



Tradex

QUARTERLY



Fourth quarter 2008

President's Report to Tradex Investors



This was truly an *annus horribilis* for equity investors as stock markets recorded their weakest performance since the 1930s. During the fourth quarter, the S&P/TSX Composite Index declined a further 23.5% to end the year down 35.0%. Meanwhile, the U.S. S&P 500 Index finished 2008 down 38.5%. The sequence of events that led to these

dramatic drops started 18 months ago when the problems in the U.S. sub-prime mortgage market first came to light. Subsequently, the extent of the "rot" in financial assets held globally by banks and other institutions escalated into an unprecedented crisis of confidence in credit markets during the fourth quarter, necessitating various countries to "bail out" a number of the largest financial institutions in the world. The ultimate fallout from these events is the worldwide recession that we are now witnessing, along with its accompanying effects.

Both the Bank of Canada and U.S. Federal Reserve took dramatic actions during the quarter to reduce their policy interest rate to historic lows. In addition, both central banks continued to take special steps to stabilize the financial system, including providing further liquidity to the banking system. In this environment of unprecedented uncertainty, yields on Government of Canada bonds declined a remarkable 75-170 basis points to levels far lower than their previous record lows.

The Canadian dollar also moved sharply lower during the quarter, in large part due to the sharp drop in commodity prices. At the start of the quarter the Canadian currency stood at 93.97 cents U.S. while it closed the year at 82.10 cents U.S. (the Canadian dollar ended 2007 at 100.88 cents U.S.).

Will Stock Markets be Better in 2009?

Obviously, it is impossible to state with any certainty what will happen to equity markets in 2009. However, there is some good news to report. First, after reaching their lows in mid-November, North American stock markets rebounded by roughly 15-20% to December 31. Thus, it would appear that some degree of confidence in equity markets has been

restored. Also, the monetary and fiscal policy actions taken, or about to be taken, by governments will go a long way in supporting global economic growth in the months ahead. Finally, "bear markets" like the one we are witnessing have tended historically to be fairly short-term in nature and have been followed by quite dramatic recoveries. Therefore, while there are major challenges ahead, we are hopeful that the worst is now over and that 2009 will be a much better year than 2008.

Two Great Ways to Reduce Taxes

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. We also encourage some investors to consider investing in Labour Sponsored Investment Funds (LSIF). This program, which is designed for investors with a long-term time horizon and a high risk tolerance, offers very generous tax incentives. Details on both programs appear on our web site at www.tradex.ca.

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

This year, the Tradex Annual General Meeting will be held at 7:00 p.m. on Wednesday, April 29 in Clark Hall at the RA Centre, 2451 Riverside Drive, Ottawa (Clark Hall is located at the west end of the RA building). As in the past, all three investment counsellors will be present to provide outlooks, and answer any questions. Formal announcement of the meeting will be mailed in late March, along with the annual report for each of the Tradex Funds. We encourage Tradex investors to bring along a friend, co-worker or family member who might be interested in becoming a Tradex member.

Robert C. White
January 12, 2009

Tradex Equity Fund Limited – Quarterly Review – December 31, 2008

	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)	-24.3	-38.0	-38.3	-12.8	-2.8	1.5	9.1
S&P/TSX Total Return Index**	-22.7	-36.8	-33.0	-4.8	4.2	5.3	—
Median Canadian Focused Equity Fund**	-18.1	-29.4	-30.2	-6.9	1.2	4.0	—

*April 1960

**Source: Globe Information Services

This was once again an extremely weak period for Canadian equity funds, including Tradex Equity Fund Limited, as an investment in the Fund decreased in value by 24.3% during the quarter while it has decreased by 38.3% in the past year.

While the fourth quarter was characterized by market weakness across the board, the Energy and Materials sectors performed particularly poorly as commodity prices declined precipitously in a short period of time. Fortunately, the Fund was significantly underweight in these sectors as a precaution against a potential economic downturn. A significant weight in the U.S. Health Care sector also contributed positively to the Fund during the quarter, as these stocks held their value in a declining market. On the other hand, the Fund's active participation in small-capitalization stocks, which were hit especially hard in 2008 as the financial crisis intensified (the S&P/TSX Small Cap Index was down 48% for the year), created a significant headwind to overall performance.

Portfolio manager Phillips, Hager & North (PH&N) made a number of purchases of Canadian and U.S.-based financial stocks (banks and insurance companies) during the quarter. Their view is that financial service stocks offer unprecedented appreciation potential given the magnitude of recent declines and as concerted government initiatives begin to take effect in relieving the stress in the global financial system. As a result of these purchases, at quarter-end 31% of the total portfolio value was in the Canadian Financials sector (versus 27% at the end of the previous quarter) and 20% was in foreign stocks (versus 18% 3 months ago). Six of the Fund's 12 largest holdings were Canadian financial stocks as at December 31, as seen in the following table:

Manulife Financial	5.5%	EnCana	3.2%
Royal Bank of Canada	5.0%	Bank of Montreal	2.9%
CIBC	5.0%	National Bank of Canada	2.7%
TD Bank	3.9%	Research in Motion	2.7%
Johnson & Johnson (U.S.)	3.6%	MacDonald Dettwiler	2.4%
Toromont	3.5%	Comcast (U.S.)	2.3%

Purchases were also made in the following high-quality growth companies that have strong balance sheets; Research In Motion, Shoppers Drug Mart, Pason Systems and MacDonald Dettwiler. To make room for the purchases, a number of positions were reduced or sold including those in commodity stocks such as Teck Cominco, Goldcorp, Agrium, Silver Wheaton and Gerdau Ameristeel.

While stock market valuations are now approaching long-term historical lows in many sectors, PH&N's view is that the challenging economic and psychological backdrop that we are now in is likely to continue well into 2009. They plan to continue to watch the situation closely, taking advantage of opportunities to buy companies that will benefit from a cyclical recovery once leading indicators start to show signs of a definitive market bottom. In addition to the opportunities in Canada, they maintain a target list of high-quality, growth-oriented U.S. companies that they hope to add to the portfolio in future quarters once the U.S. investing environment shows signs of sustained stability. They caution, however, that the recession is expected to be deep and enduring. Thus, in order to fully realize the opportunities being presented, sustained discipline and patience will be required on all fronts.

Tradex Bond Fund – Quarterly Review – December 31, 2008

	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)	4.1	3.9	5.5	3.6	4.3	4.5	6.7
DEX Universe Bond Total Return Index**	4.5	4.1	6.4	4.7	5.5	6.0	—
Median Canadian Bond Fund**	2.7	1.6	3.1	2.4	3.4	4.0	—

*September 1989

**Source: Globe Information Services

An investment in the Tradex Bond Fund increased in value by 4.1% during the fourth quarter while it has increased by 5.5% over the past year.

“Remarkable” is the best way to describe developments in fixed income markets during the fourth quarter. During this period both the Bank of Canada and U.S. Federal Reserve took unprecedented policy actions to ease credit conditions and stabilize the banking system 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 150 basis points to 1.50%, the lowest level since 1958. Meanwhile, the U.S. Federal Reserve lowered its policy rate by 175 basis points to a target range of zero to 0.25%. In addition, central banks (and governments) around the world took various other policy actions including buying mortgages and mortgage-backed securities from financial institutions, providing liquidity through special purchase and resale agreements and bailing out or taking over a number of the world's largest financial institutions.



In this environment of unprecedented uncertainty and economic weakness, yields on Government of Canada bonds declined a remarkable 75 to 170 basis points to new record lows as shown in the following table:

Term to Maturity	Yield Dec. 31, 2007	Yield Sept. 30, 2008	Yield Dec. 31, 2008
2 years	3.74%	2.78%	1.09%
3 years	3.82%	3.00%	1.32%
5 years	3.87%	3.17%	1.69%
10 years	3.99%	3.75%	2.69%
30 years	4.10%	4.23%	3.45%

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

The magnitude of these declines cannot be over emphasized, as yields at year-end reached levels that many market observers believed were unachievable. For example, prior to the fourth quarter, the record low yield for 10-year

Government of Canada bonds was 3.37%, fully 68 basis points higher than the year-end close of 2.69%. However, while Government of Canada bonds were benefiting from this uncertain environment, investors continued to become increasingly risk averse and, thus, interest rate spreads between corporate bonds and government bonds widened further.

During the period the Fund's asset weighting to bonds issued or guaranteed by the Government of Canada was increased to 46% from 32% at the end of the previous quarter. The weighting of provincial/municipal government bonds decreased to 32% (from 37%) and to 22% for corporate bonds rated "single A" or better (versus 31%). The fact that the Fund held a relatively high proportion of government bonds versus corporate bonds compared to many other bond funds led to its strong performance versus its peers.

Tradex Global Equity Fund – Quarterly Review – December 31, 2008

	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)	-12.0	-28.7	-34.4	-11.1	-5.0	0.3	—
MSCI World Total Return Index (\$Cdn)**	-9.5	-20.1	-26.1	-6.1	-1.1	—	-2.4
Median Canadian Global Equity Fund**	-13.1	-24.6	-30.7	-8.6	-3.0	—	-1.7

*May 1999

**Source: Globe Information Services

Equity markets around the world dropped dramatically in October and November as the global credit crisis reached a crescendo. However, they bounced off their lows in the last six weeks of the quarter due in large part to governments stepping up their stabilization efforts through a combination of policy initiatives, including: lowering interest rates further; adding additional liquidity into the banking system; announcements of fiscal stimulus packages; and undertaking outright bail outs of financial institutions and the U.S. automakers. Nevertheless, the magnitude of the worldwide decline in equity markets was huge as summarized in the table below (all changes are in terms of local currency):

		% Decline 4th Quarter	% Decline Entire Year
U.S.	S&P 500	-22.5%	-38.5%
U.S.	Nasdaq Composite	-24.6%	-40.5%
Canada	S&P/TSX Composite	-23.5%	-35.0%
U.K.	FTSE 100	-9.6%	-31.3%
Germany	Dax	-17.5%	-40.4%
France	CAC 40	-20.2%	-42.7%
Switzerland	Index	-16.8%	-34.8%
Japan	Nikkei 225	-21.3%	-36.0%
Hong Kong	Hang Seng	-20.1%	-48.3%

Currency markets were also very volatile during the fourth quarter. Versus the U.S. dollar, the British Pound and the Canadian dollar fell 18% and 13%, respectively while the Euro was essentially unchanged and the Japanese Yen rose 17%. In this overall environment, the value of each unit in the Tradex Global Equity Fund decreased by 12.0% during

the quarter while over the past year the decline has been 34.4%.

Portfolio manager City of London Investment Management (CLIM) focused on shifting exposure out of Japan and into the U.S. during the quarter. Overall exposure to Japan was reduced from 17% to 3% by quarter-end, while exposure to the U.S. market increased from 58% to 65%. This historically high exposure to the U.S. market reflects CLIM's view that the U.S. market is perhaps the "safest haven" during this period of turmoil and also that any future recovery in global equity markets will need to be led by the U.S. market. Exposure to Hong Kong and China was also increased towards year-end, as CLIM believes China's economic stimulus package and large foreign reserves leave it fairly well placed to weather the current global economic downturn. At year-end 20% of the Fund's total exposure was to Asia versus 23% at the end of the previous quarter while the weighting to Europe moved slightly lower, decreasing from 11% to 9%, over the period.

Most of the Fund's assets are invested in closed-end fund companies and the discounts at which most of these companies trade form a meaningful part of the portfolio strategy. After purchasing shares in a number of U.S. closed-end fund companies last quarter and during the first part of this quarter at very attractive discounts, CLIM has begun to see valuations increase and discounts narrow on these securities. As a result, the Fund outperformed its benchmark by a substantial margin in December. It is expected that this trend will continue as the level of uncertainty in equity markets diminishes over the coming months.

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.



Tradex Management Inc.
50 O'Connor Street, Suite 920
Ottawa, Ontario K1P 6L2
Tel: 613-233-3394 1 800 567-FUND
Fax: 613-233-8191
e-mail: info@tradex.ca
Web site: www.tradex.ca

Publications Mail Agreement
Number 40007757

Seasoned Financial Advisers Ready to Serve Your Needs

Tradex is a licensed mutual fund dealer in Ontario, Quebec and British Columbia and our seasoned team of Blair Cooper and Brien Marshall is available to offer expert, unbiased financial advice and portfolio reviews. They have in-depth knowledge on a wide range of financial products, including all Canadian mutual fund families. They are constantly monitoring the performance of the various mutual funds through published reports as well as through direct contact with the portfolio managers and fund company representatives. Blair and Brien are very ably assisted by Debby Wright, who has been with Tradex since 1996, and Luc Bisailon who joined Tradex in May 2007 upon graduating from the University of Ottawa with a Bachelor of Commerce Degree.



Blair Cooper
B.Sc., MBA
Senior Vice-President

Blair Cooper

Blair received a Bachelor of Science degree from the University of Western Ontario in 1985 and a MBA degree from Queen's University in 1987. Before joining Tradex in August, 2000 Blair was with the Bank of Montreal for 14 years in increasingly responsible positions. At the time of leaving the Bank, he was Community Manager for the North Bay region.



Brien Marshall
Bach. Comm., CFP
Senior Vice-President

Brien Marshall

Brien received a Bachelor of Commerce degree from Carleton University in 1988 and accreditation as a Certified Financial Planner in 1994. He is the past President of the local chapter of the Canadian Association of Pre-Retirement Planners and a long-time member of Toastmasters International. Brien joined Tradex in 1991 after having gained valuable experience with a national mutual fund dealer.

Free, No-Obligation Portfolio Reviews

Our portfolio reviews and subsequent recommendations are tailored to your specific needs taking into account your existing holdings, risk tolerance, financial position and individual preferences. Since Tradex is owned by its investors and operates on an "at cost" basis for the benefit of its investors we are very proud of the fact that we offer straightforward, unbiased advice to those individuals who wish to take advantage of this service. As rules of thumb, we emphasize:

- Keeping your costs as low as possible.
- Building a well-diversified portfolio with a mix of asset classes and investment management styles (growth and value styles).
- Ensuring that your investments are properly allocated between registered and taxable accounts to minimize your tax burden.
- Buying and holding mutual funds that have a combination of low management expense ratios and proven long-term performance.
- Making only those changes to your existing portfolio that are necessary.
- If you have funds with deferred sales charges, releasing the 10% "free" units each year in order to give you greater flexibility.
- Generally avoiding balanced mutual funds or "wrap account" arrangements because the associated costs are normally higher and the net performance lower than holding an equivalent combination to top quality equity, dividend and bond funds.
- Where appropriate, purchasing GICs or holding a portion of your funds in high yield daily interest savings accounts.

If, after the no-cost, no-obligation review, you choose to transfer your holdings to be under our administration, Tradex will pay any applicable transfer fees.

For more information please call us at 613-233-3394 or 1-800-567-3863.