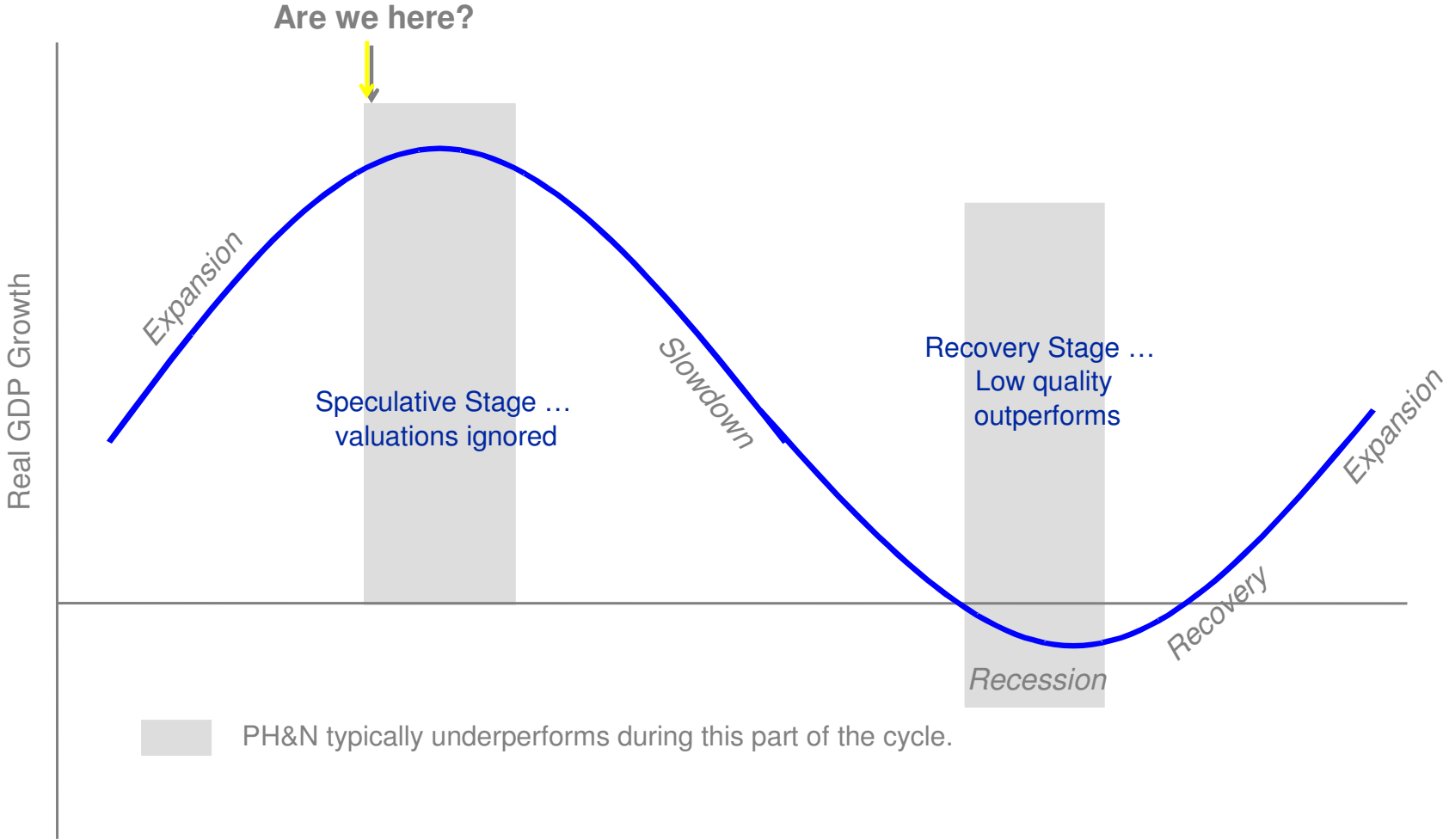


# Expected Performance Over a Market Cycle

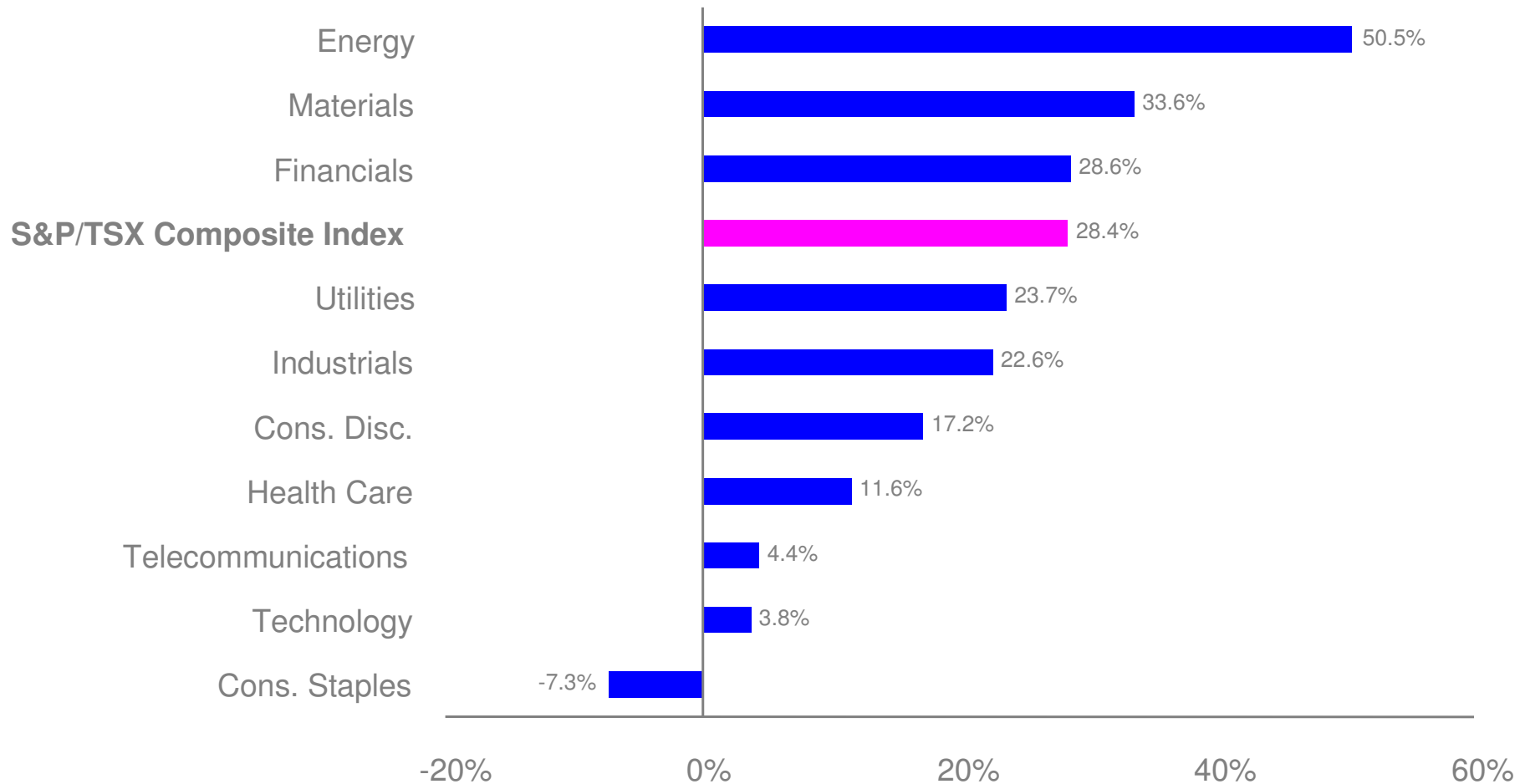
## Canadian Equity Performance Cycle



# Equity Market

One Year ended March 31, 2006

Performance of S&P/TSX Industry Sectors



# Tradex Equity Fund Limited

Average Annual Compound Rate of Return March 31, 2006

	3 Mos %	1 Yr %	3 Yrs %	5 Yrs %	10 Yrs %
<b>Tradex Equity Fund Ltd.</b>	<b>4.5</b>	<b>16.8</b>	<b>19.5</b>	<b>7.5</b>	<b>10.5</b>
S&P/TSX Total Return Index*	8.0	28.4	26.3	11.7	11.2
Average Canadian Equity Fund*	7.1	21.0	21.3	9.1	9.8

\* Source: Globefun



# Key Themes

- Expectations are at extremely high levels
  - for the market overall
  - particularly for Energy & Materials
  - returns of last 3 years have been exceptionally strong
  - signs of speculation starting to surface
  - risk is increasing
  
- Focus needs to shift to include absolute measures
  - TSX less and less an “investable” universe at present
  - Energy and Materials 45% of Index
  - other markets are attractive, diversification important
  - relative performance will lag if Energy/Materials boom continues



# Equity Review

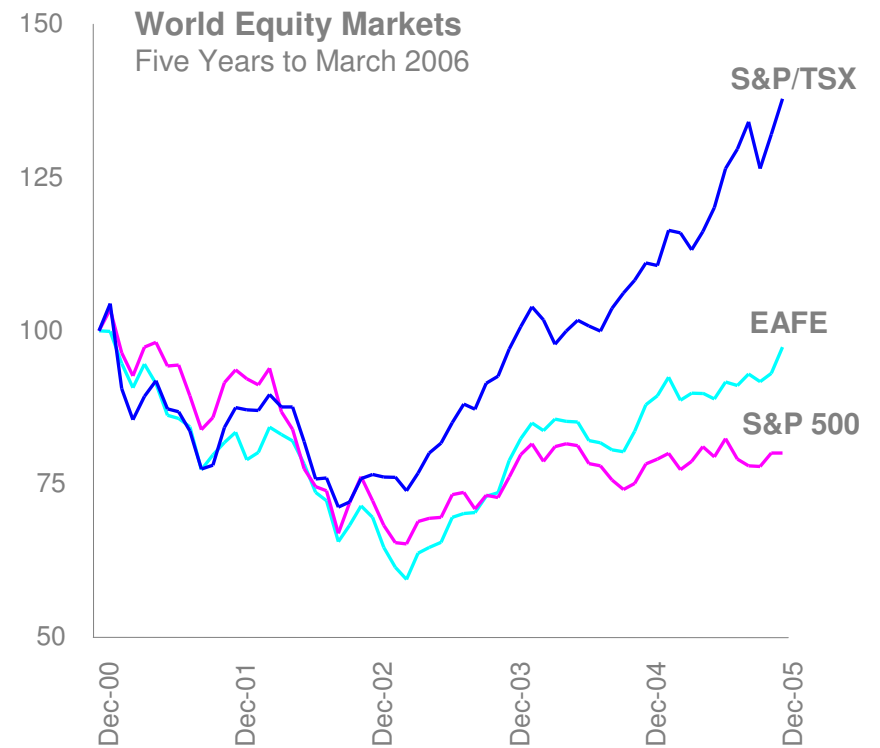
March 31, 2006

- U.S. stock market has lagged other world markets

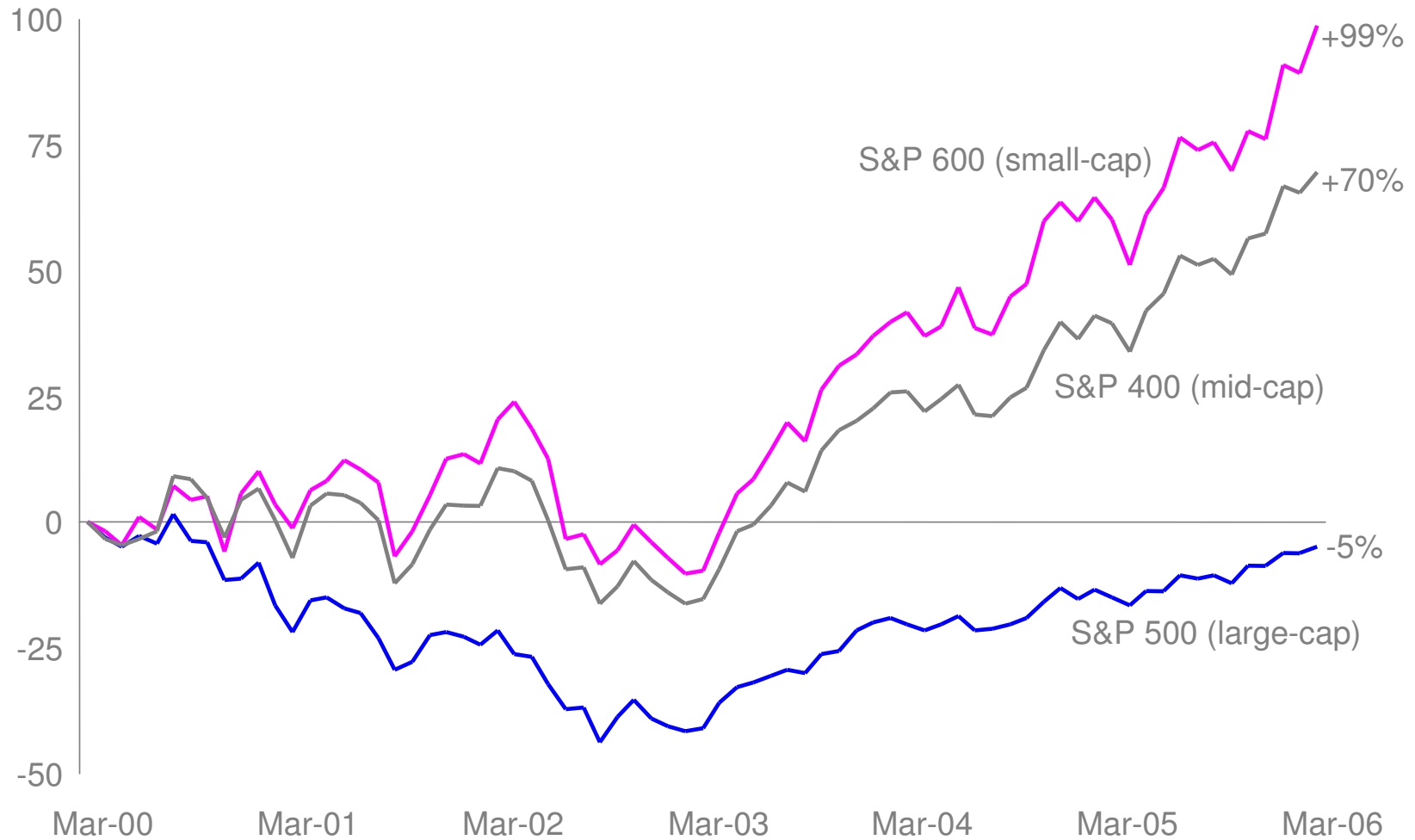
	Local Currency Return	
	1-Yr	5-Yr
S&P 500 Index	11.7%	4.0%
MSCI EAFE Index	35.0%	4.9%
TSX Composite Index	28.4%	11.7%

- Especially when currency adjusted

	C\$ Return	
	1-Yr	5-Yr
S&P 500 Index	7.7%	-2.1%
MSCI EAFE Index	20.0%	3.2%
TSX Composite Index	28.4%	11.7%

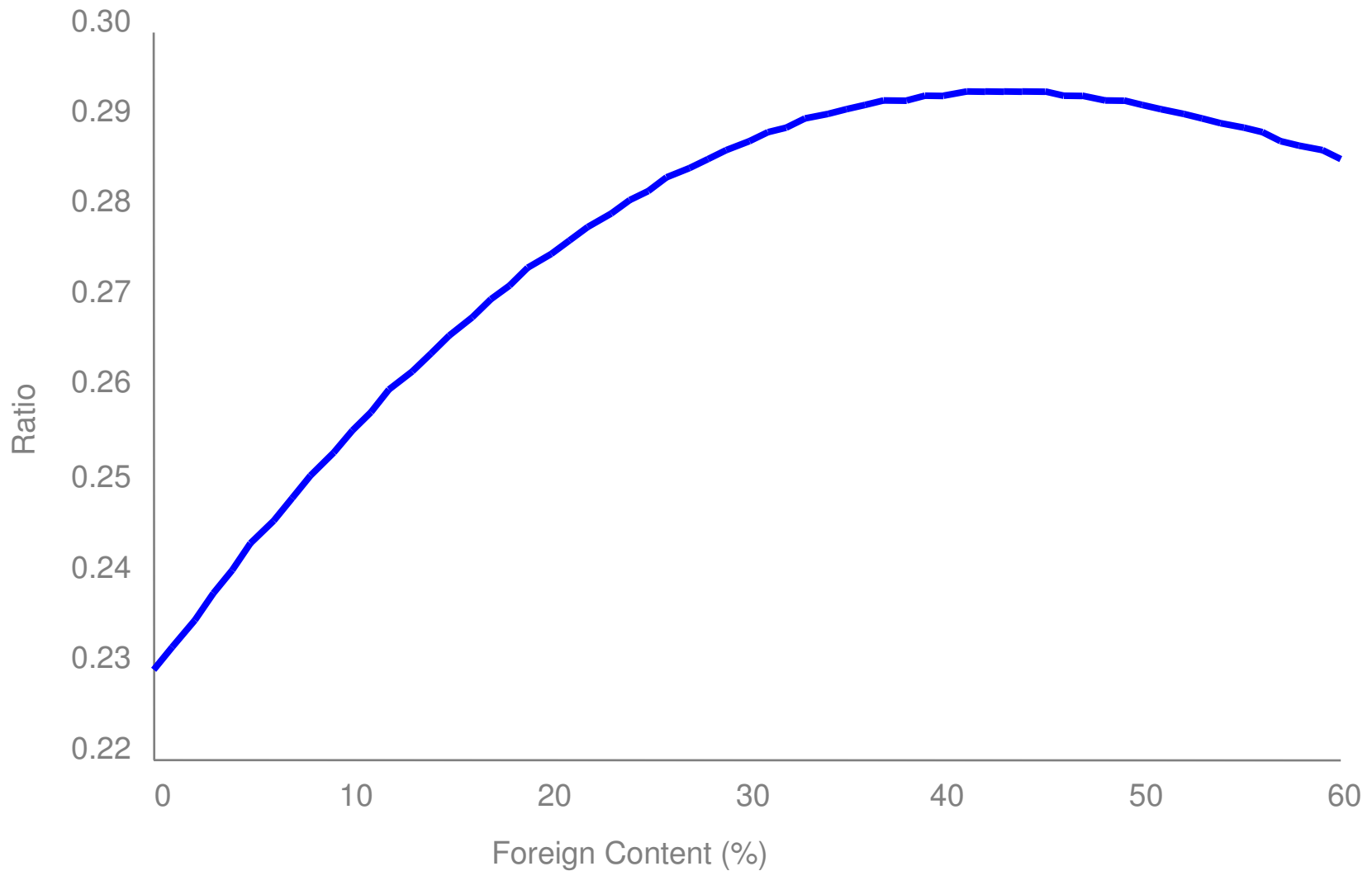


# Large Cap Stocks Have Underperformed Five Years Ended March 31, 2006

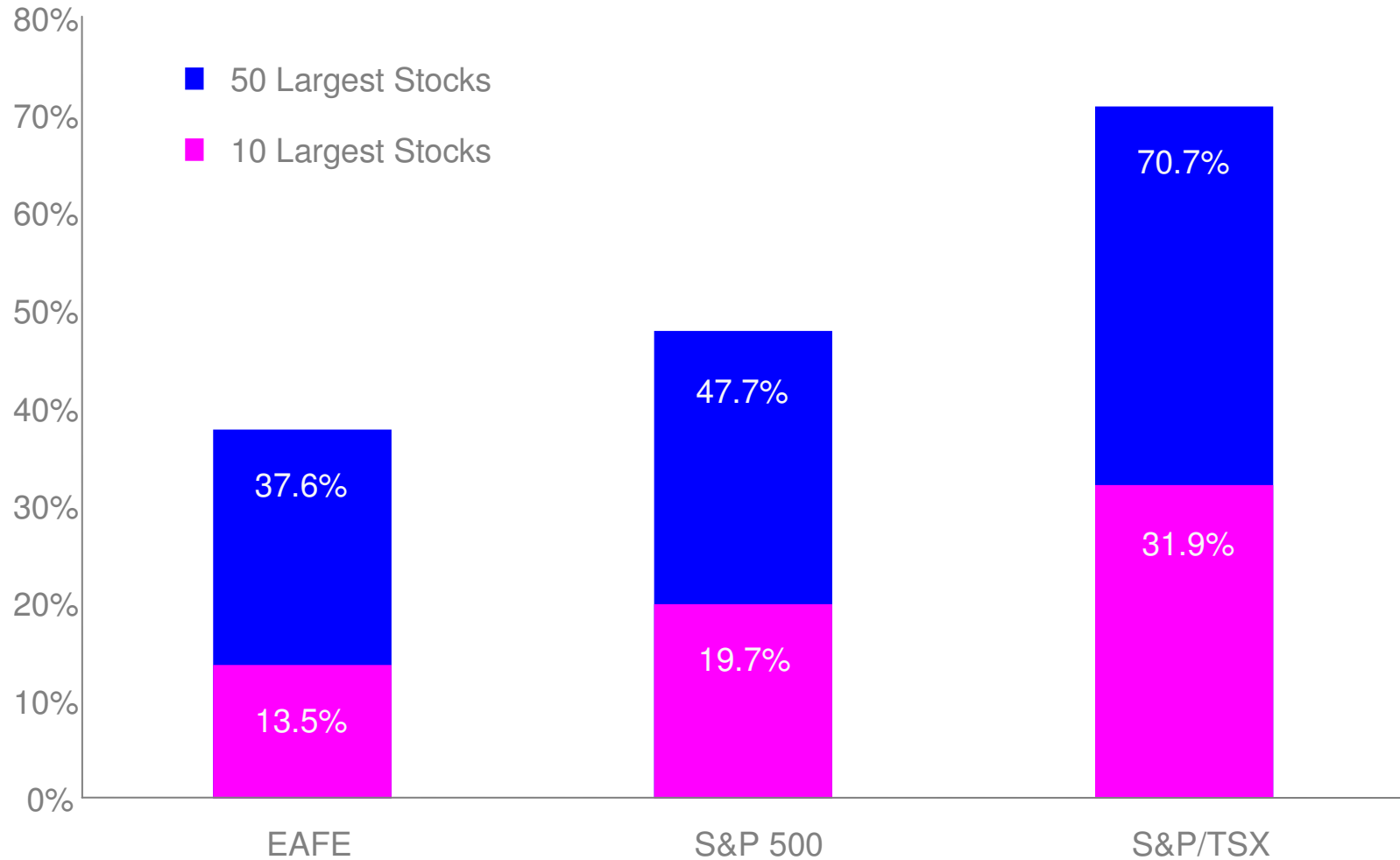


# Benefits of Diversification

Maximum Sharpe Ratio by Foreign Content (1970 – 2004)



# Share of Market Capitalization for Largest Companies in the S&P/TSX



# An “Investable” Universe?

## Energy & Materials

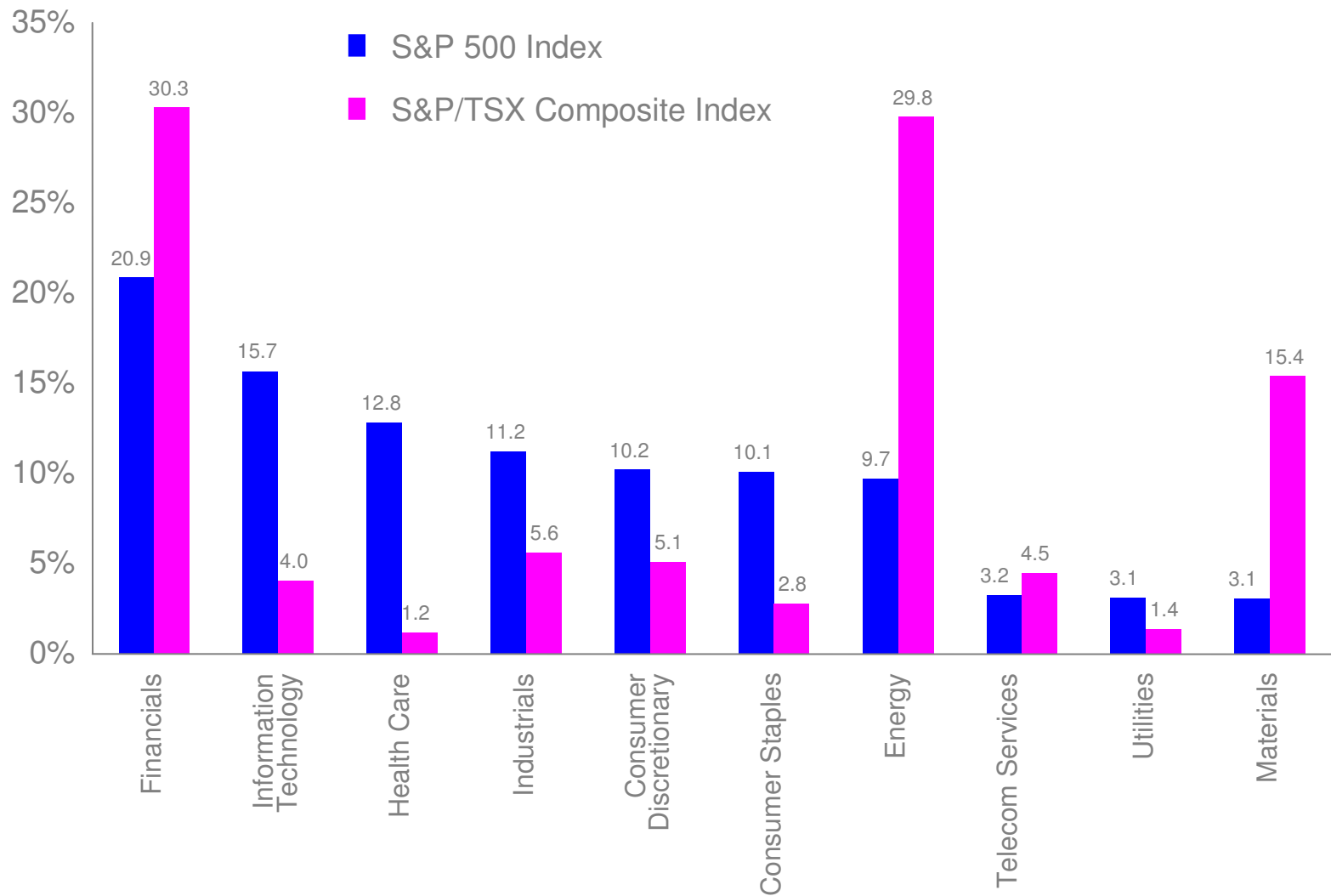
Energy	29.8%
Metals	6.3%
Golds	5.9%
Forest Products	0.8%
Other Materials	<u>2.4%</u>
	45.2%

- Imprudent to match market weight with commodity prices at all time highs
- Earnings expectation levels remain very high



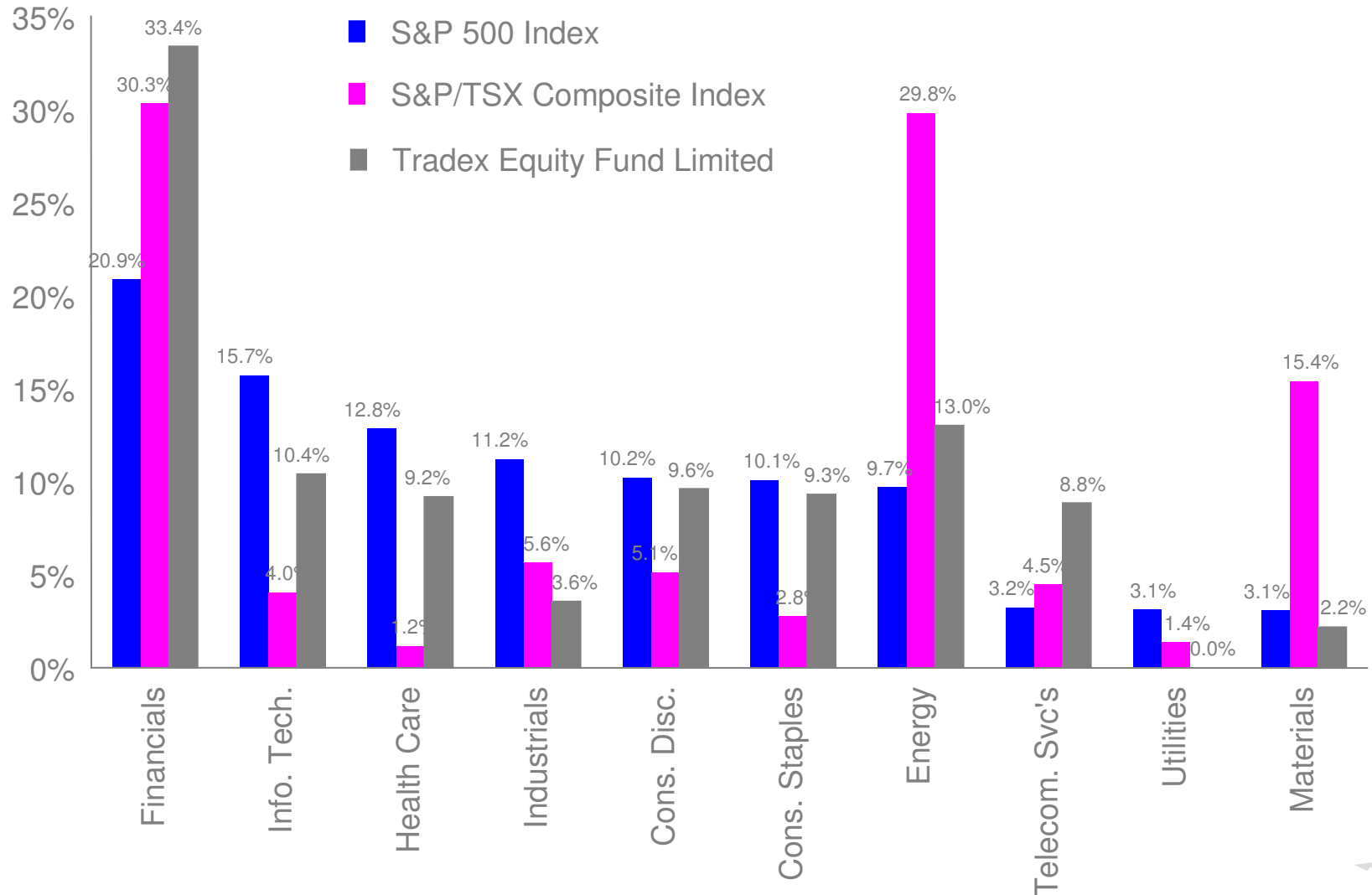
# S&P 500 Index Versus S&P/TSX Composite Index

## Sector Weights as at March 31, 2006



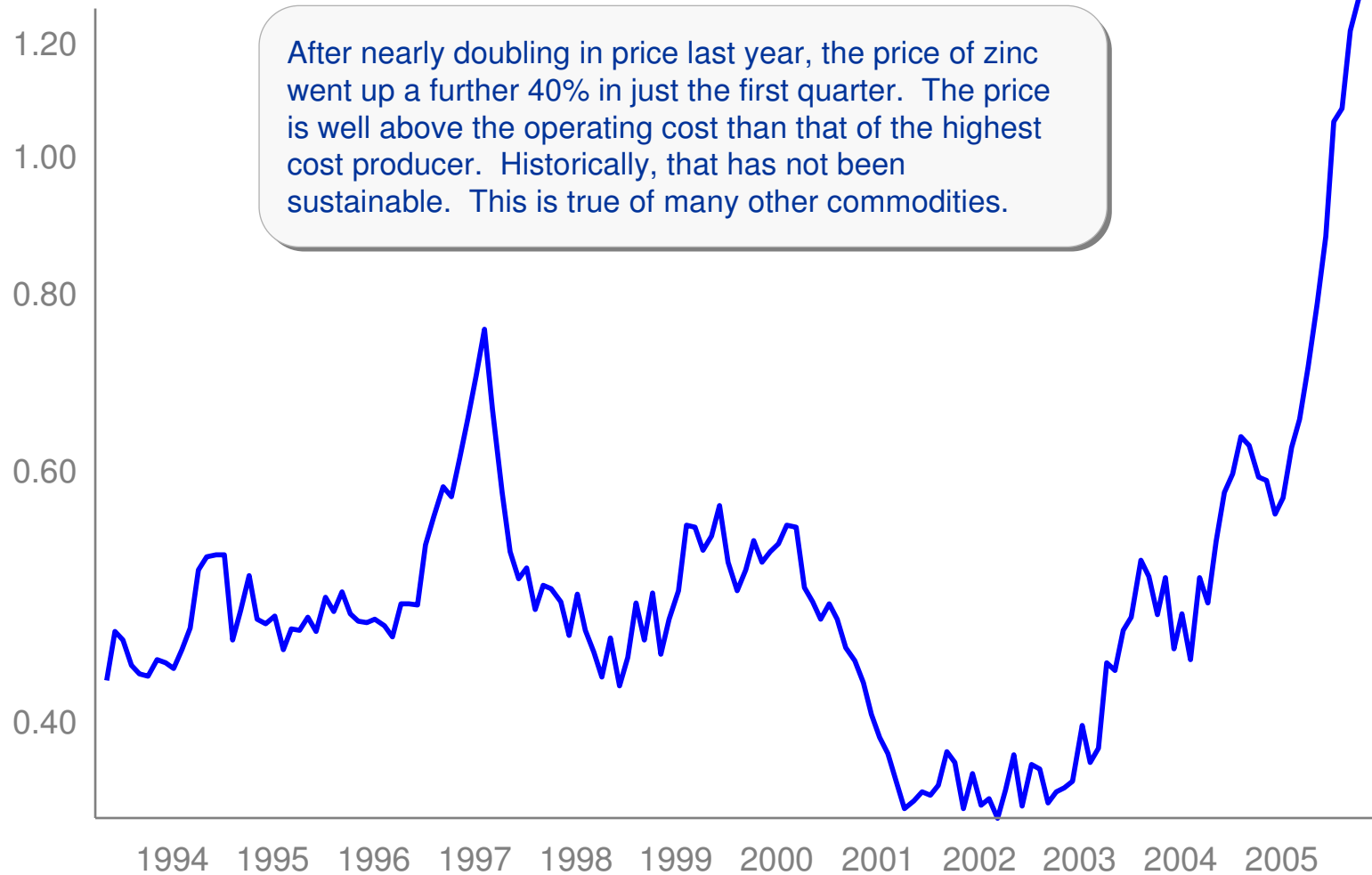
# S&P 500 Index Versus S&P/TSX Composite Index

## Sector Weights as at March 31, 2006



# All that Glitters is Zinc

## Zinc Spot Price

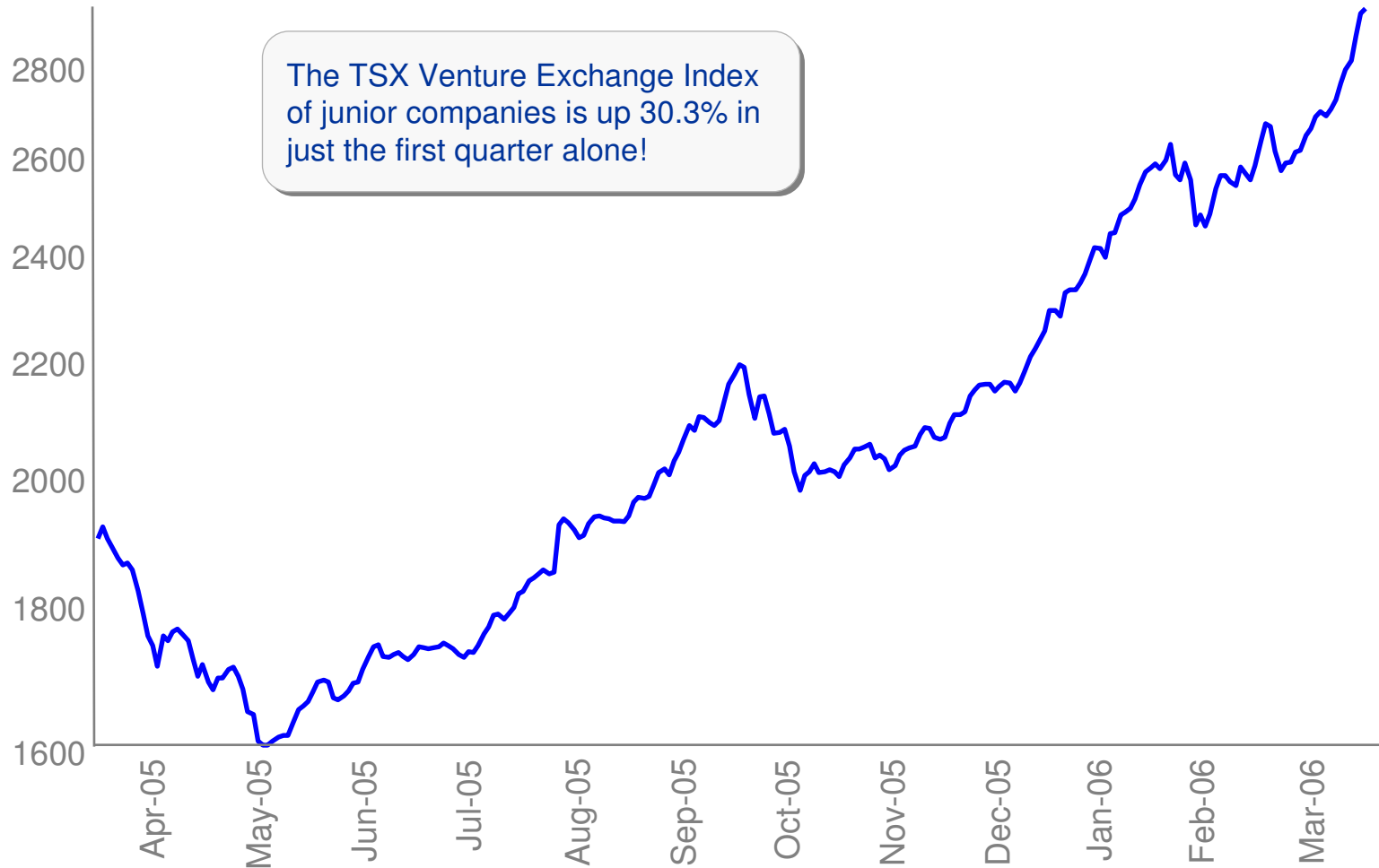


After nearly doubling in price last year, the price of zinc went up a further 40% in just the first quarter. The price is well above the operating cost than that of the highest cost producer. Historically, that has not been sustainable. This is true of many other commodities.



# Signs of Speculation

## S&P/TSX Venture Composite Index



# Deja-vu All Over Again

Year Ended March 31<sup>st</sup>

	TSX*	1 Year Return	3 Year Return		TSX*	1 Year Return	3 Year Return
1957	275.347	-1.0%		1982	1998.61	-28.8%	7.2%
1958	232.307	-15.6%		1983	2850.42	42.6%	11.1%
1959	295.194	27.1%	2.0%	1984	3269.4	14.7%	5.2%
1960	277.517	-6.0%	0.3%	1985	3720.81	13.8%	23.0%
1961	340.113	22.6%	13.5%	1986	4486.28	20.6%	16.3%
1962	397.056	16.7%	10.4%	1987	5666.89	26.3%	20.1%
1963	394.446	-0.7%	12.4%	1988	5166.26	-8.8%	11.6%
1964	461.234	16.9%	10.7%	1989	5782.84	11.9%	8.8%
1965	570.051	23.6%	12.8%	1990	6093.7	5.4%	2.5%
1966	585.104	2.6%	14.0%	1991	6083.5	-0.2%	5.6%
1967	605.255	3.4%	9.5%	1992	6162.76	1.3%	2.1%
1968	581.374	-3.9%	0.7%	1993	6714.88	9.0%	3.3%
1969	790.569	36.0%	10.6%	1994	8283.08	23.4%	10.8%
1970	767.405	-2.9%	8.2%	1995	8451.13	2.0%	11.1%
1971	802.387	4.6%	11.3%	1996	9964.21	17.9%	14.1%
1972	888.646	10.8%	4.0%	1997	11961.2	20.0%	13.0%
1973	1040.963	17.1%	10.7%	1998	15706.32	31.3%	22.9%
1974	1053.514	1.2%	9.5%	1999	13937.91	-11.3%	11.8%
1975	901.759	-14.4%	0.5%	2000	20277.29	45.5%	19.2%
1976	1006.698	11.6%	-1.1%	2001	16503.59	-18.6%	1.7%
1977	1028.144	2.1%	-0.8%	2002	17308.41	4.9%	7.5%
1978	1124.208	9.3%	7.6%	2003	14,261.66	-17.6%	-11.1%
1979	1623.645	44.4%	17.3%	2004	19,642.96	37.7%	6.0%
1980	2079.19	28.1%	26.5%	2005	22,379.49	13.9%	8.9%
1981	2807.32	35.0%	35.7%	<b>2006</b>	<b>28,742.03</b>	<b>28.4%</b>	<b>26.3%</b>

\* Total Return Index

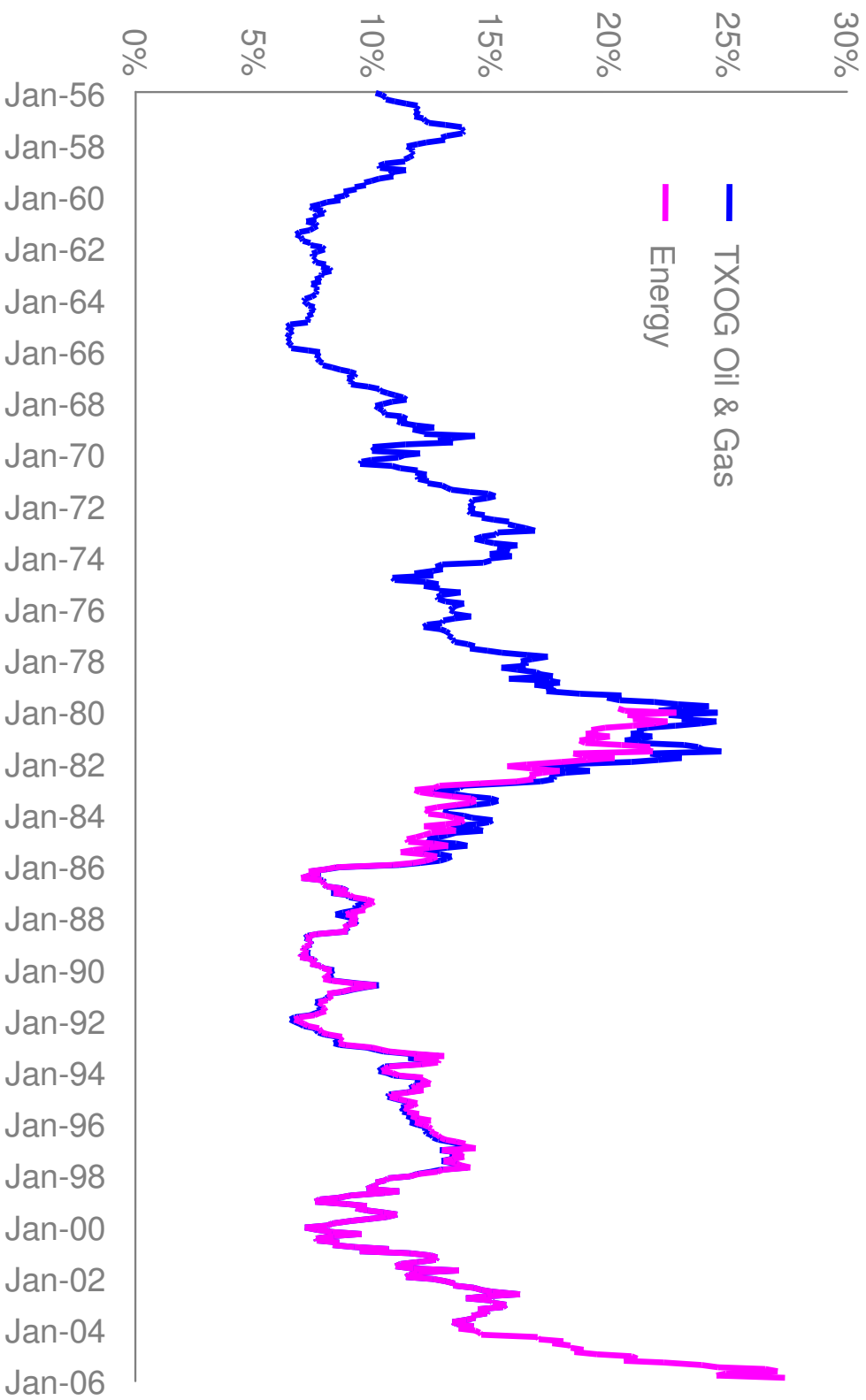
One-year returns in excess of 28% have rarely occurred.

Three-year annualized returns have only been above current levels twice before in the 1980 - 1981 periods when energy stocks rose strongly from about a 15% market weight to 25%.



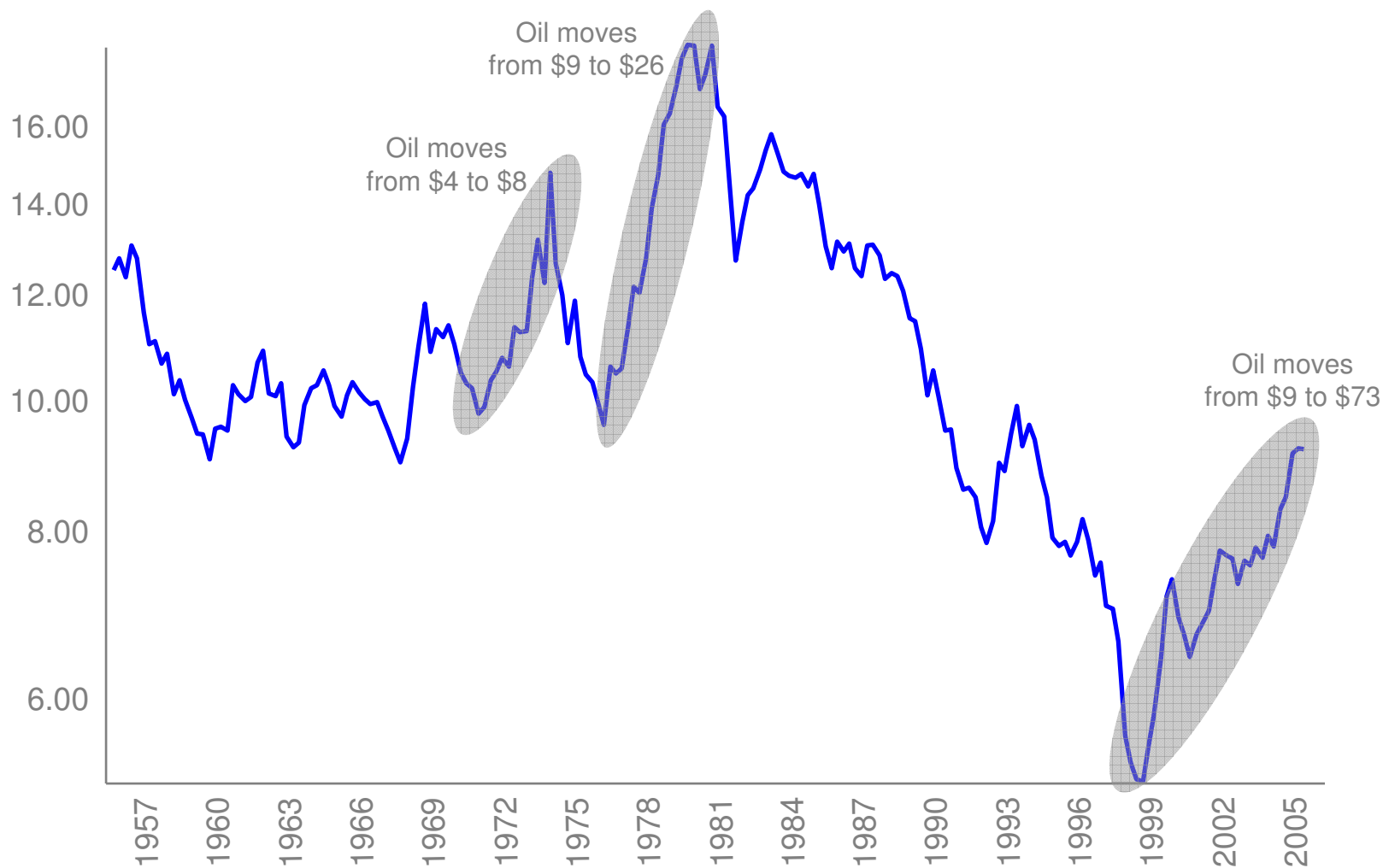
# Deja-Vu?

## Energy Stocks in Canada



# The One Trick Pony?

## S&P/TSX Composite Index Relative to S&P 500 Index



# Summary

- Expectations are at extremely high levels
  - particularly for Energy & Materials
  - signs of speculation starting to surface
  
- Focus needs to shift to include other markets
  - TSX less and less an “investable” universe at present
    - exposure to Energy, material simply too high
  - foreign exposure has had an opportunity cost but will be of benefit longer term
  - in particular, “big cap” U.S. stocks look attractive



# **Tradex Equity Fund**

## **Annual General Meeting**

April 26, 2006



**PHILLIPS, HAGER & NORTH**

*Presented by: Paul Balfour, Vice President*