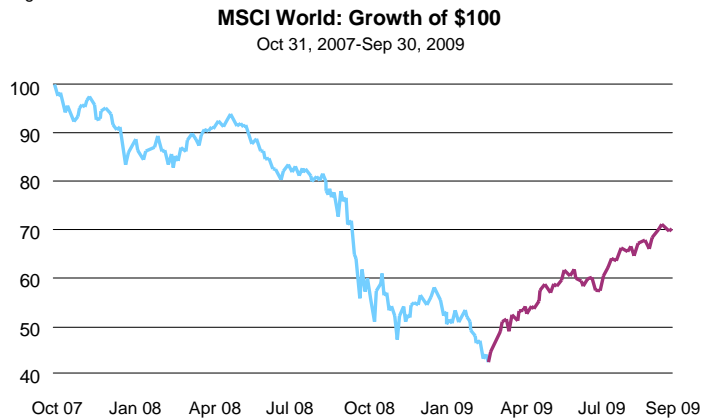
## MARKET COMMENTARY

As investors, we are all breathing a sigh of relief as equity markets around the world are up substantially from the lows of early March (Fig. 1). With very low interest rates and massive amounts of government spending, investors have felt more confident and have gone back into the market. Firmer global activity, especially in Asia, has helped support a recovery in commodity prices and a rosier outlook for the Canadian and global economies.

The strength in equity markets is a result of investors anticipating a V shaped recovery as illustrated in the dramatic rebound in leading economic indicators (Fig. 2).

Although coming from very depressed levels, the lowest we have seen in the last 50 years, the turnaround has been impressive. The US housing market seems to be bottoming and consumer spending is coming back, encouraged by various government incentives and lending facilities. The Interbank lending rate is back to normal and credit among financial institutions is flowing again (Fig. 3).

Fig. 1



Source: FactSet, MSCI and AllianceBernstein

Fig. 2

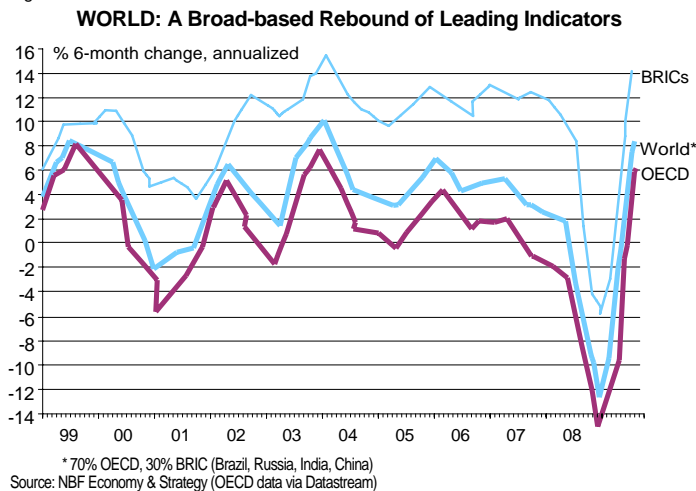
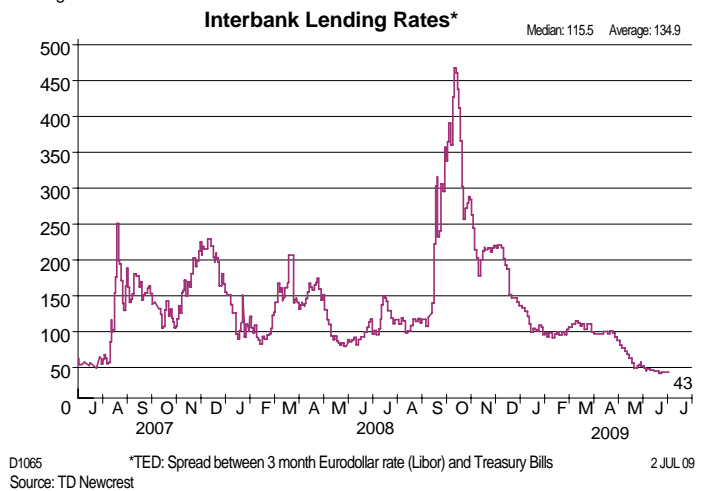
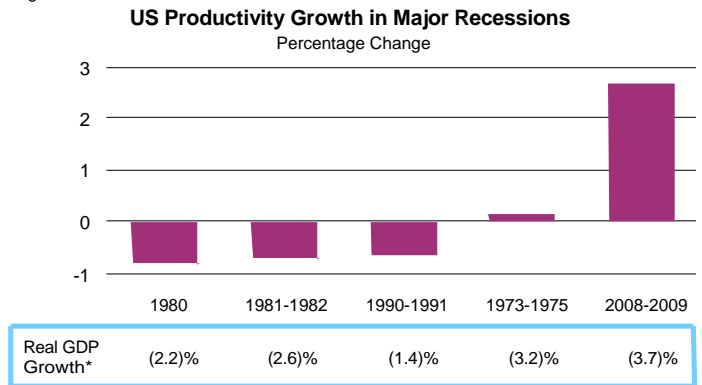


Fig. 3



The market rebound has been supported by an improvement in corporate earnings that have exceeded expectations. Businesses have made remarkably strong productivity gains in the first half of 2009 largely due to trimming payrolls (Fig. 4). Investment accounts are sitting on a mountain of cash and short term rates are at historical low levels. Confidence in the banking system has improved with a steep yield curve allowing the banks to recapitalize their balance sheets. Most economies are operating below capacity and there is no wage inflation pressure. Although global economic activity remains well below pre-recession levels, we are witnessing a synchronized recovery with several countries, in Asia in particular, recording positive economic growth. This recovery is beneficial to resource-oriented countries such as Canada.

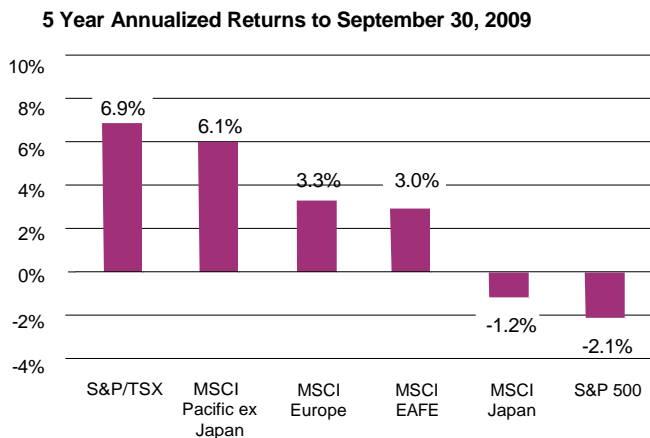
Fig. 4



As of September 30, 2009  
 Deepest recessions since 1970  
 \*Peak to trough  
 Source: Haver Analytics, US Bureau of Economic Analysis, US Bureau of Labor Statistics and AllianceBernstein

The Canadian Equity market has been one of the most dynamic equity markets over the past 5 years due to the global demand for resources which benefited the Energy and Materials sectors (Fig. 5). In addition, our Banks were more conservatively run and had limited exposure to the housing and mortgage problems that devastated many U.S. and European Financials over the past 12 months.

Fig. 5



Source: Morningstar

Since the recent market advance has eliminated much of the undervaluation of equities that occurred during the downturn in 2008-2009, the next move will have to be earnings driven and will depend on a continuing improvement in the global economy.

Market rebounds from past crises have historically continued for 12 to 18 months and have recovered approximately 85% of the losses incurred in the downturn. As we are in the ninth month of recovery and have already experienced a significant rally we would expect that gains from here will be more modest especially given the risks and challenges that persist.

## Put Tax-Free Savings To Work For You

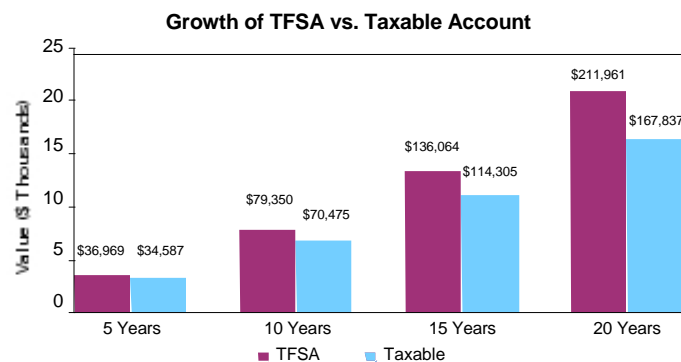
All Canadians strive to build savings for different reasons, whether it be for long term or short term goals. But no matter what you are saving for, there is now a new way to help you achieve your goals by opening a Tax-Free Savings Account (TFSA) with Sceptre. This new registered account provides you with the opportunity to save, while earning investment income and capital gains tax-free. You also have the flexibility to access these funds at any time without any tax implications.

### TFSA Benefits

- Contribute up to a maximum of \$5,000 per year with unused room carried forward to future years. The \$5,000 maximum contribution is in addition to your RSP contribution limit, and will be indexed to inflation in annual increments of \$500. All of the Sceptre Funds are eligible to be held in your TFSA.
- TFSA contributions are not tax deductible; however, any investment income, capital gains or dividend income earned in a TFSA is not subject to tax.
- A spouse can provide assets to establish the other spouse's TFSA without triggering attribution rules. In addition, assets within a TFSA can be transferred to a spouse upon death on a tax-free basis.
- You can withdraw money from your TFSA at any time, for any reason, without being taxed. The amount withdrawn can then be added to next year's contribution room.

### Let your Savings add up faster the Tax-Free way

This chart shows how a \$5,000 contribution made



Assumption: A tax rate of 32% was applied to the income earned outside of the TFSA. Contributions were made at the beginning of the period. For illustration only and not indicative of actual returns, actual tax rates and rates of return will vary.

annually and earning a 6% return per year would grow both inside and outside a TFSA.

Take advantage of these benefits by opening a new Tax-Free Savings Account with Sceptre. To find out how, please contact us at 1-800-265-1888 or visit our website at [www.sceptre.ca](http://www.sceptre.ca).

## Portfolio Asset Allocation, Helping Achieve Your Financial Goals

Reaching your financial goals in today's volatile markets can be a daunting task. Even the most experienced investors may struggle. We can help. Sceptre's asset allocation service provides various options to suit your investment goals. Together we will determine your risk tolerance and choose the asset mix that's right for you. There is no cost to you for this value added service.

Our client account managers will work with you to build a diversified portfolio. Once established, our professionals will meet with you regularly to review your holdings and discuss any adjustments as necessary.

To learn more about our no cost asset allocation services, please contact one of our account managers at 1-800-265-1888. We can help.

### Meet Our Team

With an average of 17 years of experience in Mutual Funds, Sceptre's service team can assist you with your financial needs.



**Left - Right:** Caesar Iacovelli, *Assistant Vice-President, Mutual Funds*; Leslie Sinclair, *Mutual Fund Administrator*; Geoff Ward, *Mutual Fund Client Account Manager*.

## Finding Those Hidden Gems!

Canadian and global stock markets have performed strongly since the lows of early March. Given this large rebound, many investors are questioning their holdings in small and mid cap companies. They are considering whether they should sit on the sidelines for a while in the event that the markets undergo another correction.

The temptation to take this approach and to exit from this segment of the market is very strong. However, those investors who maintain proper diversification in their portfolio have historically been rewarded with higher returns. Sceptre believes very strongly that all Canadian investors should hold some small to mid sized companies in their portfolio.

There are many reasons to include small caps within your investment portfolio. Investors who disregard smaller companies can often miss the best opportunities. Small-cap stocks are the “silent majority” of the stock market. Small and mid cap stocks account for nearly two-thirds of all listed stocks on the TSX, yet they amount to less than 12% of the market’s total valuation. In other words, the vast majority of investors’ money and attention flows into the household names of the stock market, while small cap stocks are generally less closely followed by analysts than these large cap stocks. This presents a window of opportunity for investors who seek out “hidden gems” among the thousands of small companies out there. The sheer number of companies suggests opportunity for diligent researchers. The fact that small cap stocks are more difficult to research because of the lack of information also provides an opportunity as they are frequently undervalued. We can help! Sceptre’s team of small cap managers has extensive experience in finding these opportunities.

Smaller companies can have the ability to sustain higher growth rates for a longer period of time. The difficult part of investing in small caps is that they may underperform for a period of time but when they rebound, they can do so very quickly. Historically, the best time to invest in small caps is when the economy is starting to recover after a recession, when interest rates are low and commodity prices are increasing. With the recent rise in the markets over the past seven months, small cap valuations are not as inexpensive as they were but valuations are still attractive.

We are not suggesting that you invest a large percentage of your savings in small cap stocks and ignore everything else. Diversification remains the best long-term strategy. However, a moderate bias towards the small cap area can allow you to benefit from their long-term potential.

### PERFORMANCE RETURNS FOR THE PERIOD ENDING October 31, 2009

	6 mth	YTD	1 yr	3 yrs	5 yrs	10 yrs	Since Inception*
<b>SCEPTRE EQUITY GROWTH FUND</b>	31.0%	42.5%	34.2%	-7.0%	8.1%	13.1%	11.9%

The indicated rates of return are the historical annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any securityholder that would have reduced returns. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Please read the prospectus before investing.

\*Date of inception: November 20, 1986



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