



Tradex

QUARTERLY



First quarter 2009

President's Report to Tradex Investors



Equity markets were subjected to continued volatility in the first quarter of 2009. At its lowest point during the quarter, the S&P/TSX Index was down 16.8% from year-end, but a strong uptick in the last 3 weeks of March resulted in the Canadian market closing down a modest 3.0% for the quarter. The situation was much grimmer in the U.S. with the

S&P 500 Index finishing the quarter down 11.7% after having been down as much as 26.2% in early March.

With the Canadian economy weakening further, the Bank of Canada lowered its policy overnight rate by 100 basis points to a record low of 50 basis points. In addition, central banks around the world continued to take special steps to provide liquidity to the banking system and stabilize financial systems. In this environment, yields on Government of Canada bonds reached record lows in mid-January and continued to trade near those levels for the rest of the quarter.

The Canadian dollar was also volatile, trading in a range of 76.98 cents U.S. to 84.85 cents. It closed the period at 79.28 cents U.S. versus a year-end close of 82.10.

Tax-Free Savings Accounts (TFSAs)

If you haven't already done so, we urge all investors to take advantage of the new Tax-free Savings Account (TFSA) program that came into effect on January 1, 2009. This program, which you can tailor to your own savings goals, allows Canadians to set money aside in eligible investment vehicles and watch those savings grow tax-free throughout their lifetimes. Over 300 Tradex Members have already opened a TFSA at Tradex. For more details on this program please see our web site at www.tradex.ca.

Tradex Annual General Meeting on April 29, 2009 at the RA Centre

Don't forget to attend the Tradex Annual General Meeting to be held at 7:00 p.m. on Wednesday, April 29 in Clark Hall at the RA Centre, 2451 Riverside Drive. As in the past, all three investment counsellors will be present to provide outlooks, and answer any questions. We also encourage Tradex members to bring along a friend, co-worker or family member who might be interested in becoming a Tradex member.

Recent Article by PH&N—Choosing to Be Different

The following article (which is continued on the back page) provides Phillips, Hager & North's perspective on the "bear market" and how investors should react to it. This article was written in December 2008.

"Looking back through history, an observer can see that bear markets generally share similar attributes that take shape as investor psychology shifts from greed to extreme fear over a relatively short period of time. Common characteristics include: some form of crisis (war, runaway inflation, real estate collapse), economic recession, corporate profit declines, job losses, increasing loan defaults, and excessively expensive equity markets revaluing downward quickly. Sound familiar?"

Despite what seem like obvious warning signs, in hindsight, bear markets tend to catch most everyone off guard – including professional investors. Not only is the timing of a bear market nearly impossible to predict, but so, too is its severity. Bear markets are usually more violent than expected and generally there are no safe harbours.

Given how difficult bear markets are to predict, it should be no surprise that trying to peg a market bottom is equally difficult. More importantly, this type of guesswork – fodder for countless market pundits, talk show panelists, and armchair investment managers – is actually counterproductive, since it ratchets up the hype and distracts investors from their long-term focus. The key to successful long-term investing, after all, is to remain fully invested during the market lows because equities have historically outperformed other forms of investments over the long term, even when you include the effects of bear markets.

(continued on back page)

Robert C. White
April 14, 2009

Tradex Equity Fund Limited – Quarterly Review – March 31, 2009

	Total return (%)				Average annual compound return (%)			
	Latest month	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Equity Fund Limited (TEF)	7.8	-3.8	-27.2	-37.6	-15.2	-4.6	1.0	9.0
S&P/TSX Total Return Index**	7.8	-2.0	-24.3	-32.4	-7.8	2.8	4.9	—
Median Canadian Focused Equity Fund**	6.7	-4.0	-22.5	-29.8	-10.2	-0.5	3.3	—

*April 1960

**Source: Globe Information Services

This was once again a very volatile quarter for equity markets. At its lowest point during the quarter, the S&P/TSX Index was down 16.8% from year-end while the U.S. S&P 500 Index was down 26.2%. A strong uptick in the last 3 weeks of March resulted in the S&P/TSX Total Return Index closing down 2.0% while the U.S. S&P 500 Index closed down 11.7%. In this environment (and given that 20% of Tradex Equity Fund's portfolio weighting is in foreign stocks) an investment in the Fund decreased in value by 3.8% during the quarter.

During the period, a number of companies contributed positively to the Fund's performance, including deeply discounted stocks that ricocheted off unreasonably low valuations (Eastern Platinum, MacDonald Dettwiler), as well as strong businesses that exhibited steady performance (Toromont Industries, Northern Trust, Thomson Reuters). In addition, National Bank of Canada appreciated strongly as financial risk subsided; Wyeth was the subject of a takeover bid from Pfizer; and Pacific Rubiales Energy appreciated strongly due to exploration and financing success.

The small-capitalization energy stocks performed particularly poorly due to weak energy prices (NuVista Energy, Tristar Oil & Gas, Iteration Energy, Pason Systems). Similarly, companies dependent on the energy sector also performed poorly (Methanex, Finning International, Newalta Income Fund). Negative surprises dropped the share prices of Sherritt International, State Street, Manulife Financial and Great Canadian Gaming Corporation, although portfolio manager Phillips, Hager & North (PH&N) believes that investors have overreacted in each of these cases. U.S. Health Care stocks also lagged the market after outperforming strongly last year.

Portfolio activity during the quarter was relatively light and centred on rebalancing the Fund's exposure to the Financials sector, based upon relative appreciation potential. As a result, holdings of Manulife Financial, Toronto-Dominion Bank and CI Financial Income Fund were increased while trimming back the holdings of Bank of Montreal. At quarter-end 30% of the total portfolio value was in the Financials sector and five of the Fund's 12 largest holdings were in this sector, as seen in the following table:

Royal Bank of Canada	5.3%	Johnson & Johnson (U.S.)	3.5%
TD Bank	5.0%	Research in Motion	3.1%
CIBC	4.7%	EnCana Energy	3.1%
Manulife Financial	4.2%	MacDonald Dettwiler	2.8%
Toromont	3.8%	Wyeth (U.S.)	2.5%
National Bank of Canada	3.5%	Potash Corp of Sask.	2.5%

Although PH&N believe that fundamentals such as sales growth, pricing power and margins are likely to continue to deteriorate well into 2009, they expect to rotate the Fund's exposure into companies that will benefit from a recovery once leading indicators start to show signs of a bottom in the market. In this regard, PH&N's view is that this vicious bear market has created a tremendous opportunity for long-term investors since it has resulted in some individual stocks reflecting valuation levels not seen in a generation. Although markets might feel more risky in the current environment, it's important to remember that many of these declines have already occurred. Thus, risk in many ways, is much lower today than it was a year ago when the S&P/TSX Index was near 15,000 versus 8,700 at quarter-end. PH&N will continue to execute on its *Quality Growth at a Reasonable Price* investment discipline, which is designed to ensure that high quality companies with excellent growth potential are held in the portfolio.

Tradex Bond Fund – Quarterly Review – March 31, 2009

	Total return (%)				Average annual compound return (%)			
	Latest month	Latest 3 months	Latest 6 months	1 year	3 years	5 years	10 years	Since inception*
Tradex Bond Fund (TBF)	1.7	1.1	5.2	3.9	4.3	4.0	4.7	6.7
DEX Universe Bond Total Return Index**	1.8	1.5	6.1	4.9	5.4	5.2	6.1	—
Median Canadian Bond Fund**	1.6	1.2	3.9	1.9	3.1	3.1	4.0	—

*September 1989

**Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 1.1% during the first quarter while it has increased by 3.9% over the past year.

During the quarter central banks around the world continued to take strong policy actions to ease credit conditions and stabilize banking systems in light of the crisis in financial markets and the further deterioration in the global economy. During the quarter, the Bank of Canada lowered its policy

overnight interest rate by a total of 100 basis points to 50 basis points, the lowest level on record. Meanwhile, the U.S. Federal Reserve, which had lowered its policy rate by 175 basis points in the previous quarter, maintained its target policy rate at the unprecedented range of zero to 0.25%.

In this ongoing environment of uncertainty and economic weakness, yields on Government of Canada bonds reached record lows in mid-January. While yields rebounded by 15-25



basis points through the remainder of the quarter, they remained well below previous historical record low levels. For example, prior to the fourth quarter of 2008 the record low yield for 5-year Government of Canada bonds was 2.74%, fully 99 basis points higher than the March 31, 2009 close of 1.75%. Similarly, prior to the fourth quarter of 2008 the record low yield for 10-year Government of Canada bonds was 3.37%, 58 basis points higher than the March 31, 2009 close of 2.79%. The following table shows the recent movement in yields on Government of Canada bonds.

Term to Maturity	Yield Dec. 31, 2007	Yield Dec. 31, 2008	Yield Mar. 31, 2009
2 years	3.74%	1.09%	1.07%
3 years	3.82%	1.32%	1.35%
5 years	3.87%	1.69%	1.75%
10 years	3.99%	2.69%	2.79%
30 years	4.10%	3.45%	3.57%

Source: Bank of Canada. Mid-market yields on benchmark issues.

In the second half of 2008, given the turmoil in capital markets, interest rate spreads between corporate bonds and government bonds (i.e., credit spreads) widened dramatically. As a result of this development portfolio manager TD Asset Management increased the proportion of Government of Canada bonds to 46% of the total portfolio weighting at the end of 2008, which is above its normal weighting for federal government bonds. During the first quarter credit spreads remained extremely wide and the asset weighting to Government of Canada bonds was maintained at a higher than normal level (45%). Looking ahead, it is anticipated that the allocation to this sector will be reduced to closer to the normal range once confidence returns to the market and there are clear signs of a sustained narrowing of credit spreads. At quarter-end the weighting to provincial/municipal government bonds was 36% (versus 32% at year-end) while the weighting for corporate bonds rated "single A" or better was reduced to 19% from 22%.



Tradex Global Equity Fund – Quarterly Review – March 31, 2009

	Total return (%)				Average annual compound return (%)			
	Latest month	Latest 3 months	Latest 6 months	1 year	3 years	5 years	Since inception*	10 years
Tradex Global Equity Fund (TGE)	6.7	-5.0	-16.4	-32.4	-14.5	-8.7	-0.2	—
MSCI World Total Return Index (\$Cdn)**	6.7	-9.2	-17.8	-29.1	-11.0	-3.8	—	-3.6
Median Canadian Global Equity Fund**	6.1	-7.3	-19.9	-31.6	-13.0	-5.3	—	-2.9

*May 1999

**Source: Globe Information Services

During the first quarter, the value of each unit in the Tradex Global Equity Fund decreased by 5.0%, versus a fall of 9.2% in the Morgan Stanley Capital International World Index.

Global markets turned decidedly more upbeat in March following steep declines in January and February, but unfortunately the gains in March were not enough to move markets into positive territory for the quarter. In Europe, the U.K. FTSE 100 Index, Swiss Market Index, French CAC 40 Index and Germany DAX Index all fell between 11% and 15% for the quarter. Asia fared somewhat better with Japan's Nikkei 225 Index down 8% while Hong Kong's Hang Seng Index and Singapore's Straights Times Index fell by 6% and 3.5%, respectively. In the U.S., the S&P 500 Index and Dow Jones Industrial Average fell 12-13%, while the tech-heavy NASDAQ Composite performance was much better, losing a modest 3% for the quarter (all changes are in terms of local currency).

Portfolio manager City of London Investment Management (CLIM) reduced the Fund's U.S. exposure from over 60% at the start of the quarter to 38% at quarter-end. This was done

to "take-profits" as discounts narrowed on the closed-end funds held that provided exposure to the U.S. market. As CLIM reduced this exposure, proceeds were recycled into Asia, particularly Japan, which was increased to around 10% of the total portfolio weighting. European exposure was also increased from 9% to 18% by quarter-end, which was gained by purchasing attractively valued closed-end funds offering broad exposure to global markets.

Finally, exposure to emerging markets has increased slightly (to 15%) as CLIM feels a number of emerging market countries are well positioned to outperform their developed country counterparts as global markets begin to show signs of recovery. This view is in large part due to the large currency reserves still held by many emerging market governments.

Looking ahead, CLIM continues to anticipate ongoing volatility, but is optimistic that markets will improve as governments and corporations work their way through the current financial and economic problems and as we begin to see "light at the end of the tunnel".

Commissions, trailing commissions, management fees and expenses may all be associated with mutual fund investments. Please read the prospectus before investing. The rates of return include reinvestment of all distributions and do not take into account any sales, redemption, distribution or optional charges or income taxes payable by an investor that could have reduced returns. Mutual funds are not guaranteed, their values change frequently, and past performance may not be repeated.



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Choosing to be Different *(continued from p.1)*

Sadly for many investors, the emotional and financial hardship of a bear market is too much to take. Too many investors succumb to the pressure, sell at the bottom, and sit on the sidelines during the market recovery – thus missing out on the upside after having suffered through much of the downside. In fact, the largest gains in equity prices have come, more often than not, after significant declines. Historically, when the S&P 500 has experienced price declines of 30% or more, it has then gone on to return over 40% the following two years as measured from the low.

A financial crisis like today's has the dual catastrophic consequence of eroding an investor's nest egg and also shortening an investor's time horizon (represented by a capitulation from his or her long-term plan). Now, more than ever, we urge investors to seek advice and establish a long-term plan that will help ensure financial wellbeing beyond the time horizon of this bear market.

Of course, even for investors who have the discipline to stick to their strategies it is normal to wonder when some light will appear at the end of the tunnel. The question most often asked of us these days is, "What, if anything, will turn this market around?" The truthful answer is time.

Admittedly, it is very difficult to look past the negative headlines such as the critical condition of the North American auto industry and the excessive leverage that consumers and investors have utilized and now must unwind. It is quite possible that things may get a whole lot worse before we see signs of a recovery. Fortunately, central banks and governments have learned fiscal and monetary policy lessons by studying the Great Depression and Japan's so-called "lost decade." Unprecedented monetary

and fiscal policy responses continue to be rolled out around the world to counteract the contagion.

Although Canada will see significant declines in corporate profits and employment in the near term, the declines will become less pronounced over time and the headlines will be less sensational. Investor and consumer sentiment are as negative as we have witnessed in many years. Historically, such negative sentiment has consistently been a reliable contrarian indicator. Presently, interest rates are at all time lows. While it may be hard to believe right now, in the months ahead, this will help kick-start consumer and corporate spending and drive a rebound in corporate profitability. The inexpensive valuations we are currently witnessing in equities are at levels not seen in decades (the same can be said of corporate bonds). Today, our fund managers are seeing opportunities in the market unlike any that have been available in a long time.

Being contrarian is not only a choice an investor makes, but also a necessity for long-term success. At PH&N, we are acting on our confidence. In portfolios where we exercise discretion on behalf of our clients, we are now increasing our exposure to equities. In our stand-alone equity portfolios, we are favouring securities issued by those companies best suited to not only survive the current environment, but also thrive as the economy moves into a recovery and beyond. Historically, PH&N's strength relative to our competitors is managing out of a bear market. We believe our portfolios are well positioned for a recovery.

Investors who have discipline and a long-term focus have the two most important things needed to get through the current bear market. The last piece of the puzzle is time.

*By John Montalbano
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