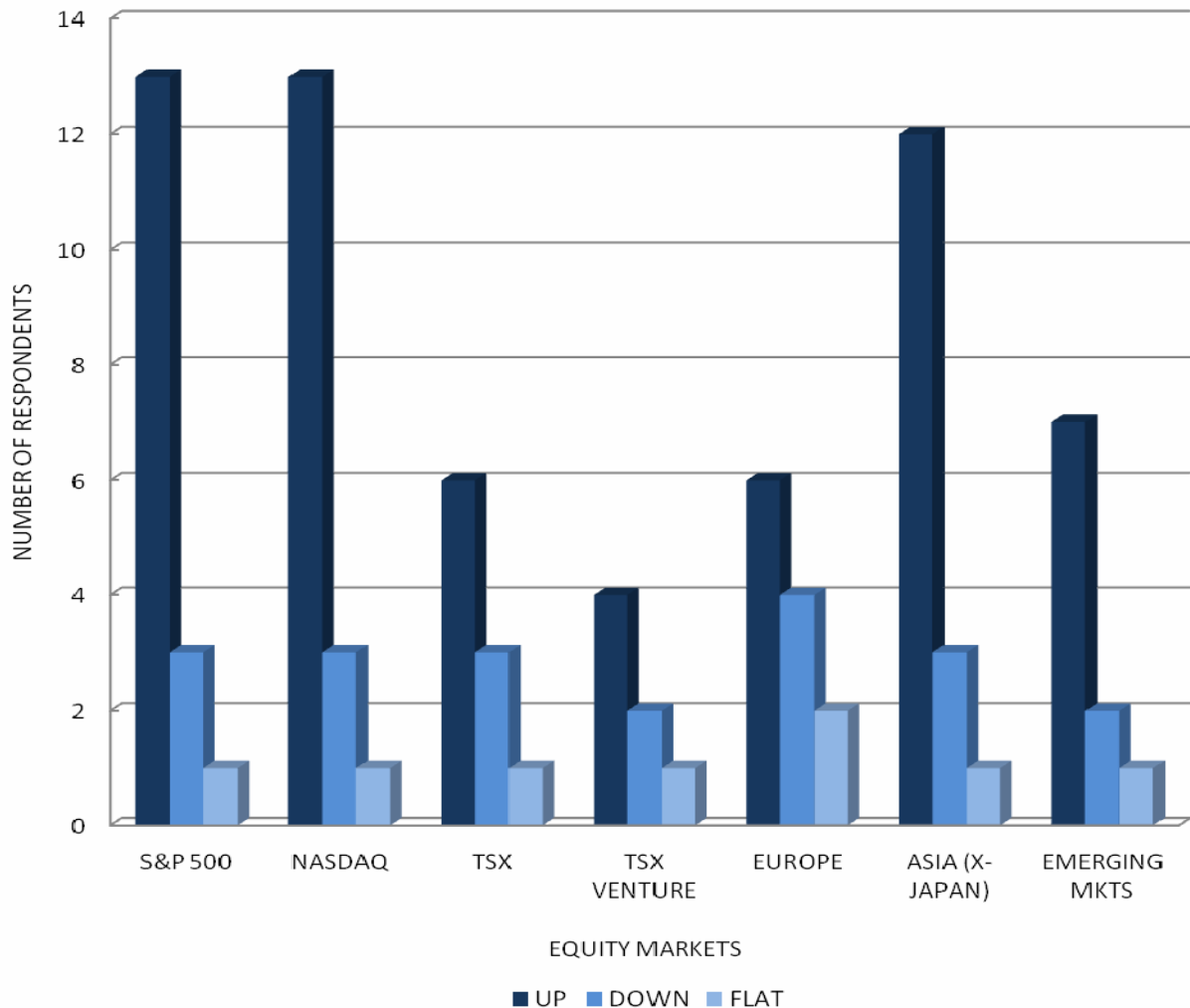


2010 OUTLOOK

Markets, Interest Rates & Commodity price **CONSENSUS OPINIONS**

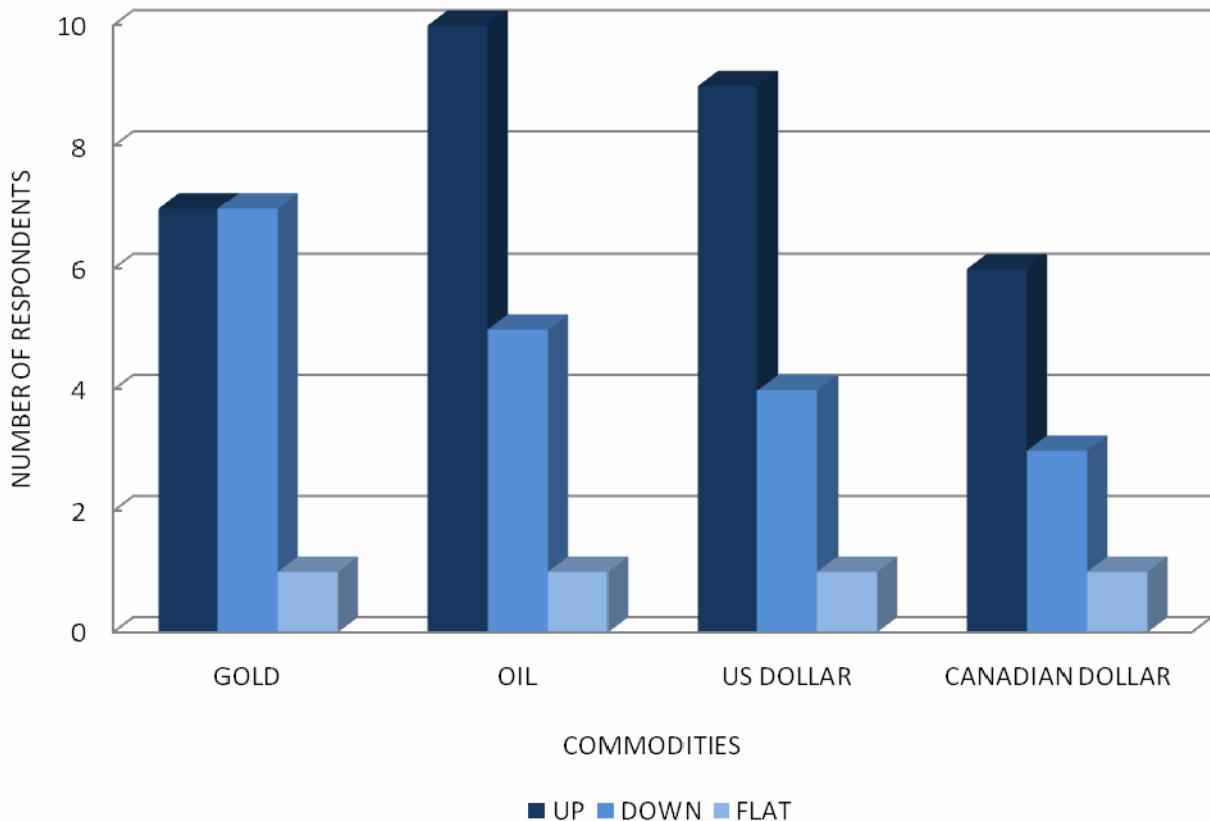
Although financial forecasting can be a humbling profession even in the best of times, as we begin the dawn of a new decade we sought the greater wisdom of “the collective” – the brightest minds – those with proven track records.

We’ve perused several Wall Street, Bay Street, and global research documents and compiled many of the very best outlooks on what to expect for the coming year. The list of contributors includes a wide array of chief decision makers at top-rated firms; various analysts, chief economists, strategists, portfolio and mutual fund managers. We hope you find the conclusions helpful in mapping your successful 2010 and beyond.



The overwhelming consensus views are:

- There will be a muted recovery but still some **economic GROWTH**
- **Equity markets** will be UP across the board (US, Canada, & global markets)
- Most popular forecast involves a large-cap multi-national/emerging market barbell for equity allocation
- Decided preference for **emerging markets** (as that is where the growth is going to come from)
- Generally positive to neutral on the **U.S. dollar** (we see near-term countertrend rally, but still in a secular bear phase)
- Generally positive on the **Canadian dollar** (still in a secular bull phase)
- Positive on **commodities** (risk is that they consolidate — we do not foresee a sustained bear market here unless China relapses)
- Negative on long **government bonds** across the board because of concern over government balance



Summary for Canada:

While I believe a sustainable return to inflation is a long way off, there is little doubt we will see the U.S. money supply continue to expand rapidly, a positive for commodities, which are after all priced in U.S. dollars. And it appears that strong emerging market growth—in China and India in particular—has been a key reason why the Canadian stock market, with its resource exposure, has continued to do well compared with U.S. markets, especially in light of the strengthening Canadian dollar. I expect commodities to continue to outperform. I see the range of possible outcomes in the markets and the economy to be extremely wide and that’s why defensive strategies that minimize volatility and downside risks are the right course.

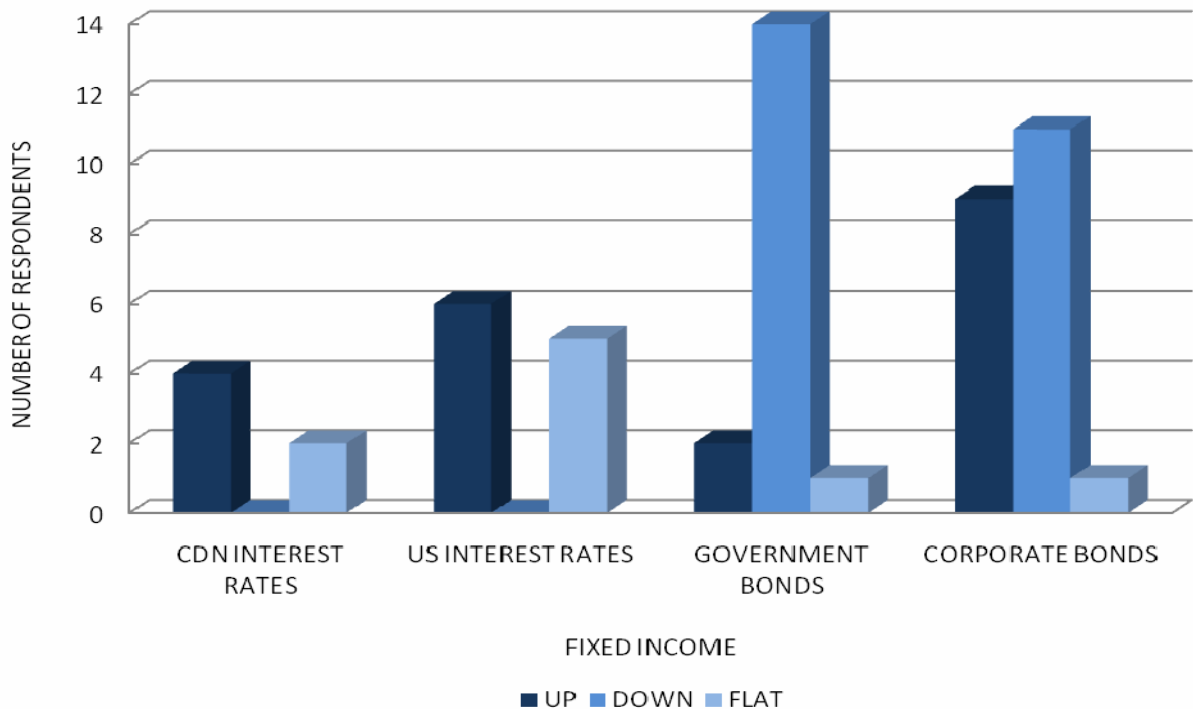
-David Rosenberg, Gluskin Sheff + Associates Inc.

Goldman Sachs 2010 Investment Outlook

The rally is going to continue into 2010 according to Wall Street’s most influential bank. Europe and America have released their full year 2010 estimates and they are very bullish about the upcoming year.

Goldman sees very low rates, stronger than expected earnings, strong commodity demand and investor reallocation driving prices higher. Goldman sees no rate changes through 2011 – one of the most accommodative outlooks of any bank we have covered. Stronger than expected revenue growth and continued margin expansion will result in 15%+ equity returns in the upcoming year.

Goldman argues that we are transitioning into the growth phase of the recovery from the hope phase. This period is generally characterized by stabilization in economic growth and lower equity returns than the hope phase.



RBC's 2010 Outlook

H1 (first half) of 2010 will be very strong as the trends of late 2009 continue to play out while H2 2010 will be fraught with risks that could lead to a sizable market downturn.

- Fundamentals will continue to rebound led by growth
- Market technicals remain supportive, though slightly rich
- External backdrop improving, though risks abound
- Remain bullish in H1 with 'catch-up' trade; adopt defensiveness on approach of H2

The outlook for Emerging Markets (EM) is decidedly bullish on a long-term basis which should translate into solid returns in 2010 (particularly in H1), though the ongoing fallout from the financial crisis will continue to require disciplined risk management.

Morgan Stanley's 2010 Outlook

Morgan Stanley's *European* strategy team sees substantial headwinds ahead of the equity markets and ultimately a negative year for 2010. They believe the current momentum and optimism could send markets 10% higher, but MS ultimately believes the withdrawal of stimulus will sap the market of its strength and instill doubts about 2011 growth. MS says the markets will decline 5% in 2010 and could fall as low as 13% during the year:

"The withdrawal of stimulus will be a very dangerous period for the economy and markets. We expect a consolidation in markets associated with the start of tightening and its impact on 2011 growth".



Bank of America/Merrill Lynch Is Bullish On 2010

Merrill Lynch. Bank of America Merrill Lynch is very bullish heading into 2010. They see many of the trends of 2009 continuing into 2010 and driving equity markets around the world higher by double digits.

“We believe the global economy will gather momentum in 2010. We think that the unprecedented mix of near-zero interest rates and high budget deficits will engineer an economic recovery that is real and sustainable. We aren’t forecasting a swift return to robust growth. In fact, the recovery will likely lag behind those of previous recessions – but we believe that the world economy will perform far better than the economic consensus would indicate.”

- Global growth will be 4.4%, Chinese growth will be 10.1% and U.S. growth will be 3.2% – all above 2010 consensus estimates.
- Inflation will remain benign.
- U.S. stocks will rise 15% led by strong growth in global cyclical sectors – tech, energy, industrials and materials. Financials are also expected to perform well as the yield curve remains conducive to strong earnings.
- The MSCI All-Country World Index will rise 20 percent.
- Gold and oil will both continue to rally as strong demand from foreign investors remains the primary driver. Gold will breach \$1,500 and oil will surpass \$100.
- Government bonds will perform poorly.
- The Dollar & Yen will rally against the Euro.

“Poor returns from the equities markets over the past decade, particularly from large cap equities, have created a pessimism bubble among investors,” said BA/ML. “We believe the S&P 500 is now undervalued, which could create many investment opportunities in the year ahead. Given our expectations for global growth led by emerging economies, a slow but steady U.S. recovery, and healthy S&P 500 EPS growth, we think that the pessimism bubble will finally burst in 2010.”

Pension, Mutual Fund and Private Wealth Managers

The latest Merrill Lynch Fund Managers Survey showed that 80% of fund managers expect the economy to grow next year. Expectations for corporate profits are at their highest level since late 2003. Last month the survey showed that 52% of fund managers expected 10% earnings growth or more in 2010. The latest reading showed a robust 62% of managers now see 10%+ growth in earnings. 6% of managers are underweight cash while 18% were overweight cash as of last month’s reading. Michael Hartnett, Chief Global Equity Strategist at ML said:

“Investors are nervous but optimistic heading into the new year, and respondents are looking for a 7.7 percent total return from global equity markets.”

Leuthold Turns More Cautious On 2010

Steven Leuthold, chairman of Leuthold Weeden Capital Management has turned more cautious on the market, but still believes we are in a new cyclical bull market. Leuthold was famously bearish heading into the downturn and proved prescient when he turned bullish near the bottom. He says the market will be much more challenging in 2010 and says the second half has the potential to see a sizable downturn.

Bill Gross, Pimco

The *New Normal* is the normal pattern after a big stock market bust and then a very substantial rally. Usually, in the 19 secular bear markets we've studied in the last 110 years, you then have a 5-7 year period of slow growth and nothing much happening in the economy. But Gross' thesis has been so embraced by everyone, and is now so much the consensus that everyone's heads nod when you talk about it, that it's going to be wrong for one reason or another.

They are undervalued. The overall market, including small-cap and medium-cap stocks, is about fairly valued based on normalized earnings the way we calculate them, but big-cap stocks, like the S&P 100, are about one standard deviation cheap. We are normalizing using five years of history with a forward earnings component for 2010.

Nouriel Roubini, RGE Monitor

"We could get into a cascading stock market and economic decline. Along with that could come some very serious anarchy."

T. Rowe Price

"Buy value stocks, recovering financials and names that will benefit from global growth and a pickup in merger activity. Other theme: healthy gains in health care sector."

Federated Investors

"Stocks are overvalued and risky, credit problems persist and the fledgling economic recovery is likely to relapse".

Have a happy, healthy and prosperous 2010!

Saverio Manzo

Financial Strategist

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Source: Abby Joseph Cohen - Goldman Sachs, Morgan Stanley, Michael Hartnett- Bank of America Merrill Lynch, RBC Capital, Donald Coxe - Coxe Advisors, BMO Capital Markets , David Rosenberg - Gluskin Sheff + Associates, T. Rowe Price, Federated Investors, Brain Fabbri - BNP Paribas, Sherry Cooper – BMO, Kurt Karl - Swiss RE, Investment Postcards, Barry Ritholtz, Peter Grandich, Nouriel Roubini, Marc Faber, Bill Gross - PIMCO, Barton Riggs, Eric Sprott – Sprott Capital, Jeremy Siegel, Steven Leuthold, Jeremy Grantham & Merrill Lynch Fund Managers Survey

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