



THE CANADIAN EQUITY SWEET SPOT

Despite significant adversity around the globe that included rising social unrest in the Middle East, devastation in Japan, and a continued European sovereign debt crisis, the equity markets demonstrated resilience over the first quarter of 2011. Fears of a global oil-supply shock led to a 15% rise in the price of crude oil to well above \$100 per barrel. While this is beneficial to Alberta in general and the price of energy stocks, it does not bode particularly well for global economic recovery and growth.

The Canadian equity market continues to be in a "sweet spot". The graph depicted below reflects the currency adjusted out-performance of the Canadian equity market versus its U.S. counterpart over the past nine months. A combination of our profitable and sound banking system and the abundance of domestic energy and mining companies all contributed to solid portfolio growth this quarter. The Canadian equity market is always susceptible to fluctuations in the price of many of the base commodities, however at Brownstone we structure portfolio holdings in a manner that addresses this risk element.

The Japanese crisis underscores how unpredictable and rapidly world events occur, which impact the outlook for equity markets. The Japanese market suffered declines of nearly 20% in the week following the quake, but recouped more than two-thirds by month's end. Market anxiety was prevalent, with energy stocks showing strength, and companies with any nuclear affiliation (utilities) suffering declines. Concerns over the availability of timber to rebuild Japan put wind in the sails of forestry companies.

Despite a number of worrisome headlines from around the world, economic conditions remained on a generally strong footing with many pro-cyclical attributes. Economic strength was visible in the U.S., although questions remain over their massive debt position, as well as the more fiscally strong European countries. Earnings reports continue to be positive, and underscore the notion that economic growth is on a path of sustainability. This should support continued equity market growth over 2011.

