



Tradex

QUARTERLY



Third quarter 2006

President's Report to Tradex Investors



The Canadian equity market (S&P/TSX Composite Index) increased by 1.3% during the quarter while its U.S. counterpart, the S&P 500 Index, was up a considerably stronger 5.2%. The energy sector, which comprises almost 30% of the Canadian market, was a key reason for the divergence in performance of the two markets as Canadian energy stocks were down

9.5% during the period. For the first nine months of 2006, the Canadian market was up 4.3% while the U.S. S&P 500 Index was up 7.0%. Also of note, the blue-chip 30-stock Dow Jones Industrial Average was up 9.0% during the first nine months of 2006 and closed the quarter just under its record high reached in early 2000.

With clear evidence that economic growth in the U.S. is slowing, both the Bank of Canada and the U.S. Federal Reserve kept their key policy overnight interest rate unchanged at each of their two policy setting meetings during the quarter. In this environment, yields on Government of Canada bonds declined by approximately 50 basis points across the entire yield curve, more than reversing the increase in interest rates that had occurred during the previous quarter.

Finally, the Canadian dollar was little changed over the quarter, closing at 89.47 cents U.S. compared to 89.59 cents at the start of the period. However, day-to-day trading in the dollar was relatively choppy influenced primarily by the volatility in commodity prices, particularly energy prices.

Comparing Canada Savings Bonds and the Tradex Investment Savings Account

On October 2nd the Department of Finance announced that the new Series of Canada Savings Bonds will yield 3.00% for the first year. With this announcement, there is now no CSB issue that pays more than 3.00% (and the yield on some issues is less). In contrast, the Tradex Investment Savings Account, which is eligible for CDIC Insurance up to \$100,000 per account in accordance with CDIC rules and regulations, is currently yielding 3.75% (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 high-yield savings account are available, subject to a maximum 2-business day notice. Furthermore, unlike Canada Savings Bonds, you do not have to wait a full month to be entitled to earned interest. You earn full interest on every dollar you hold in a Tradex Investment Savings Account for each day the money is in the account.

Currently, Tradex members hold over \$11.5 million in this account. With its 3.75% yield and CDIC protection, it's a great place for investors to "park" funds awaiting further opportunities. For more information on how to take advantage of this outstanding daily interest account please telephone us at 613-233-3394.

Michael Mace to Chair Tradex's Independent Review Committee

In accordance with newly passed securities legislation, Tradex is establishing an Independent Review Committee to monitor and review any conflicts of interest that may arise in the management of the Tradex mutual funds. Michael Mace, who retired from the Department of Foreign Affairs and International Trade in 2002, will Chair the new Committee. Michael has served as Canada's Ambassador to Turkey and to Chile and also as the Department's Inspector General (1999-2002). Allen Kilpatrick and Robert Todd will also serve as Committee Members. Allen retired in 2001 as President and Chief Executive Officer of Atomic Energy of Canada Limited. Prior to joining AECL, he was Canada's Deputy Minister of International Trade and he was also Canada's High Commissioner to Australia (1981-1983). Robert is currently Senior Coordinator, Intergovernmental Operations, Infrastructure Canada. Previously, he served 3 years in Industry Canada as the Chief Adviser in the Office of the Ethics Counselor and 28 years in the Department of Foreign Affairs and International Trade.

Robert C. White
October 13, 2006

Tradex Equity Fund Limited – Quarterly Review – September 30, 2006

	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 (TEF)	5.3	-1.5	2.6	13.2	8.4	9.2	10.6
S&P/TSX Total Return Index**	1.9	-1.6	9.2	18.9	13.6	10.2	—
Median Canadian Equity Fund**	2.6	-2.2	6.9	15.1	10.1	8.7	—

*April 1960

**Source: Globe Information Services

The rate of return on the Fund was 5.3% during the quarter while over the past year the rate of return has been 2.6%.

At quarter end, the portfolio consisted of 31 Canadian stocks, representing 69% of the total portfolio value and 17 foreign stocks, representing the remaining 31% of the portfolio value (25% in U.S. holdings and 6% elsewhere). As at September 30, 2006 the Fund's top 12 holdings were as follows:

Manulife Financial	7.4%	BCE	3.0%
Royal Bank of Canada	6.0%	Power Corp.	2.9%
TD Bank	5.1%	Royal Bank of Scotland (U.K.)	2.9%
Thomson Corp.	4.5%	Great-West Lifeco	2.8%
EnCana	3.5%	HighPine Oil & Gas	2.7%
Duvernay Oil	3.3%	Rogers Communications "B"	2.5%

During the period, Portfolio Manager, Phillips Hager and North (PH&N) added Talisman Energy to the portfolio and also increased the position in Duvernay Oil. On the other side, the position in EnCana was trimmed. In the telecommunications area, PH&N "took profits" following the run up in Telus with some of the funds being used to increase the positions in BCE and Sprint Nextel. In addition, positions in CanWest Global Communications, the TSX Group and Morgan Stanley were eliminated during the quarter.

In previous quarters the Fund had under performed its S&P/TSX benchmark in large part due to its underweight position in Canadian energy and mining stocks and also because about 25% of the portfolio value was in U.S. stocks. In the most recent quarter, this situation reversed as Canadian energy stocks were down almost 10%, mining stocks were essentially unchanged and the U.S. market generally out performed the Canadian market by a considerable margin. At the same time, the Fund's overweight position in Telus—and to a lesser extent BCE—was also a major contributor to its relative performance. In addition, previously lagging sectors, such as Health Care and Consumer Staples out performed thus further benefiting the Fund's performance.

Looking ahead, PH&N's strategy remains focused on positioning the Fund in attractively valued, high-quality growing businesses with sustainable earnings. The Fund's Canadian equity portfolio has lower price/earnings ratios, higher earnings yields and more consistent earnings than the overall market, and they expect this combination to deliver superior returns over the long term. Furthermore, they continue to feel that a number of U.S. and other foreign companies are attractive relative to the opportunities in Canada, and this view is reflected in the Fund's significant (31%) weighting in foreign stocks.

Tradex Bond Fund – Quarterly Review – September 30, 2006

	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 (TBF)	4.8	3.2	2.7	4.6	5.3	5.8	7.1
SCM Universe Bond Total Return Index**	4.9	3.8	4.0	6.0	6.9	7.3	—
Median Canadian Bond Fund**	4.4	2.8	2.4	4.1	4.9	5.6	—

*September 1989

**Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 4.8% during the third quarter and by 2.7% over the past year.

There was a dramatic change in sentiment in the bond market over the past quarter which resulted in very solid quarterly returns for bond funds. During the second quarter of 2006, both the Bank of Canada and U.S Federal Reserve increased their key policy setting interest rate by a further one-half of one percentage point and yields on Government of Canada bonds increased by 30-40 basis points. However, during the most recent quarter both central banks kept their

key policy overnight interest rate unchanged at each of their two policy setting meetings based on evidence of a slowing in economic growth in the U.S. and expectations in both countries that inflation pressures will moderate. Indeed, many market analysts now believe that the next move by both central banks will be to decrease their key policy rate rather than increase it further. In this environment, yields on Government of Canada bonds, as shown in the following table, declined by approximately 50 basis points across the entire yield curve, essentially reversing the increase in rates that had occurred during the first half of the year.



Term to Maturity	Yield Dec. 31, 2005	Yield June 30, 2006	Yield Sept. 30, 2006
2 years	3.85%	4.40%	3.91%
3 years	3.88%	4.44%	3.90%
5 years	3.92%	4.47%	3.90%
10 years	3.98%	4.58%	4.00%
30 years	4.05%	4.61%	4.09%

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

With this decline in interest rates, yields on longer-term bonds are once again very low by historical standards. In this regard, over the past decade the record low yield on the 10-year Government of Canada benchmark bond issue was 3.73% while it was 4.01% on the 30-year bond. Also of note

is the fact that the yield curve is once again very flat by historical standards, with the interest rate spread between two-year and 30-year Government of Canada bonds being only 18 basis points (12 months ago the spread was 87 basis points while two years ago it was 176 basis points). Thus, there is likely relatively little scope for longer-term rates to fall much further.

At quarter-end, 35% of the Fund's assets were invested in bonds issued or guaranteed by the Government of Canada (versus 34% three months ago), 37% in provincial government bonds (versus 38%) and 29% in corporate bonds rated "single A" or better (versus 28%). There were 51 individual bond issues in the portfolio at quarter-end.

Tradex Global Equity Fund – Quarterly Review – September 30, 2006

	Total return (%)			Average annual compound return (%)			
	Latest 3 months	Latest 6 months	1 year	3 years	5 years	Since inception*	10 years
Tradex Global Equity Fund (TGE)	4.0	-3.1	-5.1	10.1	8.7	5.8	—
MSCI World Total Return Index (\$ Cdn)**	4.6	-0.4	10.2	10.0	3.1	—	5.6
Median Canadian Global Equity Fund**	3.4	-2.7	7.8	8.6	3.7	—	5.3

*May 1999

**Source: Globe Information Services

International equity markets were stronger during the third quarter following a weak, and very volatile, second quarter. For the quarter as a whole, key European equity markets were up in the range of 3-6% while the Japanese market was up 4%. Among U.S. markets, the S&P 500 Index and Dow Jones Industrial Average increased either side of 5% while the technology heavy Nasdaq Index was up 4%. (All changes are in terms of local currency.)

The Canadian dollar was little changed versus its U.S. counterpart during the quarter while it gained versus the euro and Japanese yen, but fell versus the British pound. In this environment, the value of each unit in the Tradex Global Equity Fund increased by 4.0%, compared to its benchmark, the MSCI World Total Return Index, which was up 4.6%.

At quarter end, the Fund's weighting by region was as follows:

U.S.	50%	Continental Europe	5%
U.K.	13%	Latin America	5%
Japan	9%	Cash and other	12%
South Africa	6%	Total	100%

Portfolio Manager City of London Investment Management (CLIM) increased the Fund's U.S. market exposure during the quarter to approximately 50% of the portfolio (versus 42%

at the end of June) on the view that valuations among U.S. blue-chip stocks are attractive given their substantial export earnings. A good portion of the U.S. position is held in index participation units or Ishares. The Fund now has an equal weighting in the U.S. as compared with the MSCI World Index. The Fund's weighting to the U.K. almost doubled to 13% to take advantage of high dividend yields in that market. On the other side, exposure to Japan fell by 3 percentage points over the period.

A significant change over the quarter was the decrease in the Fund's exposure to emerging markets, with exposure to Emerging Europe reduced from approximately 7% to near zero, taking advantage of substantial price gains in this area. The exposure to South Africa, which primarily relates to a position in precious metals, was increased to 6%, from 4%, as the South African rand fell almost 8% versus the U.S. dollar, improving the profitability of large exporters in the mining sector.

Looking ahead, CLIM remains cautiously optimistic regarding the near-term prospects for global markets based on their outlook for corporate profit growth and the degree of liquidity in the global marketplace.

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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for the public sector


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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.


The Government sponsored RESP program is extremely advantageous and we highly recommend setting up an RESP for your child's or grandchild's education. In a nutshell, here's how the program works:


 Under the RESP program, you can contribute up to \$4,000 per year for each child. In addition, the Government of Canada will provide a cash grant of up to \$400 per year for each child (20% of the first \$2,000 contributed annually) up to age 18. Thus, if you invest \$2,000 a year, after the Government grant, the amount actually invested is \$2,400.


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

There are many no-load mutual fund RESP investment options available through Tradex, including funds offered by TD Bank, Ethical Funds, AIM Trimark and Mackenzie. (Tradex does not offer its own mutual funds through RESPs because the start-up and administrative costs proved to be prohibitive for a fund company our size.)

When you establish an RESP account through Tradex:

 There are no sales commissions, deferred sales charges or other administrative costs. Every dollar you contribute (plus the government grant) is invested in the RESP.

 There is an extremely wide choice of investment options. And, you can choose more than one fund. For example, 50% of the RESP account could be invested in a Canadian equity fund, 30% in a bond fund and 20% in a global equity fund.

 It's easy to set up a monthly pre-authorized contribution plan (which you can cancel at any time at no cost). Simply choose the amount you want to contribute and Tradex will withdraw that amount from your bank account automatically each month (the 20% Government grant will also be added monthly).

For more information on setting up an RESP at Tradex please phone either Blair Cooper or Brien Marshall at 613-233-3394 or e-mail us at info@tradex.ca and we'll mail you a complete RESP kit, including a detailed questions and answers brochure, a prospectus, application form, and a pamphlet on RESPs issued by the Ontario Securities Commission.



Remember, the earlier you start, the more time your RESP contributions have to generate tax-sheltered earnings (and collect the 20% government grant).

