Tradex QUARTERLY

Yield on Tradex Investment Savings Account 1.75%

Third quarter 2011

President's Report to Tradex Investors

Continuing political concerns in Europe and the U.S. raised the spectre of sovereign debt defaults and increased fears that global economic growth may reverse, resulting in the weakest quarter for equity markets since the last quarter of the 2008 bear market. The S&P/TSX Composite Index decreased by 12.6% for the quarter bringing the 9 month decline to 13.5% in 2011. In the U.S. the S&P 500 Index decreased by 14.3% in the quarter for a year to date decline of 10.0%. However, the decrease in terms of Canadian dollars has been less since the Canadian currency decreased from 100.54 cents U.S. at the start of the year to 95.40 cents at the end of the third quarter, a decrease of 5.1%. In contrast, the earnings reported for the S&P 500 companies surpassed the previous record set in 2006 while the US economic growth rate for the second quarter was adjusted 30% upward and the Canadian economy reversed a quarter of declines with positive GDP expansion in June and July.

In this environment of uncertainty, the Bank of Canada maintained its overnight interest rate target at 1 per cent and the U.S. Federal Reserve held its policy interest rate at 0 to 0.25% . The Federal Reserve also indicated the rate will remain at this level until mid 2013. In addition, it began a program of selling short term Government bonds in order to buy long term bonds ("operation twist") with the aim of lowering long term interest rates. Yields on Government of Canada bonds fell to new historic lows in mid September while moving 70-95 basis points lower over the quarter. Looking ahead, it is now anticipated that the Bank of Canada will not return to raising its policy rate until mid 2012 at earliest.

We wish to recognize and commend our members who again in late 2008 and early 2009 increased net purchases to take advantage of the opportunity that had arisen in equity markets. While this has also been a discouraging quarter for equity investors, it's important to put the recent movements in perspective. Even with the recent retraction, from the market bottom of March 9, 2009 to the end of September, Tradex Equity Fund Limited and Tradex Global Equity Fund have both returned over 52% to investors. These occasional market opportunities provide the classic example espoused by Warren Buffet to "be fearful when others are greedy and greedy only when others are fearful". While it is impossible to know with certainty the near term direction of markets, with stock index dividend yields surpassing 10 year government bond yields it has historically indicated a very good opportunity for equity investing.

Comparing Canada Savings Bonds and the Tradex Investment Savings Account

On October 3 the Department of Finance announced that the new Series of Canada Savings Bonds will yield 0.50% for the first year. In contrast, the Tradex Investment Savings Account, which is eligible for CDIC Insurance up to $100,000 per account, is currently yielding 1.75% per annum (the rate is subject to change without notice). The deposits are held in trust at Manulife Bank of Canada, a wholly owned subsidiary of Manulife Financial, one of Canada's largest financial institutions. Electronic transfers between your established bank account and this account are available, subject to a maximum 2-business day notice. Furthermore, you earn full interest on every dollar you hold in a Tradex Investment Savings Account for each day the money is in the account. With its 1.75% yield and CDIC protection, it's a great place for investors to "park" funds awaiting further opportunities.

To win with our "TWO GOOD DEEDS" Member incentive you must participate

Don't forget to take advantage of our client referral incentive raffle for a trip for two to Vancouver in recognition of the 20th anniversary of PH&N as portfolio manager. For each new client a Tradex Member refers to us, the existing Member will receive a ballot for a free trip for two to visit PH&N's offices in Vancouver B.C. In addition, we will make a $20 donation to the United Way on their behalf. Each new Member will receive an initial $20 bonus deposit into their new Tradex account. Please encourage family members, fellow employees and friends to join Tradex so they too can profit from being a Member of this unique organization.

Blair Cooper
October 7, 2011

Tradex Equity Fund Limited – Quarterly Review – September 30, 2011

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited	-13.9	-17.9	-5.6	0.1	-3.1	2.5	9.2
S&P/TSX Total Return Index (TRI)**	-12.0	-16.6	-3.6	2.7	2.6	8.0	—
75% S&P/TSX TRI and 25% U.S. S&P 500 Index ($CDN)**	-10.8	-14.4	-2.2	2.1	1.3	5.6	—
Average Canadian Focused Equity Fund**	-13.8	-17.4	-6.5	-0.7	-1.7	4.1	—

*April 1960 **Source: Globe Information Services

During the third quarter an investment in Tradex Equity Fund Limited decreased in value by 13.9% while it has decreased by 5.0% over the past year.

The slide in global equity markets that began in the second quarter continued into the third. As the temporary factors slowing the U.S. economy in the second quarter began to pass, confidence was dealt another blow as the U.S. struggled to raise its debt ceiling, highlighting the difficulty that polarized decision makers have in enacting policy, and resulting in a downgrade of the U.S.' credit rating by one of the major rating agencies. In Europe, a solution to the debt crisis of struggling peripheral nations continued to elude leaders, again making policy makers appear ineffectual.

Against this backdrop, the TSX declined 12.6% during the quarter and is now down 13.5% year-to-date. Within the Canadian equity market, it was a classic "risk off" episode this quarter, with stock returns lining up along the lines of perceived economic sensitivity. Stocks offering yield, such as REITs, telecommunications companies and utilities, were the clear outperformers as investors seeking income were forced to look outside of the bond market. But those sectors were the exception. Although the Canadian banks reported solid financial results for the quarter, and handily outperformed their global counterparts, they still declined and under-performed the market. Also hard hit were energy producers, as the price of oil moved lower, although it remained at healthy levels. Base metal producers were also hit hard by declining commodity prices. After disappointing their shareholders over the previous two quarters, gold and precious metal stocks outperformed the market, though interestingly delivered much smaller returns than the price of gold itself.

The performance of the U.S. market was similar to that of the Canadian market during the quarter, with the S&P 500 Index decreasing 14.3%. However, during the period the Canadian dollar declined from 103.68 cents U.S. to 95.40 cents, a decrease of 8%. Thus, in terms of Canadian dollars, the U.S. market handily out-performed the Canadian market, which, in relative terms, was of benefit to the Fund.

As at September 30, 2011 the Fund's 12 largest holdings were as follows:

TD Bank	4.4%	Potash Corp of Sask.	2.3%
Royal Bank of Canada	3.9%	Canadian Natural Resources	2.2%
Bank of Nova Scotia	3.6%	Canadian National Railway	1.9%
Barrick Gold Corp	2.8%	TransCanada Corporation	1.8%
Suncor Energy	2.6%	CIBC	1.8%
Goldcorp	2.4%	Cenovus Energy Inc.	1.8%

At the end of the third quarter, 75% of the total portfolio value was in Canadian equities, with 23% in U.S. equities and the remaining 2% in cash. There were 86 positions in the Canadian portion of the portfolio and 42 positions in the U.S. portion. During the period portfolio manager Phillips, Hager & North (PH&N) remained moderately active adding new names including CI Financial and Finning International while eliminating and trimming some of existing holdings, primarily small-cap companies in the mining sector.

Tradex Bond Fund – Quarterly Review – September 30, 2011

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Bond Fund	2.4	4.8	2.8	5.8	4.3	4.8	6.5
DEX Universe Bond Total Return Index**	5.1	7.4	6.7	8.1	6.1	6.5	—
Average Canadian Bond Fund**	3.5	5.4	4.3	6.6	4.4	4.8	—

*September 1989 **Source: Globe Information Services

An inability on the part of policy makers and politicians in Europe and the U.S. to address problems facing the global economy led to a decline in government bond yields to new all time lows as investors shifted out of riskier asset classes. The Bank of Canada maintained its overnight interest rate target at 1 per cent and the U.S. Federal Reserve held its policy interest rate at 0 to 0.25%. The Federal Reserve also indicated the rate will remain at this level until mid 2013 and began "operation twist" to lower long term interest rates. Looking ahead, it is now anticipated that the Bank of Canada will not return to raising its policy rate until mid 2012 at earliest. The new portfolio is positioned to protect against the eventual increase in rates from historic lows with a current yield significantly above the Government of Canada bond yields as seen in the table that follows:

Term to Maturity	Yield Dec. 31, 2010	Yield June 30, 2011	Yield Sept. 9*/22**	Yield Sept. 30, 2011
2 years	1.73%	1.59%	0.78%	0.88%
3 years	2.03%	1.89%	0.95%	1.02%
5 years	2.90%	2.33%	1.28%	1.39%
10 years	3.56%	3.11%	2.02%	2.15%
30 years	4.07%	3.55%	2.68%	2.77%

Source: Bank of Canada. Mid-market yields on benchmark issues.
Date each yield reached historical low level noted by asterisks (* or **)

Tradex Bond Portfolio Yield as at September 30th:

	Government Bonds	*Corporate Bonds*	*Preferred Shares*	*Common shares, Trusts, REITs*	*TOTAL*
*Yield**	*2.1%*	*4.0%*	*5.0%*	*6.6%*	*3.9%*

*The gross estimated annual yield for one year is calculated before fees and taxes

During the period, portfolio manager Foyston, Gordon & Payne (FGP) began to shift the portfolio structure in a way that would benefit from signs of an economic recovery. Understanding that the recovery process will likely play out over several more years, the duration of the portfolio was tactically shortened to a half year below the benchmark in late July as interest rates on 30-year Government of Canada bonds fell to their lowest ever level and yields continued to drop to new historic lows in late September.

While FGP expect a backdrop of sluggish growth to continue for some time, they do not expect a downturn into a deep recession. Thus, they believe that an excessive amount of pessimism had been priced into the bond market. As credible solutions facing the debt and fiscal deficits of a number of nations are put forth, markets should calm leading to a slow normalization of interest rates as well as an advance opportunity to further cut duration and add credit exposure. FGP continue to see good value in many quality and high yielding securities that can contribute to the Fund's attractive absolute and relative yield. The focus for common stocks, REIT's and income trusts is on sustainable, and in some instances, growing dividends. The Fund continues to be well diversified across income-generating asset classes and industry sectors.

Tradex Global Equity Fund – Quarterly Review – September 30, 2011

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Global Equity Fund	-9.9	-9.1	-0.2	3.3	-3.2	2.6	2.1
MSCI World Total Return Index ($Cdn)**	-10.0	-10.2	-3.0	-0.2	-3.1	-0.0	—
Average Canadian Global Equity Fund**	-12.7	-13.2	-6.4	-1.0	-4.0	-0.1	—

*May 1999 **Source: Globe Information Services

During the third quarter, the value of each unit of Tradex Global Equity Fund decreased by 9.9% compared to a fall of 10.0% in the Fund's benchmark, the Morgan Stanley Capital International (MSCI) World Index. Over the past year it has fallen 0.2% versus a decline of 3.0% in its benchmark.

Global equity markets experienced significant falls and extreme volatility during the third quarter of 2011. In August, equity markets plummeted while bond prices soared, particularly in the U.S. Treasury market. The two main causes were weak economic data which suggested the global economy could slip into another recession and the ongoing turmoil in Europe whereby investors fretted about solvency issues.

Declines were largest in the euro zone with Germany's DAX Index dropping 25.4%. Similar falls were seen in France and Italy with markets down 25.1% and 26.5% respectively (all changes are in terms of local currencies). Meanwhile, the Spanish market fell "only" 17.5% while the Greece Index was down 37.6%. The U.K. and Swiss markets were more resilient falling 13.7% and 10.6%, respectively. In the far east, Japan's Nikkei Index declined 11.4%, while the Australian Index was down 12.7% and Hong Kong's Hang Seng Index dropped 21.5%. In North America the U.S.'s S&P 500 Index lost 14.3% while the Toronto Composite Index was down 12.6%. Emerging markets underperformed with losses led by Russia and Brazil which were both down in the neighbourhood of 25% as commodity linked markets continued to underperform.

The losses in most foreign equity markets were reduced in terms of Canadian dollars as the Canadian currency, which is heavily influenced by commodity prices, moved sharply lower during the quarter. Versus the Japanese Yen, the US dollar and the British Pound, the Canadian dollar weakened by 12%, 8% and 5.5% respectively, while it was essentially unchanged versus the Euro.

There was very little movement in the Fund's overall portfolio weighting among regions during the quarter. At quarter-end 41% of the portfolio value was invested in the U.S. (versus 42% at the start of the quarter), 23% in Europe (versus 29%) and 20% in Asia (unchanged). Total exposure to emerging markets was also essentially unchanged, at about 10%, while cash represented 2% of the total portfolio value at the end of the quarter.

Portfolio Manager City of London Investment Management (CLIM) believes that recent market falls have left a number of markets looking particularly cheap. However, the world is in a very uncertain economic environment and consequently markets may remain cheap for a longer than usual period of time. CLIM is maintaining a geographical bias in favour of Japan and emerging markets and has been further reducing the Fund's underweight position towards European shares, although they appear attractively valued. The Fund's largest underweight is to the United States equity market.

Tradex since 1960

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TWO GREAT WAYS TO INCREASE YOUR SAVINGS AND REDUCE TAXES

Tax-Free Savings Accounts (TFSAs)

Tax-Free Savings Accounts (TFSAs), which were introduced in 2009, allow you to set money aside each year and watch those savings grow **tax-free** throughout your lifetime. Here's a short summary of how TFSAs work:

Canadians aged 18 and over can put aside up to $5,000 every year in a TFSA. In addition, any unused TFSA contribution room can be carried forward to future years. For example, if you have not contributed to a TFSA since the program was created and you have the funds available, you may contribute up to a limit of $15,000 in 2011 or $20,000 in 2012.

Unlike an RRSP, contributions to a TFSA will not be deductible from your current income for income tax purposes. However investment income, including capital gains, earned in a TFSA <u>will not be taxed even when withdrawn</u>.

A further benefit is that the amount withdrawn can be put back in the TFSA in the following or future years without reducing your contribution room. For example, if you contribute $5,000 per year for 3-years and the amount grows to $18,000 due to investment income and capital gains, you may withdraw the $18,000 and in the following year(s) contribute back $18,000 without affecting your regular $5,000 a year limit.

For estate planning purposes, there can be additional tax benefits for a spouse or common-law partner.

With a Tradex TFSA you can tailor the Plan to meet your investment objectives, including investing in any combination of the Tradex Investment Savings Account, the Tradex Bond Fund and the two Tradex Equity Funds. In addition, there are no fees or administrative charges when you set up a Tradex TFSA or when you withdraw money from it. This gives you complete flexibility in managing your TFSA.

Registered Education Savings Plans (RESPs)

The 20% Government of Canada cash grant makes this the best way by far to save for your child's or grandchild's education. In a nutshell, here's how it works:

The Government of Canada will provide a cash grant of up to $500 per year (20% of the first $2,500 contributed annually) for each child up to age 18, subject to a lifetime grant limit of $7,200 per child. <u>Thus, if you contribute $2,500 a year to a RESP, after the Government grant, the amount actually invested will be $3,000</u>.

In addition, the grant room is cumulative and allows you to catch up on "unused" grant eligible contribution room over time (the maximum grant allowed in any one year is $1,000). Thus, if a child was born a few years ago and does not yet have an RESP, you can still receive the maximum grant amount.

The lifetime RESP contribution limit is $50,000 per child and there is no annual contribution limit. A note of caution, however, is that if you make a large lump sum payment you may miss out on receiving the maximum grant amount.

When you establish an RESP through Tradex you have an extremely wide choice of investment options plus the ability to diversify your holdings in a number of different investments. Furthermore, at Tradex there are no sales commissions or other administrative charges. <u>Thus, every dollar you contribute (plus the government grant) is invested in the RESP.</u>

RESP contributions are not tax deductible by the contributor, but the income and capital gains earned on the entire investment grow tax-deferred. And, when those earnings are eventually withdrawn to pay for educational expenses (including tuition, books, housing, etc.) the money is favourably taxed at the student's typically low rate.

We urge investors to take advantage of these very beneficial programs. For more information on setting up a TFSA or RESP at Tradex please phone or e-mail us. We'll provide you with full details on these programs and mail you a complete investor's information kit.