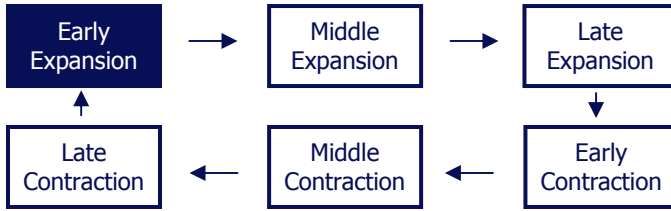


CURRENT ECONOMIC CYCLE



ECONOMIC NEWS

- Leading economic indicators continue to show improvement.
- The consumer continues to increase savings and pay down debt, leaving government spending as the primary source of economic stimulus.
- Unemployment data has provided some signs of encouragement as weekly new jobless claims have declined, but the percentage of those employed relative to our population is at historic lows.

CURRENT ASSET CLASS ALLOCATIONS

Cash & Equivalents	<i>Underweight</i>
Fixed Income	<i>Reducing to Target</i>
Equities	<i>Moving to Over Weight</i>

MARKET TRENDS

- Our expectation for higher than projected earnings has proven true, providing the support for higher stock prices.
- With the sharp move off of the March lows, stock valuations are above normal, which may put pressure on the next market up-trend until the anticipated earnings improvements are seen.
- Foreign central banks have begun raising interest rates in order to slow economic growth to more sustainable levels.

United States: Employment-to-Population ratio (percent)



Source: Haver Analytics, Gluskin Sheff

Since we were last at peak employment, not only has the loss of jobs been dramatic, but new job creation is lagging the post World War II recessions. Even though we have seen some improvement, unemployment will remain an issue for some time.

S&P 500 Index: Trailing P/E Ratio



The run up in stock prices has outpaced actual corporate earnings, showing that improving profit expectations is being priced into the market. As a result, there is the possibility of a period where stock prices could trade in a narrow range until economic improvements translate into a growth in sales.

CURRENT THOUGHTS

Even though the economy shows signs of continued improvement, it is important to note that the traditional linchpin of sustainable growth, the consumer, remains on the sideline. The willingness to spend is often more dependent on psychological factors than actual financial conditions. Fortunately, perceptions can change quickly and higher cash reserves and lower debt levels can provide the springboard for purchases that have been deferred due to a rapidly changing financial picture. If that occurs, the source of higher earnings could shift from cost cutting to actual sales growth. A record flow of investment into bond instruments is an indicator that a level of concern remains about the sharp rise in stock prices last year. The possibility of rising interest rates on U.S. government debt makes corporate bonds more attractive at present. Even though the Emerging Markets have retreated early this year, the longer-term growth prospects remain in these areas due to stimulus that comes from cash reserves...not debt.

The purpose of update is to share some of our current views and research. Although we make every effort to be accurate in our content, data are derived from other sources. While we believe these sources to be reliable, we cannot guarantee their validity.