



“When we have gold we are in fear, when we have none we are in danger” – Old English Proverb

<p>Canada</p> <ul style="list-style-type: none">➤ Canadian trade deficit rises to a record \$2.7 billion in July➤ Bank of Canada expects to hold interest rates at current levels➤ New home prices across the country fall for first time in 13 months <p>United States</p> <ul style="list-style-type: none">➤ Case Shiller U.S housing index +3.2% year-over-year as U.S. housing market begins to stabilize➤ Monetary growth turning up after 18-month decline➤ Private sector construction spending drops to lowest level in 12 years	<p><u>Third Quarter 2010: Economic Clouds Clearing?</u></p> <p>Global stock and bond markets both ended higher for the third quarter ending September 30, 2010. Stocks, after falling in August, rebounded strongly in September as it became apparent that economic growth in the key U.S., European and Chinese economies was stabilizing after a summer slowdown. At least for the time being, fears of a “double dip” recession have been put on hold, and the focus is now squarely back onto the durability of the current recovery, now into its 15th month and counting.</p> <p>Yet despite the gradual fading of the great 2008 recession, there is little confidence among investors and consumers about the outlook for future economic growth. This recovery has been unusually weak by historical standards, and unemployment in the U.S. remains stubbornly high despite massive government intervention. Without employment growth, the U.S. economy will remain vulnerable to a double-dip recession, or even an extended period of no growth such as is still occurring in Japan. Such a scenario would surely drag Canada down along with it.</p> <p>So what is holding back employment growth south of the border? One key factor is that job losses are proportionally much higher among young workers without post-graduate degrees. Many in this group would be working in trades, manufacturing, and construction. If they worked in a union, those with less seniority were the first to be laid off and may be the last to be rehired. With respect to trades associated with the housing markets, new housing starts have been exceptionally low for the past two years as excess inventories from foreclosed properties must still be worked off. Eventually, though, housing starts will begin to recover, and construction and trade-related jobs will come back, albeit not at the levels seen during the 2000-2007 housing boom.</p>
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<p>China</p> <ul style="list-style-type: none">➤ PMI (Purchasing Managers Index) rose to 53.8 in September from 51.7 in August indicating continued expansion in the Asian economies➤ Premier Wen Jiabao highlights need to increase Chinese consumer spending and political freedoms to ensure China's continuing ascent	<p>With respect to manufacturing, however, the outlook is less clear. It is our view that the Chinese government has artificially maintained a low currency exchange rate in order to boost exports from their country to the U.S. This <i>is not a sustainable strategy for China</i>, as U.S. protectionist impulses are growing stronger as evidenced by recent legislation passed in the U.S. Congress that would allow the U.S. government to impose tariffs on Chinese imports to offset their currency advantage. In addition, it is likely in China's best interest to allow their currency to rise in order to reduce inflationary pressures and to increase the buying power of Chinese consumers.</p> <p>Under pressure, it is likely that China will allow its currency to rise at a faster pace going forward, which may begin to level the playing field between these two economic superpowers and eventually bring some of the lost manufacturing jobs back to North America. But it will take a lot of time for this rebalancing to gain traction, as China's labour cost advantage, even excluding their undervalued currency, gives that country a large competitive advantage in basic manufacturing.</p>
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Economic Outlook 2010-2011:

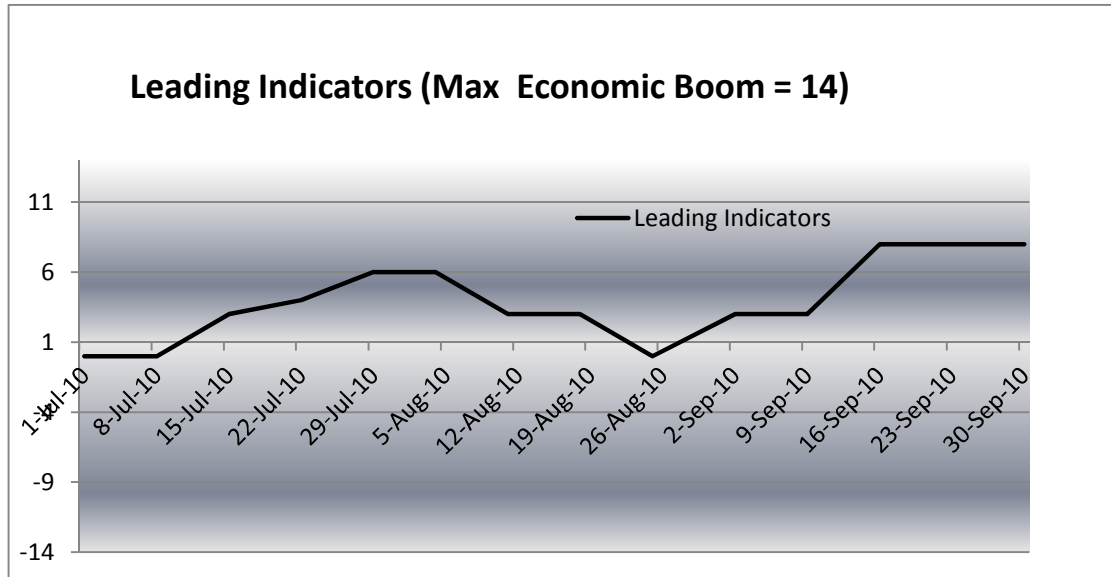
The Year of the Main Street - Our leading economic indicators, after see-sawing around for several months, have turned substantially higher in recent weeks suggesting that the global economy may begin to reaccelerate after its summer slowdown. Driving the improvements in our indicators have been a decline in initial unemployment claims in the U.S., an increase in monetary growth (suggesting banks are beginning to lend again), strength in commodities, tightening of credit spreads, and improving breadth in the stock markets (see **Chart 1** below). While we do not expect the U.S. economy to enter into boom territory anytime soon, the data suggests the global economic recovery that began in June of 2009 is likely to continue through 2011. In the U.S., consumer savings rates will remain at high levels, but the end of the mass layoffs of 2008 and early 2009 will nonetheless encourage modest increases in consumer spending going forward.





Real income growth in the U.S. is slowly rising despite the sluggish economy, and hours worked are also increasing as manufacturing and service industries in the U.S. are both expanding.

Chart 1: Global Economic Leading Indicators



The Game Plan - Modest growth, low inflation and high debt levels suggest that the economy, and public stock markets, will remain vulnerable to shocks such as the recent economic fears that rattled the stock markets this summer. It would be sensible to assume that the markets will remain more volatile than the underlying economy, thus creating trading opportunities from time-to-time. For the next few years, stock market returns are likely to remain at or below their long-term averages, meaning that income and alternative investments should play a larger role in your portfolios. These types of investments will reduce the volatility of your assets, 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 markets in Canada and the U.S. performed well during July and August of 2010 as investors around the world sold equities in favour of the relative safety of bonds. The 10-year U.S. treasury yield (see **Chart 2** next page) fell

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from 3.00% at the beginning of the third quarter to a low of 2.50% by August 31. This trend began to reverse in September as improving economic data encouraged some shifting of assets from bonds to stocks. We view this shift as the beginning of a long-term upward move in equities relative to government bonds. With government bond yields so low and prices so high, we continue to focus on investments in corporate preferred shares, high-yield equities, and corporate debt. In many cases, yields are 3%-5% higher in these instruments than are available in the Canadian and U.S. government bond markets.

Chart 2: US 10-Year Bond Yield – Third Quarter, 2010

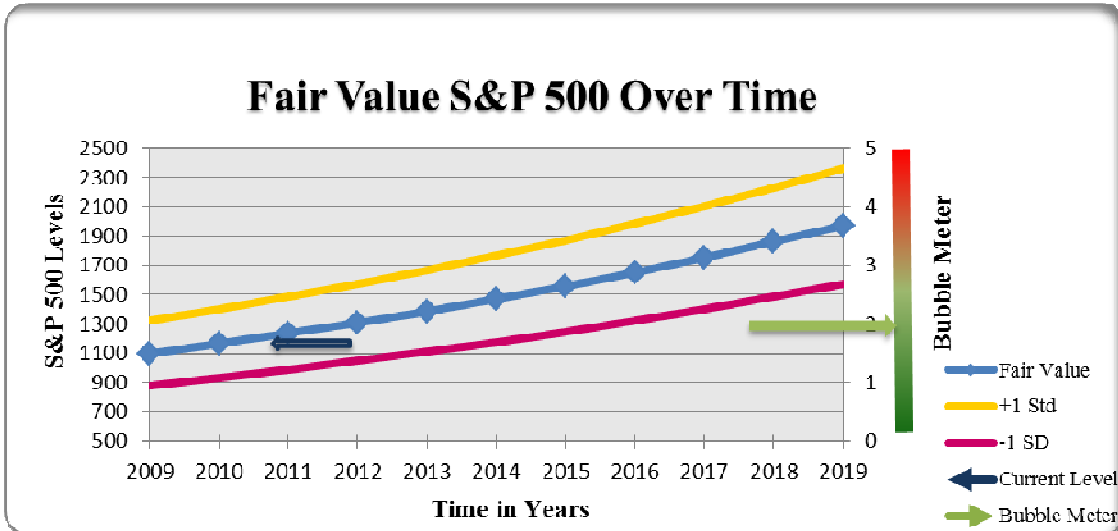


North American Equity – The rally in North American stocks that occurred in September has brought the equity markets closer to their short-term fair values. **Chart 3** (next page) highlights the current opportunity we see in the stock market today. The blue “Fair Value” line shows our current and future 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 market. All else being equal, low speculation means less downside risk for investors and vice versa. The U.S. stock market, as of September 30, 2010, was approximately 1.50% below its fair value and priced for an 8.5% return over the next 12 months. At today’s level the S&P 500 is discounting future growth rates for dividends of 5.4% per annum, which appears about right to us given the already low dividend payout ratios and high corporate cash levels. With reinvestment opportunities at relatively low levels,



corporations will continue to increase their dividend payouts and stock buybacks, which should help to stabilize the stock markets and move them higher over time. For example, in the technology sector in the U.S. market both Microsoft and Cisco have indicated they will be substantially increasing their dividends over the next 12 months.

Chart 3: S&P 500 Fair Value over Time



Bullion and Precious Metals - Prices for gold and silver continued to climb during the third quarter of 2010, with gold trading above \$1,300 per ounce, an all-time high for the metal. There are many factors driving this trend, the most important of which appears to be the ultra-low interest rates that currently prevail 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.

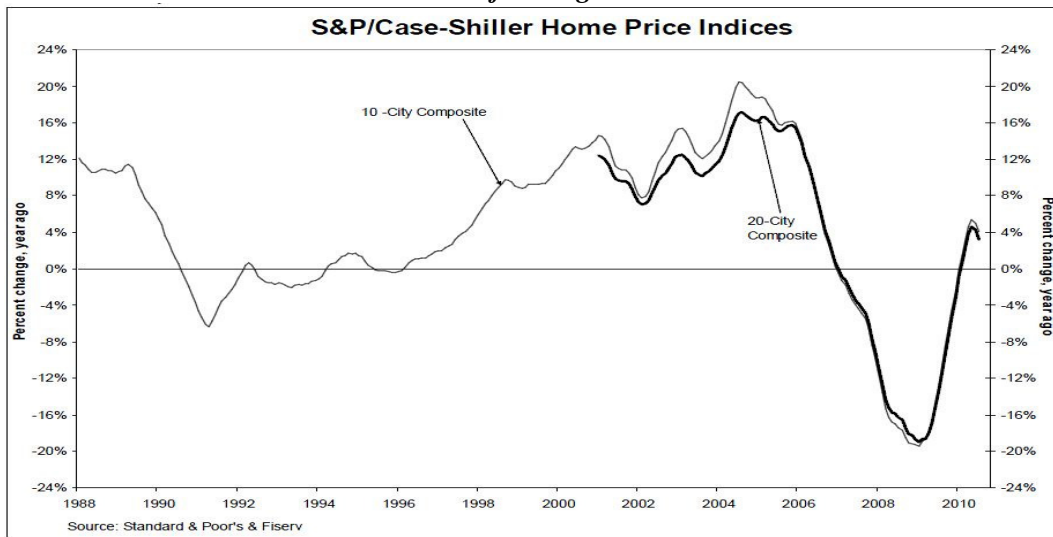
In addition to low interest rates, there are several additional factors driving gold higher including a perception that the global banking system is still at risk, fears of huge sovereign debt levels, investor demand for alternative assets, high gold mining costs and



a lack of new mine supply. Since many of these trends are longer-term in nature, we believe that gold and silver are likely to continue to move higher over the intermediate term and we continue to hold onto our positions in the BMG Bullion Fund as well as in various gold and silver producers.

North American Residential Real Estate – Residential real estate in the U.S. can broadly be classified into single-family and multi-family (apartments, condos) homes. Within these categories, apartment fundamentals are very strong across the U.S. Vacancy rates for apartments continue to decline and rents are beginning to rise. Some of today’s renters would no doubt prefer home ownership, but economic uncertainty and tighter than normal mortgage standards are making it difficult for new homebuyers to enter or re-enter the market. Affordability for single-family homes is near record levels today, and in many areas it is less expensive to own a home than to rent one.

Chart 4 – U.S. 12-Month Rate of Change in Home Prices

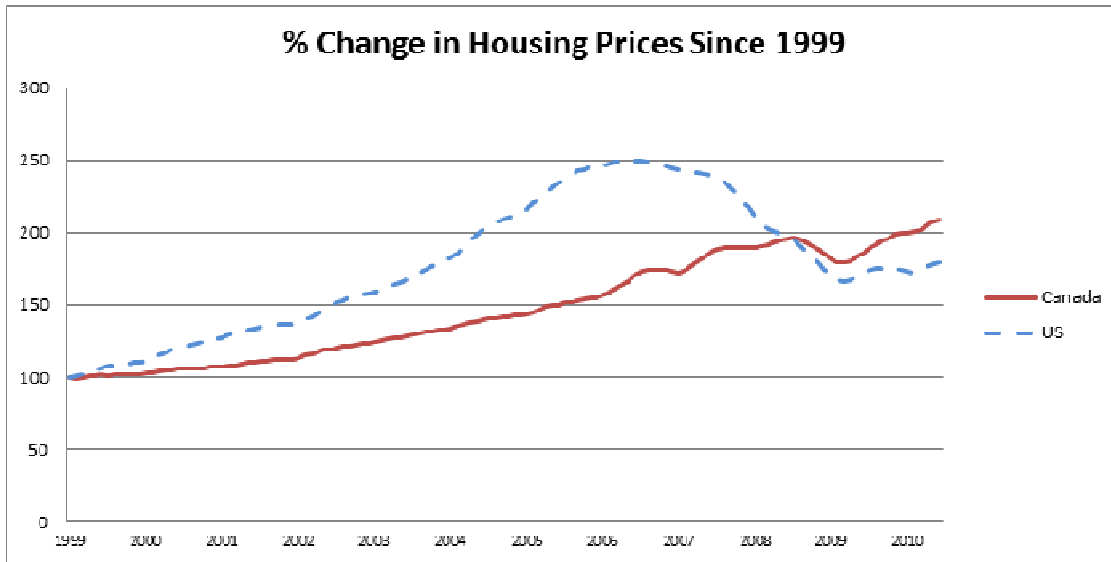


This affordability is a function of the large decline in home prices from their peaks in 2007, combined with today’s extremely low mortgage rates. Supply and demand is also coming into balance with primary new supply coming onto the market in the form of foreclosures, while new home construction is running at only 1/3 of normal levels. As a result of the improving supply/demand fundamentals, U.S. home prices on a year-over-year basis are beginning to rise again as can be seen in **Chart 4** above.



In Canada, home affordability continues to fall as rising home prices and stagnant incomes erode the value of home ownership. As can be seen on **Chart 5**, U.S. home prices have dramatically underperformed Canadian home prices since 2006, suggesting that U.S. residential real estate values may be poised to begin outperforming Canada once again.

Chart 5 – Canadian vs. U.S. Home Prices 1999-2010



MacNicol & Associates Alternative Asset Strategy Update:

MacNicol Alternative Asset Trust – While alternative assets such as real estate, gold and private equity may already be represented in your portfolios, MacNicol & Associates Asset Management (MAAM) is in the process of rolling out several highly-diversified private pools exclusively dedicated to these and other alternative asset classes. Going forward, the MacNicol Alternative Asset Trust will be the primary platform for your investments in alternative assets in both registered and non-registered accounts.

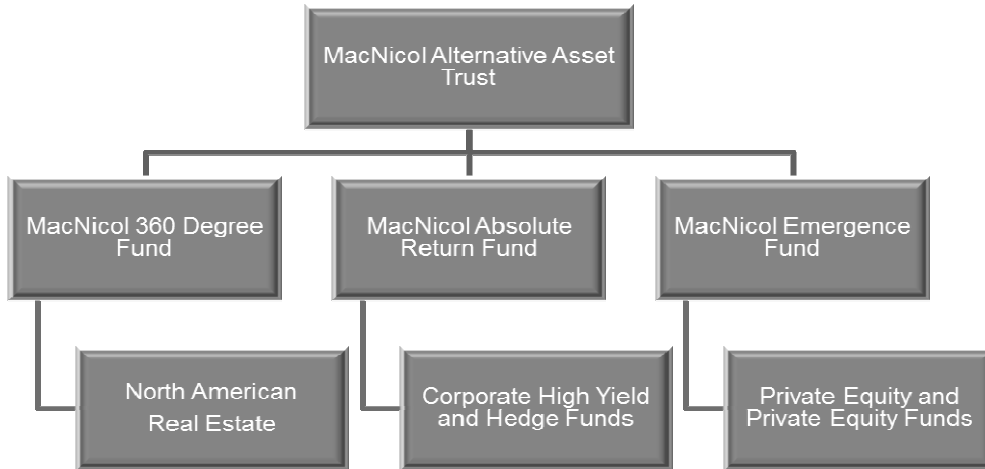
The Trust will invest in three separate private pools managed by MAAM: the MacNicol 360 Degree Real Estate Fund (North American real estate and mortgages); the MacNicol Absolute Return Fund (hedge funds, high-yield debt), and the MacNicol Emergence Fund (private equity and private equity funds). These funds may also be owned individually for those wanting more exposure to a particular asset class. The schematic below

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highlights the structure of the MacNicol Alternative Trust and its relationship to the 360 Fund, the Emergence Fund, and the Absolute Return Fund.



MacNicol 360 Degree Realty Income Fund - The 360 Degree Fund was launched in November of 2009 with a mandate to exploit opportunities in the Canadian and U.S. real estate markets. The 360 Degree Fund is currently invested in several value-added strategies and managers. These strategies include the purchase and modification of non-performing first mortgages; deed-in-lieu strategies to gain clean title for eventual resale; lease-to-own and credit enhancement strategies designed to maximize the value of purchased homes in foreclosure, and investments in Senior RMBS (residential mortgage backed securities) pools originated in the 2002-2007 periods. These strategies all have one common denominator; the underlying properties are purchased at extremely attractive prices from forced sellers including Fannie and Freddie Mac, GMAC, community banks, hedge funds, insurance companies, and large U.S. money-centre banks. The 360 Degree Fund will provide investors with steady income and capital gains, and the security of tangible and under-valued “hard” assets underpinning the valuations.

Chart 6 on the following page highlights the current mix of properties in the 360 Degree Real Estate Fund as of quarter end, September 30, 2010. We continue to slowly deploy cash into additional opportunities in residential real estate including multi-family apartments, condominiums and single-family homes, while avoiding commercial real estate in the U.S. Recent investments include the purchase of a discounted mortgage on a

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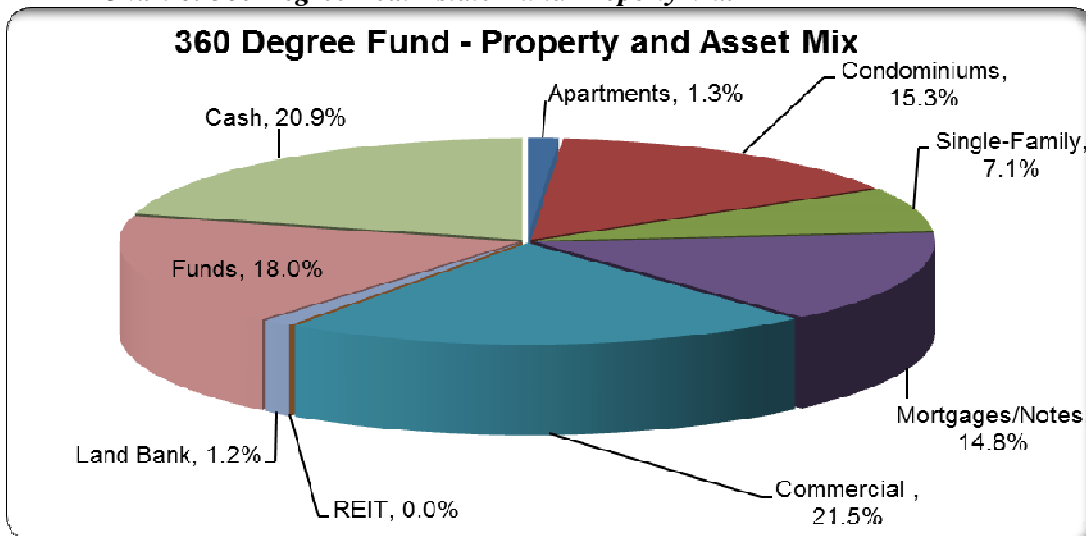
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condominium complex in St Petersburg, Florida, and an investment in a whole loan and RMBS mortgage fund managed by the WMD Group of Santa Barbara in California. In Canada, we are slowly increasing exposure to commercial real estate primarily through an investment in the KingSett Canadian Real Estate Income Fund run by Jon Love, formerly of Oxford Properties.

Chart 6: 360 Degree Real Estate Fund Property Mix



MacNicol Absolute Return Fund - The investment objective of the Absolute Return Fund is to generate positive absolute returns under most market and economic conditions, and to have little or no correlation to the U.S. and Canadian stock markets. In order to achieve its objectives, the Absolute Return Fund will invest in several value-added strategies managed by experienced and successful Canadian, U.S. and U.K. hedge fund managers. Most of these investments are not available in the public market, and are typically not accessible to individuals and smaller institutions because of high minimum investment thresholds, often in excess of \$5,000,000.

In addition to investing in third-party managed hedge funds, the Absolute Return Fund will also take positions in securities or funds representing high-yield credit opportunities primarily in the corporate market. The majority of such investments will be in investment grade debt, preferred shares, and convertible bonds. **Chart 7** on the next page summarizes the asset mix of the Absolute Return Fund as of September 30th, 2010. After evaluating several different hedge fund approaches, we have established a managed account platform with a Toronto-based management firm specializing in hedge fund consulting and evaluation on a global basis. We believe this solution will provide our

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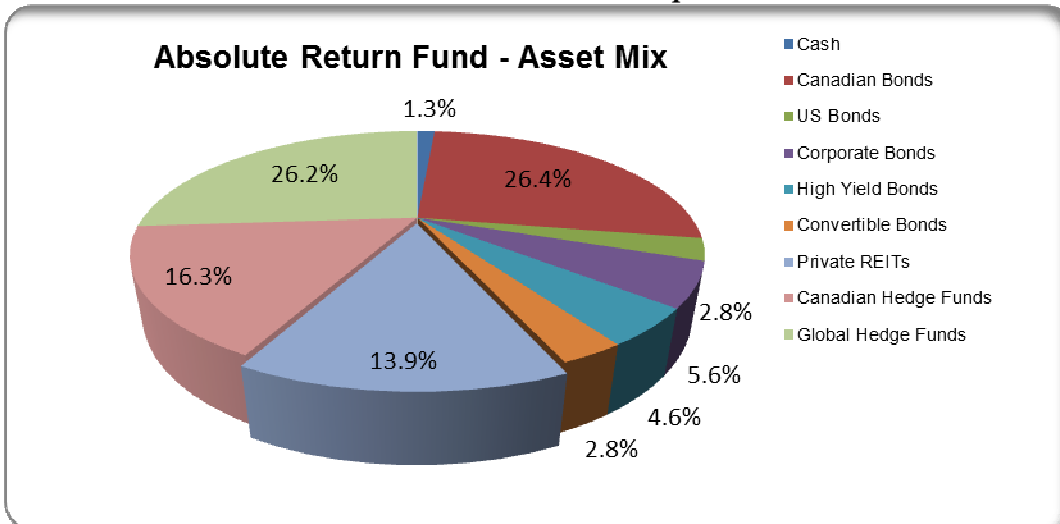
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clients with a cost-efficient, transparent and highly professional approach for our hedge fund investments within the Absolute Return Fund.

Chart: 7 Absolute Return Fund Position Report



MacNicol Emergence Fund - The investment objective of the Emergence Fund is to generate capital gains by investing in a portfolio of privately held companies and private equity funds. The Fund seeks opportunities where capital exit strategies are clearly defined, and are likely to occur within a three-year time frame. The Emergence Fund invests in established private equity funds as well as direct investments in private companies with defensible franchises, high growth profiles and proven management. Investments will largely focus on profitable companies with high levels of proprietary technology addressing large target markets. The Fund looks for management teams with proven track records in building and monetizing private companies, and who are accessible and transparent to its investors. Many of these investments are typically not accessible to individuals and smaller institutions because of high minimum investment thresholds, often in excess of \$5,000,000.

The Emergence Fund seeks to provide growth capital, most often minority investments, in private companies that are looking for capital to expand or restructure operations, enter new markets or finance a major acquisition without a change of control of the business. Companies that seek growth capital will often do so in order to finance a transformational event in their life cycle. These companies are likely to be more mature than venture capital funded companies, able to generate revenue and operating profits but unable to generate sufficient cash to fund major expansions, acquisitions or other investments. The

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primary owner of the company may not be willing to take the financial risk alone. By selling part of the company to private equity, the owner can take out some value and share the risk of growth with partners. Capital can also be used to effect a restructuring of a company's balance sheet, particularly to reduce the amount of leverage (or debt) the company has on its balance sheet.

Recent purchases in the Emergence Fund include an investment in a senior convertible bond of a Phoenix-based mobile power generation company, and new position in a Canadian high-technology private equity fund focused on providing growth capital to profitable enterprise software middle-ware providers. The strategy of the software fund is to secure late-stage investments in companies that have critical and scalable software solutions that would be of strategic interest to large computer and consulting companies such as IBM and Hewlett Packard.

Corporate Developments:

Our new office is finally complete and fully functional! We have two multi-media meeting rooms and plenty of comfortable offices to meet with clients, and we hope that everyone will have a chance to come down and visit with us in the near future. Look for an invitation to our open house in the next few months. Also up and running is our new website at www.macnicolasset.com. The site is full of corporate news and media clips, both video and print, highlighting our views. David Cockfield has been a regular contributor to BNN and the links to his clips are on our site. Look for the addition of a tab about our Alternative Asset trust in the coming weeks that will spell out the structures, goals, and objectives of the underlying investments. This is an exciting time as the launch of the Trust is upon us and we look forward to discussing its potential with you.

MacNicol & Associates Asset Management Inc.
September 30, 2010

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