BCM SPRING 2010 COMMENTARY

From a global perspective, the first few months of 2010 will be remembered for a number of large thematic macro issues that came to the fore. The most significant and perhaps longest lasting of these is the European sovereign debt issue. News of Greece and its need for a structured bailout have dominated equity, fixed income and currency market trends for the past few months. The seriousness of a potential EU member-state debt default for the Euro zone cannot be dismissed and brings to light the inherent instability of Monetary Unions with both "have" and "have not" economies. Yet Greece is not alone in its fiscal problems and in the absence of immediate reform and extraordinary austerity measures the prospect of contagion is real. Markets have been buoyed by the belief that the International Monetary Fund and Germany will aid Greece in its near term restructuring. But the true value of this package is to prevent further deterioration in other weak regional economies with exposure to Greek debt - such as Spain, which is too big for even the IMF to bailout. Whether this stop gap will ultimately be successful in application remains to be seen and we keep a wary eye on developments in southern Europe.

The importance of politics to global investors was not limited to Greece however, and it has been an active few months for governments on both sides of the North Atlantic. Close to home, a surprise republican win in January's Massachusetts Senatorial race called threw the Obama administration's ability to move forward on a number of policy issues, most notably healthcare, into disarray. While across the pond, campaigns for a hotly contested UK election on May 6th kicked into high gear and public support polls presently indicate that Britain could see a hung and therefore less effective parliament. This comes at a time when the UK most needs a decisive and powerful government to rebuild competitiveness in its own struggling economy and such a prospect has weighed on British markets as well as the Pound.

Recent GDP growth in North America and Emerging Markets has been exceptional, while the Eurozone has lagged as a group mainly due to the aforementioned internal imbalances. Canada's economy is performing very well - a result of continued stimulus, increased business and household confidence and large increases in income and foreign demand for Canadian goods. Residential investment (i.e. home sales) has been robust as well. We saw inflation surprise to the upside in February and March which resulted in speculation that interest rates in Canada could rise higher and faster than expected. This, coupled with a 20% rise in the price of crude oil, helped the Loonie rise by 7 cents against the dollar, closing above parity for the first time in 2 years. It also sparked an expected selloff in many fixed-income oriented securities such as bonds and preferred shares which we mostly avoided by remaining underweight income positions in client accounts. Given the interest rate headwinds, we do not expect to increase fixed income positions in the near future, unless a truly fantastic opportunity presents itself. This is somewhat frustrating given that the yield on cash is essentially zero at the present time; however, a zero percent return on cash (for the time being) is better than a negative return on fixed income investments made at the trough of the interest rate cycle.

We have no doubt that the global economic recovery is well underway and is being led by emerging economies which are prospering from both domestic demand and export growth. Unemployment rates appear to have stabilized in most developed countries, and in some cases are beginning to decline, but the extensive economic restructuring in many sectors is likely to have persistent effects on long term employment levels. Productivity gains however have been strong and companies in most sectors generally have extremely healthy balance sheets. Revenues growth is slow, but remains in positive territory and expectations are for technology, base metals, energy and financials to show leadership as the recovery continues. Expectations for a double dip recession in North America at this point are low, but we are in no rush to allocate cash back into equities yet as we believe that the probability for a moderate pullback of between 8 to 10% are relatively high. When we do begin do put excess cash to work it will be to add exposure to the stronger elements of the global economy with a focus on higher yielding global blue-chip companies.

Client allocations to our portfolio of external alternative strategies managers remain in line with recent history, with most clients holding between 20% and 25% of their assets in a combination of “event-driven” (Vertex), “managed futures” (Man AHL), and “long-short” (Picton Mahoney) strategies. Since the market trough 12 months ago, this diversified approach to alternative investment has been an effective way for us to enhance client portfolio returns and returns in the most recent quarter have remained strong. More information on these strategies in contained in the attached performance report package.

Speaking of the performance report, it had been my intention for some time to make a considerable improvement to the package that you all receive each quarter. As you will see the new report provides a great deal of new and detailed information on your portfolio’s performance and asset mix. If you have any questions or comments, I’d be happy to hear them.

So far this year our client portfolios are exactly where we want them to be - ahead of the curve, but with significantly lower volatility and risk exposure. We remain well positioned to take advantage of both the continued economic recovery as well any big market shocks that present buying opportunities and look forward to doing both on your behalf. Best wishes for a fantastic summer.

Regards,

Andrew Shortreid, CFA
Portfolio Manager