

Tax Loss Selling

December 4, 2008

Tax Loss Selling 2008

- Paul Danesi, CIM – Director, Portfolio Advisory Group

Each year, whether bull or bear market there are opportunities to crystallize losses for tax purposes in non-registered accounts. Needless to say, the list of potential candidates this year is extensive.

Five brief months ago, the TSX Composite Index was at a record high. In 20 weeks, the market has lost nearly half its value; an unprecedented move in unprecedented times. Of the 241 companies in the TSX Composite Index, 126 have seen their share price decline more than 40% since the beginning of the year. Almost 180 companies in the S&P 500 have seen their share prices decline by a similar amount.

As the calendar year-end approaches, it is timely to review portfolios in an effort to identify the positions currently trading at a loss that may be sold to take advantage of the tax benefits.

REALIZING A TAXABLE LOSS

Tax loss selling: sell a position with or without the intention of buying it back after 30 calendar days to create a capital loss that may be used to offset taxable gains in the following ways:

- **Carry Backs** - investors may carry back losses to one of the three previous years to offset any capital gains in those years and recover some of the taxes already paid.
- **Carry Forwards** — investors may carry forward losses indefinitely to offset capital gains generated in the future.

We recommend investors review their portfolios and address positions that have declined materially in value. Where the fundamental outlook for the company and its relative return potential have improved and/or remain attractive, investors should consider repurchasing the security after the requisite 30-day restriction period. Tax loss selling also presents the opportunity to rebalance a portfolio and investors should always consider their long-term investment goals when redeploying cash. Switching from one industry group to another, or possibly another asset class are always considerations.

In this report we have identified 40 potential Canadian and U.S. tax loss selling candidates for 2008. The lists on the following pages are by no means exhaustive. We felt the companies selected are worth highlighting because they: 1) are, or were on one of our recommended lists; 2) are currently in one of our four Guided Portfolios, and 3) are generally well represented across our clients' accounts.

Generally, we recommend repurchasing stocks that are on our recommended lists or in the group's Guided Portfolios. While we do not believe this market is likely to runaway on us, from a tactical perspective clients may consider switching on a temporary basis to sector ETFs to maintain exposure to an industry group while they wait out the 30 day period.

FINAL TAX LOSS SELLING DATES

CANADA – DECEMBER 24

U.S. – DECEMBER 26



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CANADIAN TAX-LOSS CANDIDATES & SWITCH RECOMMENDATIONS

This year's list is dominated by resource stocks, which have spiralled lower following a collapse in energy and other commodity prices. Crude oil has plummeted U\$100 per barrel over the last four months taking with it the shares of Suncor, Petro-Canada, Talisman and most other energy producers. Shares of metals and mining, as well as agricultural commodity producers are down 50% or more. One switch we would like to highlight in the energy sector is from Petro-Canada to Canadian Natural Resources. CNQ offers better production growth and management has a history of better execution.

TAX LOSS SELLING CANDIDATES: CANADIAN COMMON STOCKS

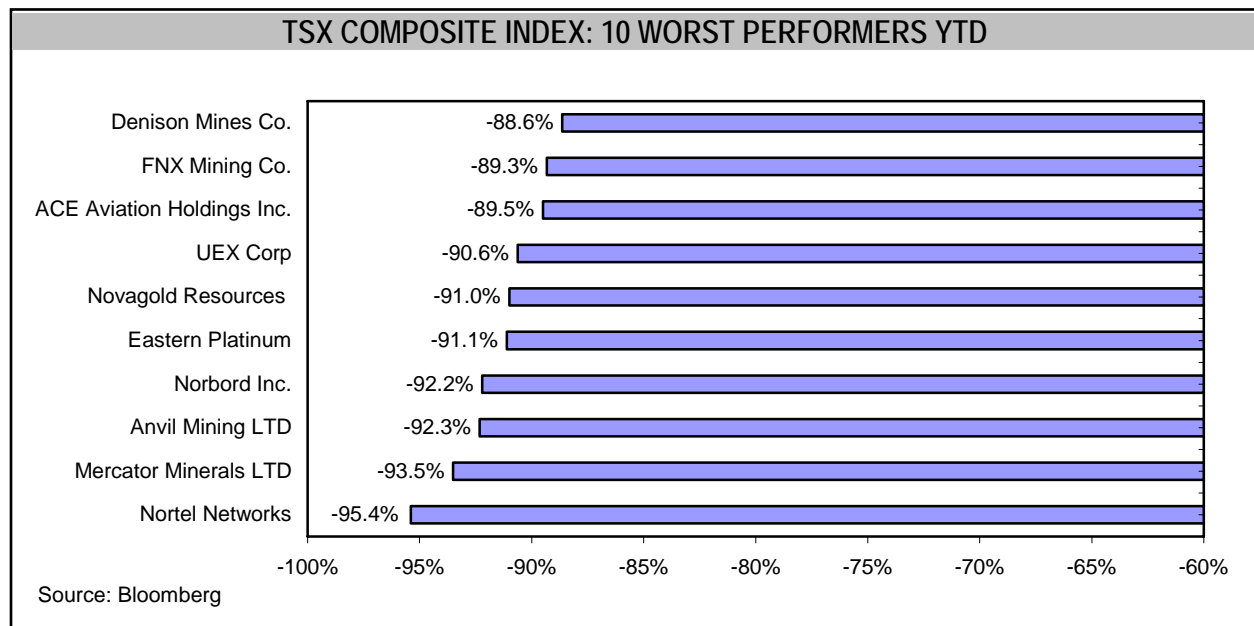
Company	Symbol	Year-to-Date Return	Switch Recommendation	Symbol	Rating	Price Nov. 28, 2008	Target
Nortel Networks Corp.	NT	-95%	Research in Motion Ltd.	RIM	1-SO	\$54.50	\$160.00
FNX Mining Co. Inc.	FNX	-90%	Teck Cominco Ltd.	TCK.B	2-SP	\$6.00	\$7.50
ACE Aviation Holdings Inc.	ACE.B	-90%	Bombardier Inc.	BBD.B	1-SO	\$4.34	\$7.75
Lundin Mining Corp.	LUN	-88%	Teck Cominco Ltd.	TCK.B	2-SP	\$6.00	\$7.50
OPTI Canada Inc.	OPC	-88%	Suncor Energy Inc.	SU	1-SO	\$28.60	\$44.00
Teck Cominco Ltd.	TCK.B	-86%	Teck Cominco Ltd.	TCK.B	2-SP	\$6.00	\$7.50
HudBay Minerals Inc.	HBM	-82%	Teck Cominco Ltd.	TCK.B	2-SP	\$6.00	\$7.50
Silver Wheaton Corp.	SLW	-78%	Silver Wheaton Corp.	SLW	2-SP	\$4.32	\$7.00
AGF Management Ltd.	AGF.B	-73%	AGF Management Ltd.	AGF.B	1-SO	\$8.24	\$20.00
NOVA Chemicals Corp.	NCX	-71%	Agrium Inc.	AGU	1-SO	\$39.00	\$72.00
H&R REIT	HR.UN	-65%	Artis REIT	AX.UN	1-SO	\$5.75	\$11.50
BFI Canada Ltd.	BFC	-64%	BFI Canada Ltd.	BFC	1-SO	\$9.99	\$23.00
Petrobank Energy & Resources Ltd.	PBG	-62%	Canadian Natural Resources	CNQ	1-SO	\$52.00	\$76.00
Calloway REIT	CWT.UN	-60%	Artis REIT	AX.UN	1-SO	\$5.75	\$11.50
Research in Motion Ltd.	RIM	-55%	Research in Motion Ltd.	RIM	1-SO	\$54.50	\$160.00
Finning International Inc.	FTT	-54%	Finning International Inc.	FTT	1-SO	\$12.99	\$22.50
TMX Group Inc.	X	-54%	Royal Bank of Canada	RY	1-SO	\$43.18	\$60.00
Suncor Energy Inc.	SU	-54%	Suncor Energy Inc.	SU	1-SO	\$28.60	\$44.00
OilExco Inc.	OIL	-84%	Canadian Natural Resources	CNQ	1-SO	\$52.00	\$76.00
TransForce Inc.	TFI	-52%	Finning International Inc.	FTT	1-SO	\$12.99	\$22.50
Agrium Inc.	AGU	-50%	Agrium Inc.	AGU	1-SO	\$39.00	\$72.00
Cameco Corp.	CCO	-49%	Cameco Corp.	CCO	1-SO	\$22.15	\$23.75
Potash Corp.	POT	-49%	Potash Corp.	POT	1-SO	\$80.20	\$150.00
Brookfield Asset Management Inc.	BAM.A	-49%	Brookfield Asset Management Inc.	BAM.A	1-SO	\$19.09	\$32.50
Gildan Activewear Inc.	GIL	-47%	Canadian Tire Corp.	CTC.A	1-SO	\$45.00	\$60.00
Yellow Pages Income Fund	YLO.UN	-47%	Yellow Pages Income Fund	YLO.UN	1-SO	\$7.60	\$10.00
Petro-Canada	PCA	-46%	Canadian Natural Resources	CNQ	1-SO	\$52.00	\$76.00
Power Corp.	POW	-45%	Power Corp.	POW	2-SP	\$25.49	\$35.00
Consumers Waterheater Income Fund	CWI.UN	-43%	Consumers Waterheater Income Fund	CWI.UN	2-SP	\$8.35	\$11.25
Power Financial Corp.	POW	-42%	Power Financial Corp.	POW	2-SP	\$25.50	\$37.00
Canadian Tire Corp.	CTC.A	-42%	Canadian Tire Corp.	CTC.A	1-SO	\$45.00	\$65.00
Talisman Energy Inc.	TLM	-42%	Talisman Energy Inc.	TLM	1-SO	\$12.41	\$18.00
Canadian Oil Sands Trust	COS.UN	-41%	Canadian Oil Sands Trust	COS.UN	3-SU	\$25.75	\$29.00
Canadian Pacific Ltd.	CP	-41%	Canadian National Railway	CNR	1-SO	\$45.07	\$60.00
Cogeco Cable	CCA	-40%	Cogeco Cable	CCA	1-SO	\$31.15	\$55.00
Magna International Inc.	MG.A	-60%	Canadian Tire Corp.	CTC.A	1-SO	\$45.00	\$65.00
Bank of Montreal	BMO	-36%	Royal Bank of Canada	RY	1-SO	\$43.18	\$60.00
Great-West Lifeco Inc.	GWO	-34%	Great-West Lifeco Inc.	GWO	1-SO	\$28.00	\$33.00
Canadian Imperial Bank of Commerce	CM	-34%	Royal Bank of Canada	RY	1-SO	\$43.18	\$60.00
SNC-Lavalin Group Inc.	SNC	-30%	SNC-Lavalin Group Inc.	SNC	1-SO	\$34.80	\$42.00

Source: Bloomberg, ScotiaMcLeod

The sell off in Teck Cominco has been exacerbated by balance sheet concerns following the acquisition of Fording Coal Income Fund. Concerns are valid, but the company is quickly taking steps to address the issue and the additional debt burden should prove manageable. Patience will definitely be required for those repurchasing shares of Teck Cominco or any other resource stock. Canadian banks and insurance companies had held up pretty well until October as investors began to discover balance sheets were not as strong as previously thought. Insurance companies are finding the guaranteed returns on some financial products are proving costly

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given worsening market conditions. Nevertheless, we have greater confidence in the Canadian financial system than its global peers. We recommend investors crystallize losses in Canadian financial services. We would repurchase the shares Royal Bank and consider switching out of Bank of Montreal and CIBC. Scotia Capital is currently restricted on Bank of Nova Scotia, Manulife Financial and Sun Life Financial. Among income trusts, H&R REIT and Calloway REIT have struggled this year. We are recommending a switch into Artis REIT, a growth-oriented REIT focused in Western Canada capable of achieving above-average cash flow per unit growth in the year ahead. Nortel Networks is the worst performing stock year-to-date having lost 97% of its value. The position is now effectively worthless for most investors and should be on the top of everyone's list of stocks to sell in 2008.



U.S. Tax-Loss Candidates & Switch Recommendations

You won't find Wal-Mart, Proctor & Gamble, Campbell Soup, Southern Co. or other defensive consumer staple and utility companies on our list this year. There are also very few health care stocks as investors sought the safety of companies that manufacture and sell must have products and services. There is no shortage of financial services, cyclical industrial, and technology companies. Our switch recommendations have a defensive bent emphasizing dividend yield where possible. We recommend selling almost all U.S. financial institutions with the belief few U.S. banks will be paying dividends by this time next year and most retail accounts that hold banks own them largely for their dividends. We also believe there is an increasing chance of partial or outright nationalization of financial institutions in the U.S., which is bad news for common shareholders. Proceeds from the sale of these stocks should be repatriated and redeployed in the Canadian financial services sector, where the probability of dividend cuts is remote. One switch recommendation to consider would be from American Express to Visa Inc. to eliminate credit risk. It is not too late for clients to trade up from consumer discretionary stocks to defensive consumer staples. Sales of durable goods including automobiles, appliances, electronics, and recreational products are likely to remain weak as consumers continue to tighten their belts. McDonald's is the one exception among consumer cyclicals as the company offers an attractive value proposition for the cost conscious consumer. Consider switching out of health insurers including WellPoint and UnitedHealth Group into drug maker Eli Lilly for yield pickup. We would generally avoid the cyclical industrial products sector. Three exceptions here include General Electric, Dow Chemicals, and Waste Management Inc., all of which offer attractive dividend yields. Dow Chemical has paid a dividend since 1912 and GE has paid a quarterly dividend

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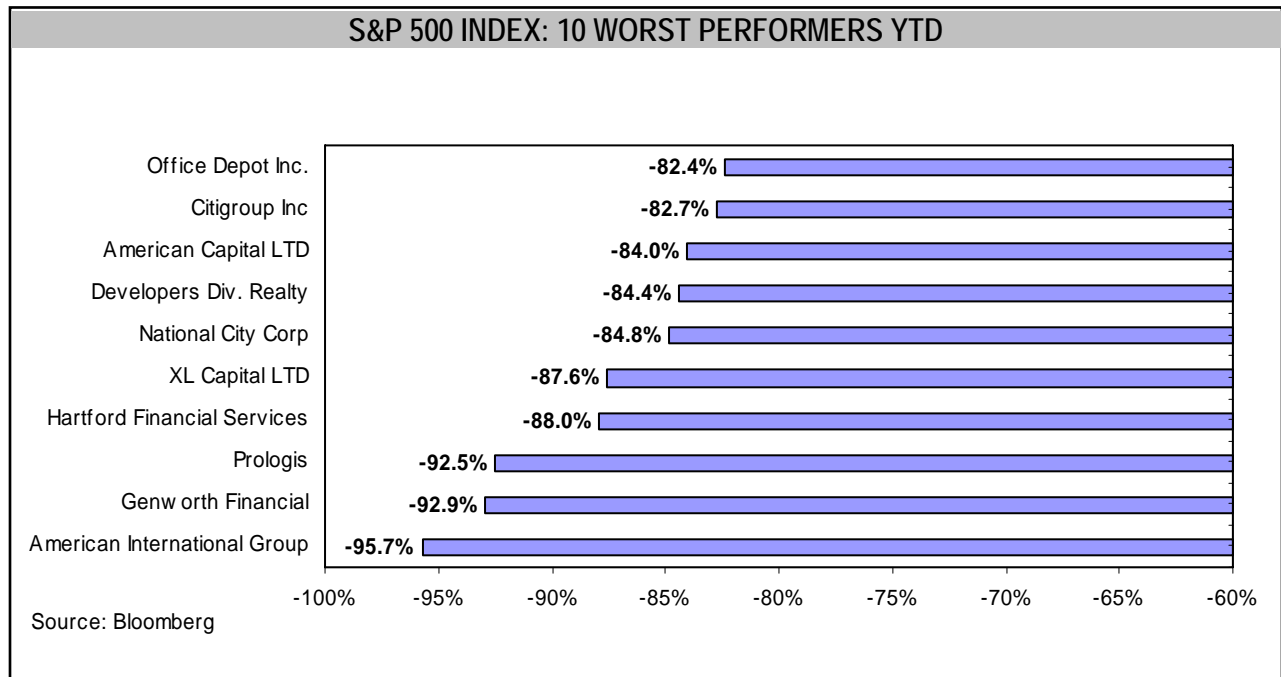
for over 100 years. When crystallizing losses in the technology sector consider a move into Microsoft Corp, with its strong balance sheet, resilient cash flow, and attractive dividend yield. Our preferred name in semiconductors is Intel Corp., currently offering a yield north of 4.0%.

TAX LOSS SELLING CANDIDATES: AMERICAN COMMON STOCKS

Company	Symbol	Year-to-Date Return	Switch Recommendation	Symbol	Rating	Price Nov. 28, 2008	Target
American International Group Inc.	AIG	-97%	Great-West Lifeco	GWO	1-SO	\$28.00	\$35.00
Office Depot Inc.	ODP	-87%	Wal-Mart	WMT	Outperform	\$58.75	\$60.00
Sprint Nextel Corp.	S	-82%	AT&T Inc.	T	Neutral	\$28.56	\$31.00
General Motors Corp.	GM	-81%	CVS Caremark Corp.	CVS	Outperform	\$28.93	\$40.00
Freeport McMoRan Copper & Gold Inc.	FCX	-79%	Freeport McMoRan Copper & Gold Inc.	FCX	Outperform	\$23.99	\$52.00
Merrill Lynch & Co.	MER	-78%	Royal Bank of Canada	RY	1-SO	\$32.54	\$60.00
Morgan Stanley	MS	-77%	Royal Bank of Canada	RY	1-SO	\$32.54	\$60.00
Citigroup Inc.	C	-76%	Royal Bank of Canada	RY	1-SO	\$32.54	\$60.00
Motorola Inc.	MOT	-74%	Microsoft Corp.	MSFT	Outperform	\$20.22	\$33.00
Alcoa Inc.	AA	-73%	Freeport McMoRan Copper & Gold Inc.	FCX	Outperform	\$23.99	\$52.00
The Goldman Sachs Group Inc.	GS	-69%	Royal Bank of Canada	RY	1-SO	\$32.54	\$60.00
Mircon Technology Inc.	MU	-68%	Intel Corp.	INTC	Outperform	\$13.80	\$18.00
National Oilwell Varco	NOV	-67%	National Oilwell Varco	NOV	Outperform	\$28.29	\$38.00
Peabody Energy Corp.	BTU	-67%	Peabody Energy Corp.	BTU	Outperform	\$23.43	\$50.00
Deere & Co.	DE	-66%	Waste Management Inc.	WMI	Not Rated	\$29.20	\$39.00
Bank of America Corp.	BAC	-65%	Royal Bank of Canada	RY	1-SO	\$32.54	\$60.00
UnitedHealth Group Inc.	UNH	-64%	Eli Lilly & Co.	LLY	Neutral	\$34.15	\$42.00
Best Buy Co Inc.	BBY	-64%	CVS Caremark Corp.	CVS	Outperform	\$28.93	\$40.00
Ford Motor Co.	F	-63%	McDonald's	MCD	Neutral	\$58.75	\$60.00
eBay Inc.	EBAY	-62%	eBay Inc.	EBAY	Neutral	\$13.13	\$19.00
Google Inc.	GOOG	-61%	Oracle Corp.	ORCL	Neutral	\$16.09	\$33.00
American Express	AXP	-61%	Visa Inc.	V	Neutral	\$52.56	\$57.00
WellPoint Inc.	WLP	-60%	Eli Lilly & Co.	LLY	Neutral	\$34.15	\$42.00
Starbucks Corp.	SBUX	-60%	McDonald's Corp.	MCD	Neutral	\$58.75	\$60.00
Dell Inc.	DELL	-59%	Microsoft Corp.	MSFT	Outperform	\$20.22	\$33.00
Transocean Inc.	RIG	-58%	Transocean Inc.	RIG	Outperform	\$66.88	\$108.00
Halliburton Co.	HAL	-58%	Transocean Inc.	RIG	Outperform	\$66.88	\$108.00
Metlife Inc.	MET	-57%	Metlife Inc.	MET	Outperform	\$28.76	\$45.00
Allstate Corp.	ALL	-57%	Allstate Corp.	ALL	Outperform	\$25.44	\$38.00
Texas Instruments Inc.	TXN	-57%	Intel Corp.	INTC	Outperform	\$13.80	\$18.00
General Electric Co.	GE	-57%	General Electric Co.	GE	Neutral	\$17.17	\$21.00
Merck & Co.	MRK	-56%	Eli Lilly & Co.	LLY	Neutral	\$34.15	\$42.00
Amazon.com Inc.	AMZN	-55%	Oracle Corp.	ORCL	Neutral	\$16.09	\$22.00
Apple Inc.	AAPL	-54%	Apple Inc.	AAPL	Outperform	\$92.67	\$120.00
Dow Chemical Co.	DOW	-53%	Dow Chemical Co.	DOW	Neutral	\$18.55	\$27.00
Boeing Co.	BA	-53%	United Technologies	UTX	Outperform	\$48.53	\$51.00
Yahoo! Inc.	YHOO	-52%	Oracle Corp.	ORCL	Neutral	\$16.09	\$22.00
Intel Corp.	INTC	-51%	Intel Corp.	INTC	Outperform	\$13.80	\$18.00
Caterpillar Inc.	CAT	-47%	Waste Management Inc.	WMI	Not Rated	\$29.20	\$39.00
Time Warner Inc.	TWX	-47%	Walt Disney Co.	DIS	Outperform	\$22.52	\$25.00

Source: Bloomberg, Credit Suisse

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The author(s) of the report own(s) securities of the following companies.

Petro-Canada, Consumers' Waterheater Income Fund, The , Talisman Energy Inc., Canadian Oil Sands Trust, Great-West Lifeco Inc., United Technologies Corp, General Electric Co,

The supervisors of the Portfolio Advisory Group own securities of the following companies.

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