



March 31, 2010

EQUITY GROWTH CONTINUES

At Brownstone we love a pleasant surprise when it comes to the stock market. The surprise this quarter was the absence of a market correction, which we postulated may occur as the market enjoyed a rather robust and steady climb from the lows of 2009. Despite this cautionary outlook, the Canadian equity market secured another solid quarter of growth.

Much of the positive load was carried by the major Canadian banks, which produced outstanding quarterly results. In addition, other financial firms such as the alternative lenders, insurers, asset managers and brokerages supported a return of 8% for the S&P/TSX Financial Index, and 3.1% for the S&P/TSX Broad Index in general. Brownstone's investments in financial holdings well exceeded this mark with a return of 23% in the small cap financial stock holdings, and 12% in the large cap financial stock holdings.

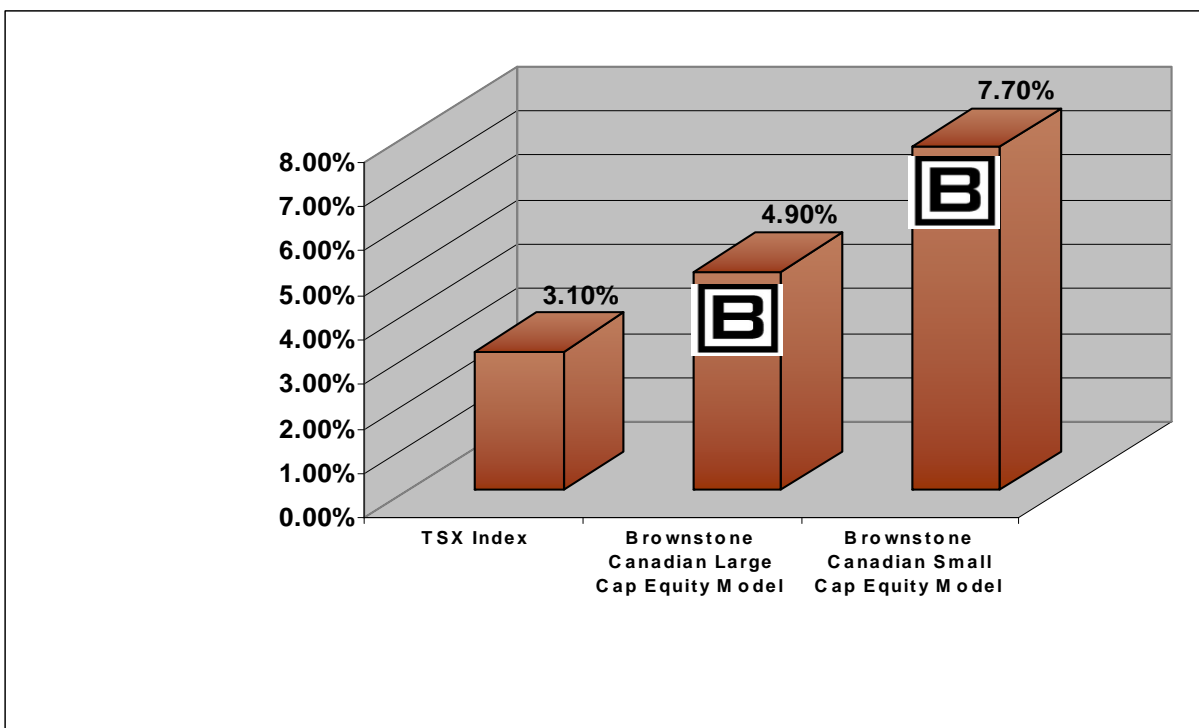
Once again this quarter, Brownstone beat index benchmarks through active stock selection and opportunistic trading strategies, returning approximately double the TSX index (see attached).

The outlook for growth worldwide remains optimistic given massive stimulus programs, low cost of capital, and improved consumer confidence. Certain industries and sectors will recover from the recession at different rates of speed. Manufacturing, automotive and commercial real estate have a long run to go, while the financial and commodities sectors have improved off the lows and provided handsome returns to investors. Stock selections at Brownstone take into account our understanding and forecast of "leaders out of the gate".

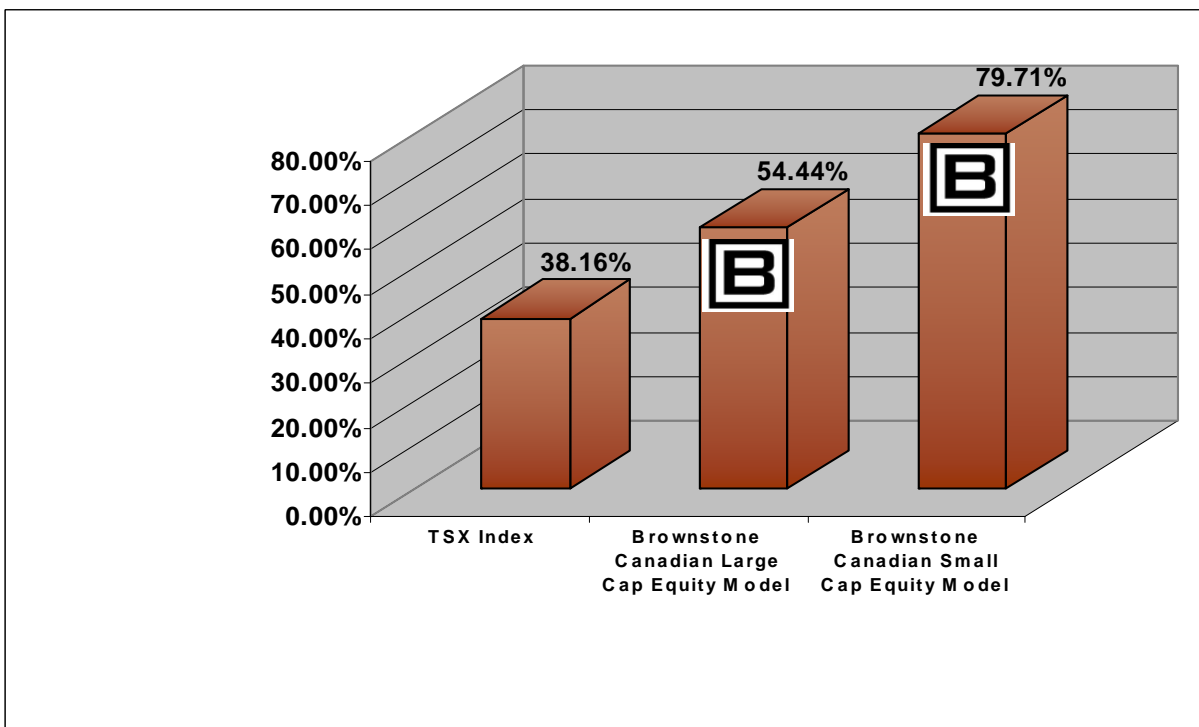
While the world's largest economy has shown some signs of life, U.S. households remain dramatically overleveraged. A meaningful reconciliation of the household balance sheet is still far off, and accordingly, we expect the U.S. equity market to post moderate returns for a prolonged period of time. Real recovery in the U.S. economy will not happen, as in the past, as a result of debt spending. The Government and the consumer are essentially tapped out.

The Canadian economy is faring much better than our U.S counterpart and may indeed be a lead economy for equity returns over the next five years. Our dollar is reflecting some of this reality, in addition to a return to the global currency categorization as a "petro-dollar". Many attractive long term investments are available in Canada and at Brownstone we research where the best risk adjusted returns can be found and decide on the optimal amount of risk capital to be deployed in each instance. We are in a stock pickers market – a market we excel in.

Three Months Ended March 31, 2010



15 Month Total Return Ended March 31, 2010



Bob Thompson • Mario Vachon • Jaime Morin • Ryan Clennett • Renell Leggett

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