



"The market always does what it's supposed to -- but never when." Wall Street proverb

<p>Canada</p> <ul style="list-style-type: none">➤ Canadian economy set to slow further in 2012 as commodity bull market moderates➤ Bank of Canada continues to warn about high real estate prices and high consumer debt levels across most of the country <p>United States</p> <ul style="list-style-type: none">➤ Current polls favour Barack Obama to win the November election over any of the Republican candidates➤ Expect taxes to begin rising in the US in 2012 as Bush era tax cuts for the wealthy are set to expire <p>Europe</p> <ul style="list-style-type: none">➤ European policy makers continue to lag the economic reality in Europe – bold pro-growth restructuring is	<p><u>Fourth Quarter 2011: The Empire Awakens</u></p> <p>Global stock markets declined modestly during the fourth quarter ending December 31, 2011, putting to rest an anxiety filled and volatile year for the global economy. After peaking in March of 2011, most stock markets ended the year with double-digit losses as fears of a slowing in the European and Chinese economies overcame strong corporate earnings growth. The one large exception to this pattern was the US stock market which closed the year unchanged with 2010, a dramatic outperformance relative to the rest of the world.</p> <p>There were many reasons for the outperformance of the US stock markets during 2011, but the largest appears to be a dramatic improvement in their labour markets, coupled with strong corporate earnings from multi-national companies such as McDonalds, Coke and Apple. In addition, the inability of the European Union to resolve the debt problems of Greece and Italy in a coherent fashion made the US government appear responsible in comparison.</p> <p>The political turmoil in Europe, coupled with concerns over rising inflation in China, created extreme volatility in stock markets throughout the year and large swings in investor sentiment. The financial sectors were hardest hit, with bank stocks in Europe and the US falling by more than 20% on average in a mini-replay of the great banking collapse of 2008-2009.</p> <p>Yet despite the negative headlines and stock markets in 2011, it is important to note that the major economies of Germany, the United States and China continued to grow, and the growth rates in those regions are likely to stabilize or even improve in the latter half of 2012. In China, easing inflation has given the authorities in China wiggle room to begin encouraging more investment and consumer spending. In Europe, business and</p>
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needed, instead they get more taxes

Emerging Economies

- Emerging economies continue to outperform with strong consumer spending, exports and rock solid corporate balance sheets.

consumer confidence is likely to improve from near all-time lows as it becomes apparent that the European Union and the Euro dollar are not about to implode. The United States is enjoying a recovery in its labour markets with the private sector finally feeling confident enough to begin hiring again, albeit at a slower pace than normal.

However, despite these improvements, consumers in most of the developed world are still struggling with high debt levels, and are responding by increasing their savings rates. The desire to reduce debt at the consumer level, combined with slowing government spending going forward, will mean below-average economic growth for the immediate future. In turn, high savings rates will keep interest rates low and inflation in check.

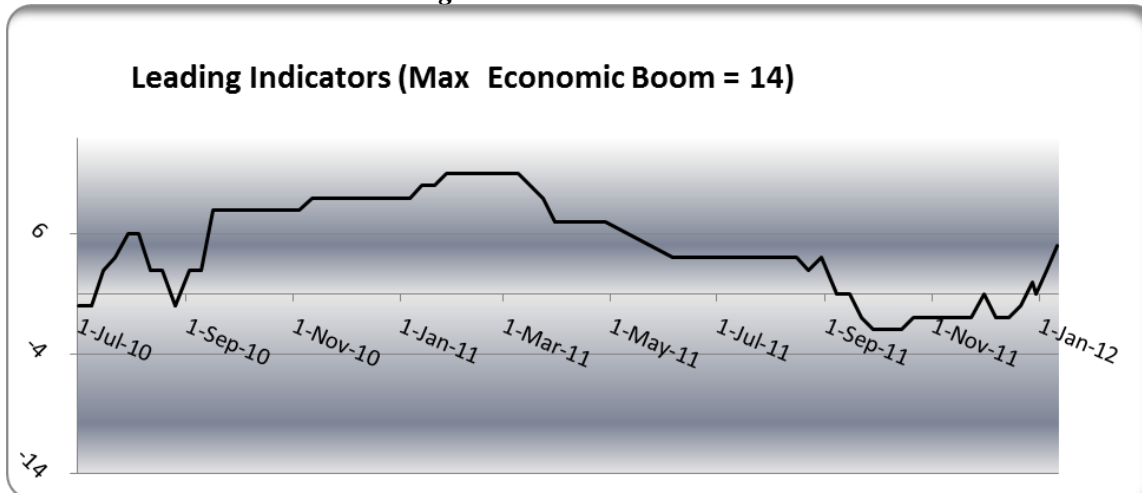
Economic Outlook 2011-2012:

Main Street Growth Slowing – All-in-all, recent geopolitical events and turmoil in Europe is beginning to dissipate, and we are cautiously optimistic that the worst of the banking and liquidity issues in Spain, Italy and Greece are behind us. The IMF (International Monetary Fund) is projecting 4.0% world economic growth in 2012 comprised of 1.1% growth in the Euro Region, 6.1% growth in the Emerging Economies including China and India, 1.9% growth in Canada, and 1.8% growth for the United States. This macro environment, while slower than we would like, continues to be supportive for investments in stocks, corporate debt and selective commodities including copper, oil, gold and silver.

Leading Economic Indicators Improving - Looking out 12 months, our leading economic indicators (**Chart 1**) have improved in the past two months suggesting that global economic growth should accelerate as we move through 2012. Employment growth in the key U.S. market is improving and there are definitive signs that the all-important U.S. housing market is stabilizing. If so, bank lending and employment growth may begin to improve materially in the second half of 2012.



Chart 1 - Global Economic Leading Indicators



The Game Plan - Modest economic growth, low inflation, and high debt levels suggest that the economy, and public stock markets, will remain vulnerable to short-term shocks. It would be sensible to assume that the markets will remain more volatile than the underlying economies, thus creating trading opportunities from time-to-time. For the next few years, stock and bond market returns are likely to remain at, or below, their long-term averages meaning that high yield and alternative investments should play a larger role in portfolios. These types of investments will reduce volatility, help to preserve capital when public markets are under pressure, and generate steady income for reinvestment or retirement needs.

Capital Markets Outlook:

Bond Markets – Government bond yields in Canada and the U.S. closed a volatile fourth quarter with very little change. The U.S. 10-year Treasury bond yield finished the quarter with a yield-to-maturity just below 2.0% (see **Chart 2** below). Shorter-term interest rates in Canada and the U.S. are still below 1.0%, although these rates may begin rising in the second half of 2012 as policy makers begin the process of normalizing interest rates. Inflation expectations have moderated in Canada and the US with the bond market signaling less than a 1.5% inflation rate as the most likely course going forward.





Chart 2: US 10-Year Bond Yield – Three Months Ending January 20, 2012



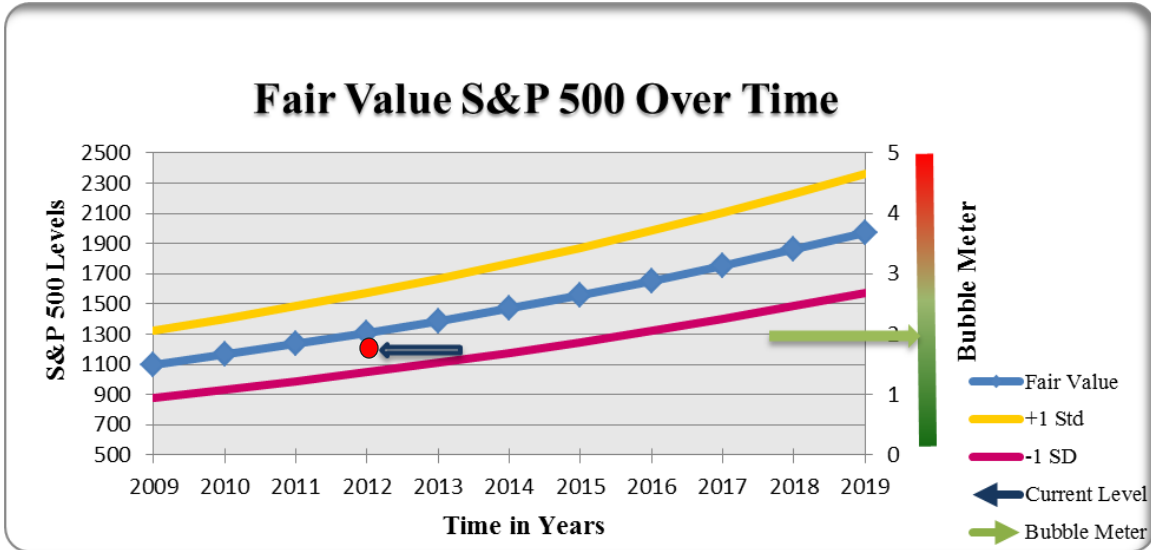
In this environment, we continue to see little upside to owning government bonds as the risks outweigh the potential returns by a considerable margin. Investment grade corporate bonds, high-yield “blue chip” stocks, and rent producing real estate all offer superior risk/return tradeoffs versus passively investing in sovereign debt.

North American Equity – The stock markets during the past six months moved from a modestly overvalued position to a modestly undervalued position as of December 31, 2011. The current level of the S&P 500 in the United States is “discounting” future long-term returns for equity investors of about 7.2% per annum. **Chart 3** on page 6 highlights the most likely paths for the stock markets going forward. The blue “Fair Value” line shows our current and future estimates for the fair value of the S&P 500 equity index in the U.S. On the right axis we have superimposed our “Bubble Meter” readings which are used as a gauge to help determine the level of speculation in the stock markets. All else being equal, low speculation means less downside risk for investors and vice versa. Today, the “Bubble Meter” is in a negative position, meaning that there is excessive pessimism in the global stock markets.

With respect to valuation, the U.S. stock market as of December 31, 2011, was modestly below its fair value (red dot on Chart 3) using what we believe to be conservative inputs into our dividend discount models. With reinvestment opportunities at relatively low levels, corporations will continue to increase their dividend payouts and stock buybacks, which should help to move the markets higher over time, perhaps significantly.



Chart 3 - S&P 500 Fair Value over Time



Bullion and Precious Metals - Prices for gold and silver continued to climb for most of 2011, with gold trading over \$1,900 per ounce during the second quarter. For all of 2011, gold rose by 10%. There have been many factors driving these positive long-term trends, the most important of which appears to be the ultra-low interest rates that are prevailing in most of the world’s developed economies. With short-term interest rates well below current inflation rates, so-called “real” (after inflation) interest rates are now negative. This same phenomenon occurred throughout most of the 1970’s which, not coincidentally, was the last great period of gold outperformance.

Negative real interest rates discourage savers from investing in short-term paper, and in this environment some of the normal demand for money market and savings accounts finds its way to gold. Gold is now viewed as a substitute for paper currencies, especially when investors are not being properly compensated for investing in U.S. dollars. In addition to low interest rates, there are several additional factors driving gold higher including a perception that the global banking system is still at risk, fears of large sovereign debt levels, investor demand for alternative assets, high gold mining costs and a lack of new mine supply.

MacNicol & Associates Alternative Asset Strategy Update:

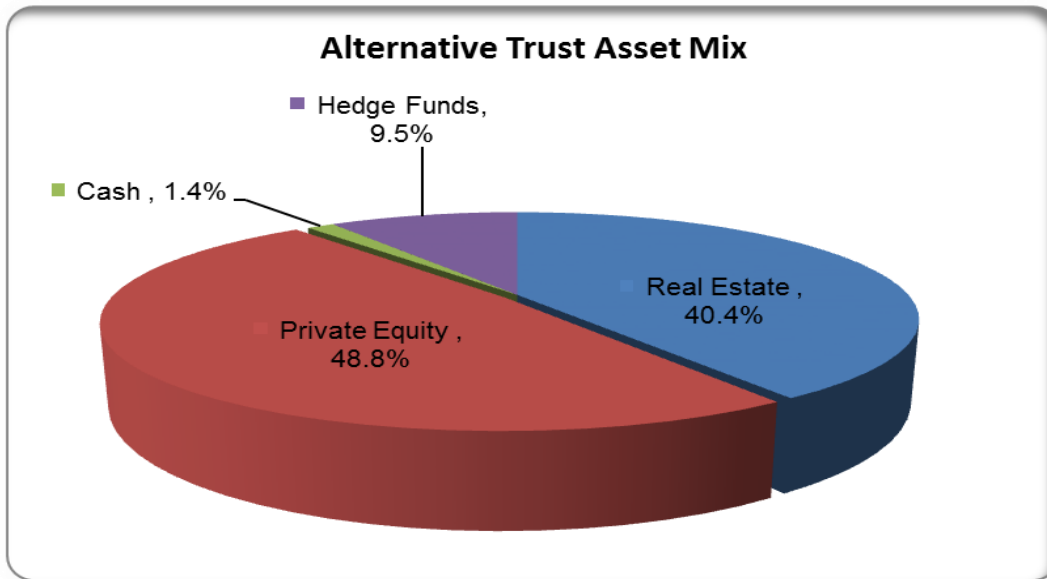
MacNicol Alternative Asset Trust– We continue to invest the Alternative Asset Trust into a mixture of North American real estate (the 360 Degree Fund), hedge funds (the





Absolute Return Fund), and private equity (the Emergence Fund). **Chart 4** below highlights the asset mix of the Trust as of December 31, 2011.

Chart 4 – Alternative Asset Trust Investment Profile



During the quarter, the Alternative Trust increased its investment with the Georgian Partners private equity fund and continues to evaluate new opportunities in the US real estate market.

MacNicol & Associates Asset Management Inc.
January, 2012