# Portfolio Strategy

## ECONOMY & EQUITIES ENDING Q1/10 WITH POSITIVE MOMENTUM

Greek worries are resolved. Following a negative start in January (MSCI AC World -4.4%), global equities have rebounded roughly 10% in the last seven weeks.

The S&P 500 (+4.6% in Q1/10) is en route to outperforming long-term Treasuries (TLT ETF down 1% in Q1/10) as government bonds end the quarter on a tougher note. Two disappointing Treasury auctions last week, coupled with improving U.S. data, sent bond yields shooting higher. U.S. 10-year yields could retest the 4% level soon. Our model pegs U.S. 10-year "fair value" at 4.8% by December 2010. We prefer equities (ETFSPY) and corporate bonds (JNK-high yield) to Government bonds (TLT).

Hawkish words from Bank of Canada governor Carney also added to the pressure in Canada. Yields were up between 6 bp and 16 bp last week, with two-year CA/U.S. spreads moving to +65 bp and 10-year CA/U.S. spreads narrowing to -30 bp.

U.S. profit margins hit 10.2% in Q4/09 and operating leverage could push S&P 500 earnings to US$78 this year. The lack of warnings and steady stream of earnings surprises (Best Buy last week) hint of another strong "beat" ratio in Q1.

Year-End North American Benchmark Information

| | Recent | 2010F | 2011F |
|---|---|---|---|
| **S&P/TSX Composite Index** | | | |
| TSX Level/Target | 11,957.37 | 12,750 | |
| TSX Earnings | $539.16 | $775.00 | $850.00 |
| TSX P/E | 22.18 | 16.45 | N/A |
| TSX Dividends | $316.91 | N/A | N/A |
| TSX Yield | 2.65% | N/A | N/A |
| **S&P 500** | | | |
| S&P 500 Level/Target | 1,166.59 | 1,225 | |
| S&P 500 Earnings | $62.32 | $75.00 | $82.00 |
| S&P 500 P/E | 18.72 | 16.33 | N/A |
| S&P 500 Dividends | $21.39 | N/A | N/A |
| S&P 500 Yield | 1.83% | N/A | N/A |
| **Fixed Income & Currency** | | | |
| BoC Overnight Rate | 0.25% | 1.25% | 2.25% |
| Canada 10-Year Bond | 3.560% | 4.50% | 4.50% |
| Cdn/U.S. Dollar | $1.0266 | $0.99 | $0.96 |
| U.S. Fed Funds Rate | 0.25% | 1.25% | 2.25% |
| U.S. 10-Year Treasury | 3.8468 | 4.80% | 4.80% |
| U.S. Dollar/Euro | $1.3410 | U$1.42 | U$1.42 |
| **Commodities** | | | |
| Gold | $1,107.50 | U$1100.00 | U$1250.00 |
| Oil (WTI) | $80.00 | U$83.00 | U$87.00 |

*Source: Scotia Capital, Bloomberg.*

At the macro level, Japanese exports were up 45% YOY in February and the Euro-zone PMI advanced to 56.3 in February. U.S. durable goods orders strength extended in February (+0.5% MOM; +12.5% YOY) and jobless claims continued to drift lower (four-week average now at 454,000). Our blended ISM index has averaged 52.5 in Q1 (40.6 a year ago). U.S. payrolls should decisively turn positive in Q2, lifting consumer/investor confidence.

According to a Bloomberg survey released last week, 73% of Americans stated that their portfolios had **not** improved in the last 12 months (i.e., that they had missed the rally). This never-ending sense of the doldrums highlights the current disconnect between Wall Street optimism and main street pessimism. It also explains why flows are still chasing fixed income products. With the S&P 500 up 72% since March 9, 2009, we doubt 73% of portfolios (mutual funds, pensions) stayed flat or declined YOY. We believe main street perceptions are currently trumped by the lack of tangible positive macro developments. When U.S. employment headlines improve, flows into equities may surprise on the upside.

### Normalization Phase in the Late Innings

The normalization in risk premiums has continued alongside the S&P 500 rally, and BAA spreads are now hovering below 250 bp. This normalization phase is now in its late innings, and when spreads revert back to normal levels (215 bp), the S&P 500 should be nestled above our 1,225 target. At that time, in our opinion, markets will have fully priced the recovery, and "beating" expectations will become more challenging.

The recovery in U.S. profit margins has closely tracked narrowing credit spreads, and margins are already above average (see Exhibit 1). U.S. profit margins of 10.2% (Q4/09) already stand above the 40-year average of 9.1%. Margins should move higher throughout 2010 before stabilizing in 2011 after costs (capex, payrolls) increase. Favourable margin expansion could push S&P 500 earnings close to US$78 in 2010 and US$84 in 2011 (see Exhibit 2).

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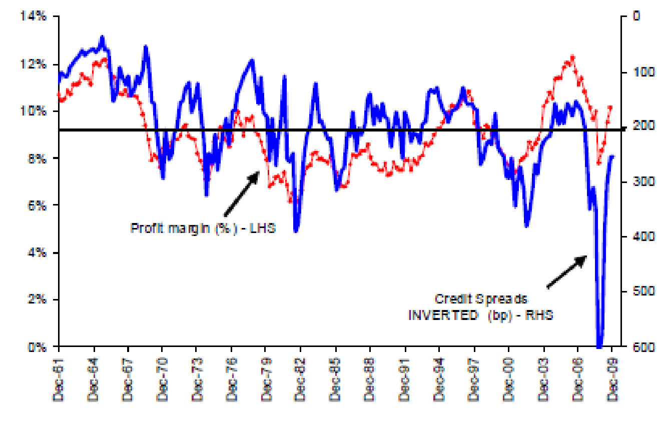
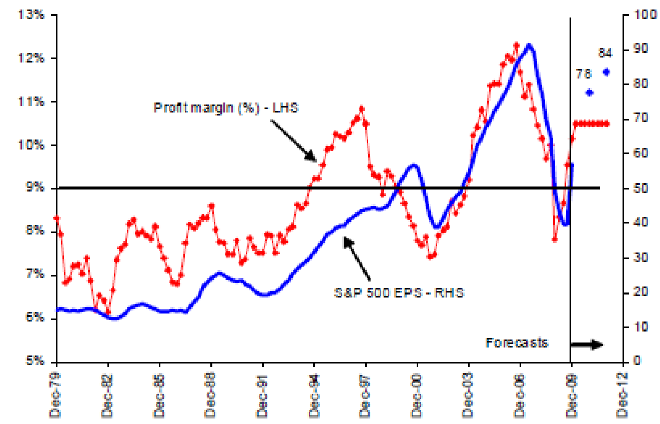
Our S&P 500 EPS forecasts will be updated next week. Bottom-up consensus for this year appears realistic at US$78, but the US$93 level expected for 2011 seems overly optimistic.

**Exhibit 1: U.S. Profit Margins and Credit Spreads**




Source: Scotia Capital, Bloomberg.

**Exhibit 2: Profit Margin and S&P 500 EPS**




Source: Scotia Capital estimates, Bloomberg.

As the first quarter winds down, our macro view remains unchanged. Further improvements in the global economy should sustain earnings growth through 2011 and push long-term bond yields higher. Although our equity confidence level is lower than it was a year ago, we still expect equities to outperform bonds.

Equities should post their best showing in the first half and we see overshoot risks to our S&P 500 target (1,225) early in Q2. Monetary policy shifts toward tightening and timing of exit strategies will continue to prove challenging and trigger different leadership, mainly in currency markets. The greenback could continue to have a good year. We have been "Riding the Normalization Wave" since April 2009 and enjoying it, but this wave will soon hit the shore.

**Vincent Delisle, CFA** – *Director, Portfolio Strategy – Scotia Capital*

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# Canadian Equity Strategy

## RESEARCH IN MOTION (RIM): ASSESSING THE GROWTH OPPORTUNITIES

Since falling to a low of US$54.30 back in November 2009, shares of Research In Motion have generally performed well albeit with some periods of heightened volatility. Despite the recent strength, Scotia Capital is of the view that the current valuation is extremely attractive given the company's growth trajectory. At current levels the shares are trading at approximately 13x Scotia Capital's forward 12-month EPS estimate and around 14.7x consensus F2011 estimates. On a relative basis the shares are trading far below Apple's NTM P/E of 19.6x and even below Nokia's multiple of 14.8x despite better EPS growth than both of those companies.

**Trading Below RIM's Historical P/E (NTM)**


Source: Company reports; IBES; Scotia Capital estimates.

Over the very near term, the focus will undoubtedly be on the company's Q4 results which are due out on Wednesday, March 31. At the moment, Scotia Capital expects the growth in handset volumes to be driven by seasonality, the launch of the Curve 8530 at Verizon in late November, the growing popularity of the BlackBerry Messenger (BBM) application, and continued strength in International markets. Scotia Capital is currently forecasting 4.7M sub adds, 11.2M device shipments (last quarter RIM provided a relatively wide range of guidance for handset volumes, between 10.6M and 11.2M or an average of 10.9M) and an ASP of US$320. In terms of top and bottom line, Scotia Capital is expecting revenues of US$4.4B and EPS of US$1.31 for this quarter.

Looking further ahead and through any volatility that earnings season typically brings, Research In Motion remains well positioned to maintain a fairly steep growth trajectory. From Scotia Capital's viewpoint, this investment thesis is supported by the following factors:

1. BlackBerry Messenger (BBM): Although other platforms have a greater variety of applications (iPhone/Android), we believe RIM has some of the most addictive apps (e-mail and IM), and BBM is becoming one of the most addictive apps around. BBM is RIM's proprietary instant messaging app that has been a key reason for adopting the platform in places such as South America and Indonesia and is partially responsible for RIM's rising market share in Western Europe. The application works well because of RIM's push-based infrastructure, which other platforms cannot currently mimic. Apple has tried with its Ping app but has failed. Because BBM will only work on BlackBerry devices it has started a strong network effect that gets groups of people onto the platform. In France recent share gains by RIM have been attributed to French highschool students adopting BlackBerry for the BBM app. In South America BBM has become the most widely used IM platform, outpacing even the traditional land-line platforms like Google Talk, MSN Messenger, and Yahoo Messenger.
2. New browser: RIM is hosting its Capital Markets Day on April 26 and it is widely expected to launch a new device at the event. We believe the new device will come with RIM's new browser that the company highlighted during the Mobile World Congress in Barcelona in February. The new browser was partially developed by Torch Mobile, a WebKit based software designer RIM bought last year. RIM's browser has been highlighted as the weakest part of the BlackBerry platform and management has recognized this weakness. The new browser should not only improve the overall attractiveness of the device but also improve application development.
3. International expansion: Although RIM saw some share losses in North America last quarter it continued to gain share in Western Europe, narrowing the gap between itself and number two player Apple, which lost share even given its expanded distribution channels. We believe the combination of a more appealing product portfolio (8520 and Bold 9700), the growing BlackBerry brand, and the increasing popularity of BBM will continue to drive international expansion.
4. AT&T: Although AT&T has been a strong Apple supporter over the last three years, we believe the carrier is growing increasingly warmer toward RIM and the BlackBerry platform. Again, we estimate 22% of AT&T's post-paid subs now have an iPhone, and although we expect that number to grow we believe we are rapidly approaching saturation. Additionally, there is the fear that Verizon will launch an iPhone when its LTE network is ready, which could see many existing AT&T iPhone users leave the carrier given its poor service quality as of late. As a result we believe AT&T will become more aggressive in marketing new BlackBerry devices in order to grow the overall number of smartphone users in its sub base and to help alleviate its network issues, as the BlackBerry platform is much less taxing on the mobile data networks.

Shares of Research In Motion are on Portfolio Advisory Group's Recommended List and also a holding in ScotiaMcLeod's Canadian Core Portfolio. For more details on the company, please contact your ScotiaMcLeod Wealth Advisor.

**Geoff Ho, CFA** – *Director, Portfolio Advisory Group*

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# U.S. Equity Strategy

## CITIGROUP ADDED TO OUR U.S. RECOMMENDED LIST

Last week, the Portfolio Advisory Group added Citigroup Inc. (C U$4.31, Neutral, Target U$4.50) to our U.S. Recommended List. We view Citigroup as a high-risk play on the ongoing, albeit slow recovery in the U.S. banking industry.

An earnings recovery is underway at Citigroup, however the path and timing to what is viewed as “normalized” earnings power is less clear as the bank continues to reduce assets and credit costs remain elevated. Citigroup reported losses of U$6.39 per share in 2008 and U$0.76 per share in 2009. Our U.S. research provider Credit Suisse is forecasting a return to profitability this year with 2010 and 2011 EPS of U$0.12 and U$0.40, respectively. Citigroup management is cautiously optimistic it is near the peak of the consumer cycle (read: peak loan losses) and noted its limited commercial real estate exposure relative to its peers.

Citigroup has made significant strides to improve its capital position and liquidity and now boasts some of the highest capital ratios in the industry. As of December 31, 2009, Citigroup’s Tier 1 capital ratio was 11.7%. Citigroup has more than U$50 billion of reserves to offset future loan losses and U$118 billion of tangible equity (U$4.15 per share). As a caveat, the company’s deferred tax asset represents almost U$1.90 per share of shareholders equity. As for risk management, Citigroup continues to reduce its holdings in “toxic” assets.

The Treasury’s decision to allow Citigroup to repay TARP funds sends a very positive signal to the market. To begin with, the worst of the financial crisis is now behind them. Second, the government would not allow the bank to repay the money if it did not feel it was well capitalized. It also reduces the odds of that Citigroup will need to raise additional capital any time soon. Lastly, the repayment of TARP funds will also remove restrictions on employee compensation, which should help the Company retain key employees and attract new talent as well.

International banking remains an attractive long-term growth vehicle for the bank. Citigroup is investing aggressively in both Latin America and Asia on the consumer banking side. Management has taken a sharp focus on the expense line and savings are being reinvested in the business supporting branch expansion, customer acquisition, and card usage in regions outside the U.S. In 2009, emerging markets comprised 46% of total revenues and 36% of the bank’s asset base.

The U.S. government owns 7.7 billion shares of Citigroup (27% of the outstanding shares). As of March 15th, the government is free to sell its stake. Over the weekend, the U.S. Treasury said it had chosen Morgan Stanley to advise them on the sale of their shares. The cost base on their shares is U$3.25 per share, so they will realize a gain at current levels. The shares sale presents some challenges. Given the size of their position, a registration statement will need to be filed before they sell any of their shares. Credit Suisse believes perhaps a substantial portion of the stock will be sold through an “At the Market” (ATM) program. Through an ATM program, they would feed their stock out into the market through one of more brokers. Credit Suisse estimates it could take two to four months for them to sell half of their position. Credit Suisse believes the remaining portion would be sold through a secondary offering. The government is deemed to be an affiliate of Citigroup and therefore not able to sell its shares until Q4 earnings are released on April 19th.

Credit Suisse’s target price of U$4.50 per share is based on 1.1 times 2010 yearned tangible book value. Investors with longer-term investment horizons should look through the current target price to an earnings recovery that supports a much higher share price. According to Bloomberg, there are currently 8 buys, 12 holds and 4 sell recommendations on the stock. Consensus earnings estimates for 2010 and 2011 are U$0.04 and U$0.36 per share, respectively. The highest target on the street is currently U$6.00 per share.

Key risks: the pace of economic recovery, renewed weakness in the U.S. housing market, the sale of the government’s stake could also put pressure on the stock or cap the upside until the process is complete.

**Paul Danesi, CIM** – *Director, Portfolio Advisory Group*

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# Economic Outlook

Last week saw a number of significant economic data releases. Q4 GDP was revised down to 5.6% from 5.9% quarter-over-quarter, but the GDP Price Index was revised upward to 0.5. The housing market in the U.S. continues to remain weak. Home prices have been leveling off, while there is still pressure from inventory levels of both new and existing homes. With that said, there is not much activity for homebuilders, and new construction remains tepid. New home sales hit a record low of 308,000 in February. First time home buyers will also soon run out of the tax credits as this perk will end at the end of April. While much of this data looks dismal, Scotia Economics notes that, “the health of the housing market remains hinged on a plethora of factors, including the labour and credit market outlook and prospects for Americans to put their personal finances on a more stable footing...” Scotia Economics also notes that while the overall economic recovery is expected to be subdued, it will gradually improve, which should provide some hope for the housing market as well.

**Equity Indices - Weekly Performance**

| Equity Index | Close 03/26/2010 | Weekly Change Points | Weekly Change % | YTD Return % |
|---|---|---|---|---|
| S&P/TSX Composite Index | 11957.37 | 9.39 | +0.1% | 1.80% |
| Dow Jones Industrial Avg. | 10850.36 | 108.38 | +1.0% | 4.05% |
| S&P 500 | 1166.59 | 6.69 | +0.6% | 4.62% |
| Nasdaq Composite | 2395.13 | 20.72 | +0.9% | 5.55% |
| FTSE-100 (London) | 5703.02 | 52.90 | +0.9% | 5.36% |
| CAC-40 (Paris) | 3988.93 | 63.49 | +1.6% | 1.34% |
| DAX (Frankfurt) | 6120.05 | 137.62 | +2.3% | 2.73% |
| Nikkei (Tokyo) | 10996.37 | 171.65 | +1.6% | 4.27% |
| Hang Seng (H.K.) | 21053.11 | -317.71 | -1.5% | -3.75% |

It was a light week in terms of economic data for Canada last week, with only one release of note, the leading indicators. This report was inline with expectations at 0.8%. Compared to our U.S. counterparts, Scotia Economics notes that Canada has had, “a string of better-then-expected reports over the past month which is prompting upward revisions to expectations for first-quarter GDP growth.” As we continue to rebound, the goods producing sectors are leading the advance, while global trade and industrial production follow suit, with the need to replenish depleted stock.

This week in the U.S. personal income and expenditures, consumer confidence and the S&P/Case-shiller home price index will be released at the beginning of the week, while the ADP employment report will come out on Wednesday. Domestic Vehicle sales for March, ISM Manufacturing index as well as the employment report will all be released at the end of the week. In Canada, it will be a very quiet week again for data releases ahead of Good Friday, although Wednesday’s GDP report will be a highlight.

**Amy Billinghurst –** *Associate, Portfolio Advisory Group – Fixed Income*

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# Fixed Income Strategy

## BEARISH WEEK FOR GOVERNMENT DEBT; TREASURIES AND CANADAS WEAKEN

**U.S. Treasuries sold off last week on the back of additional supply, market positioning trades and event risk.** Treasuries yields rose by 0.05% to 0.17%, with long bond yields rising the most. Putting upward pressure on US government yields, additional supply was in the range of $118 billion for the week as the Treasury Department auctioned 2-year, 5-year and 7-year notes.

Further, Treasuries sold off particularly on Wednesday and Thursday of last week on speculation of a significant reversal of **speculative bets on swap spreads widening,** while financial market conditions continue to improve and move toward normalization. A swap transaction can involve exchanging one security for another to change the original term of the security. Swaps can be used for a variety of reasons such as hedging but they can also be used to speculate on the performance of a specific bond. The swap spread is the difference between the fixed-rate on the swap and the rate on the Treasury. Getting caught off side and stopped out of the swap-spread widening trades would involve receiving swaps and selling Treasuries, a pattern that went to the extreme last week as swap-spreads turned negative (swap yields were less than Treasury yields).

Canadian Bond Yields - Weekly Change

| | Mar 26 | Mar 19 | Change (bps) |
|---|---|---|---|
| Canada 2-Year Bond | 1.70 | 1.64 | 6 |
| Canada 10-Year Bond | 3.56 | 3.48 | 8 |
| Canada 30-Year Bond | 4.09 | 4.05 | 4 |
| BoC Target Overnight | 0.25 | 0.25 | 0 |
| Prime | 2.25 | 2.25 | 0 |
| U.S. 2-Year Bond | 1.05 | 1.00 | 5 |
| U.S. 10-Year Bond | 3.85 | 3.69 | 16 |
| U.S. 30-Year Bond | 4.75 | 4.58 | 17 |
| Federal Funds | 0.25 | 0.25 | 0 |
| Prime | 3.25 | 3.25 | 0 |

*Source: Bloomberg*

Bond Index Performance (YTD)

| | Mar 26 | Mar 19 | Change (bps) |
|---|---|---|---|
| DEX Universe Bond Index | 1.36% | 1.55% | -0.19% |
| DEX All Government Bond Index | 1.05% | 1.27% | -0.22% |
| DEX All Corporate Bond Index | 2.21% | 2.31% | -0.10% |

*Source: PC-Bond*

**On the global front, positive news came from the Euro Zone,** where heads of governments announced that they had reached an agreement on a support plan for Greece in the event that it was unable to get financing through the markets. The plan would mean that the International Monetary Fund (IMF) would provide approximately one third of the financing and the euro zone members would offer bilateral loans for two thirds in proportion to their share of capital at the European Central Bank (ECB). Germany would be the greatest contributor under such a mechanism. The plan would only be activated if the Greek government requests it, in a situation where it is unable to get refinancing through the regular channels. The ECB also announced that it would maintain its collateral rules on BBB-/Baa3 rated debt beyond 2010. On the other hand, Dubai World also got a bit of a relief as Dubai announced a US$9.5 billion debt restructuring plan.

**Government of Canada yields were pushed higher on the back of comments from Bank of Canada (BoC) Governor Mark Carney but mainly because of the activity south of the border.** Canada yields rose by 0.05% to 0.09% on shorter term bonds and by 0.04% on long bonds. On Wednesday, Governor Carney did acknowledge the stronger than expected Canadian data since the beginning of the year. Scotia Economics still thinks the BoC will start hiking rates in Q3 of 2010.

**The corporate bond new issue market was alive and well following the March break but spreads ended relatively unchanged.** In the US, we saw $26 billion in investment grade new issuance while we saw a total of over $12 billion in new issuance on the high yield space. In Canada, the market priced a total of $2.8 billion in new issue supply. The Bank of Nova Scotia came into the market with a $1 billion 5-year deal of senior deposits notes while BMW Canada, AltaLink and AltaGas Income Trust also came into the market to raise funds. Finally, Toronto Hydro did a 2 tranche re-opening deal as the City of Toronto monetized its loan to the utility. The new issues were well received but credit spreads ended the week unchanged to about 0.03% higher.

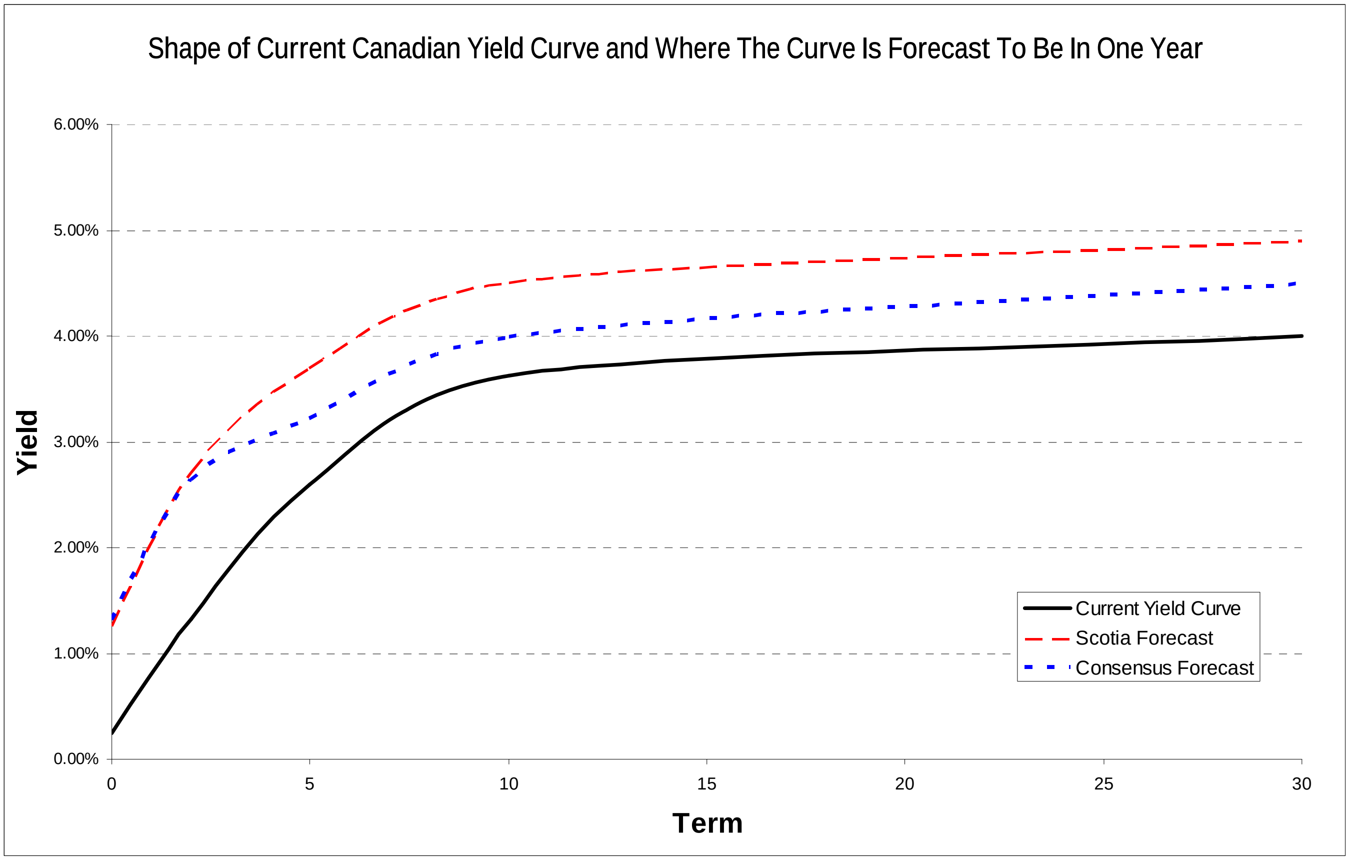
**It should a relatively quiet on a shortened holiday week.** There is no new government supply expected for the week and the market will focus on Canada's GDP data on Wednesday and the US' Non-farm Payroll on Friday. The Canadian bond market will be closed in recognition Good Friday.

## Portfolio Advisory Group Fixed Income – Current Recommendations (changes in blue)

1. Term Call – below benchmark duration; overweight cash
2. Sector Call – Underweight Canadas, overweight provincials, municipals and corporates
3. Currency Call – Recent strength in the Canadian dollar means little upside to foreign currency trades
4. Alternative Strategies – overweight high yield, overweight Emerging Markets Debt, underweight inflation protected.

## Portfolio Advisory Group Fixed Income – Current Recommendations (changes in blue)

1. **Term Call** – With both Scotia Economics and Bloomberg Consensus forecasts calling for bond yields to rise across the spectrum over the next 12 months, maturities beyond 5-years are expected to post negative returns over the next 12 months. We therefore recommend active investors remain in the very short end of the maturity spectrum, or in cash.




***Source: Scotia Economics and Bloomberg***

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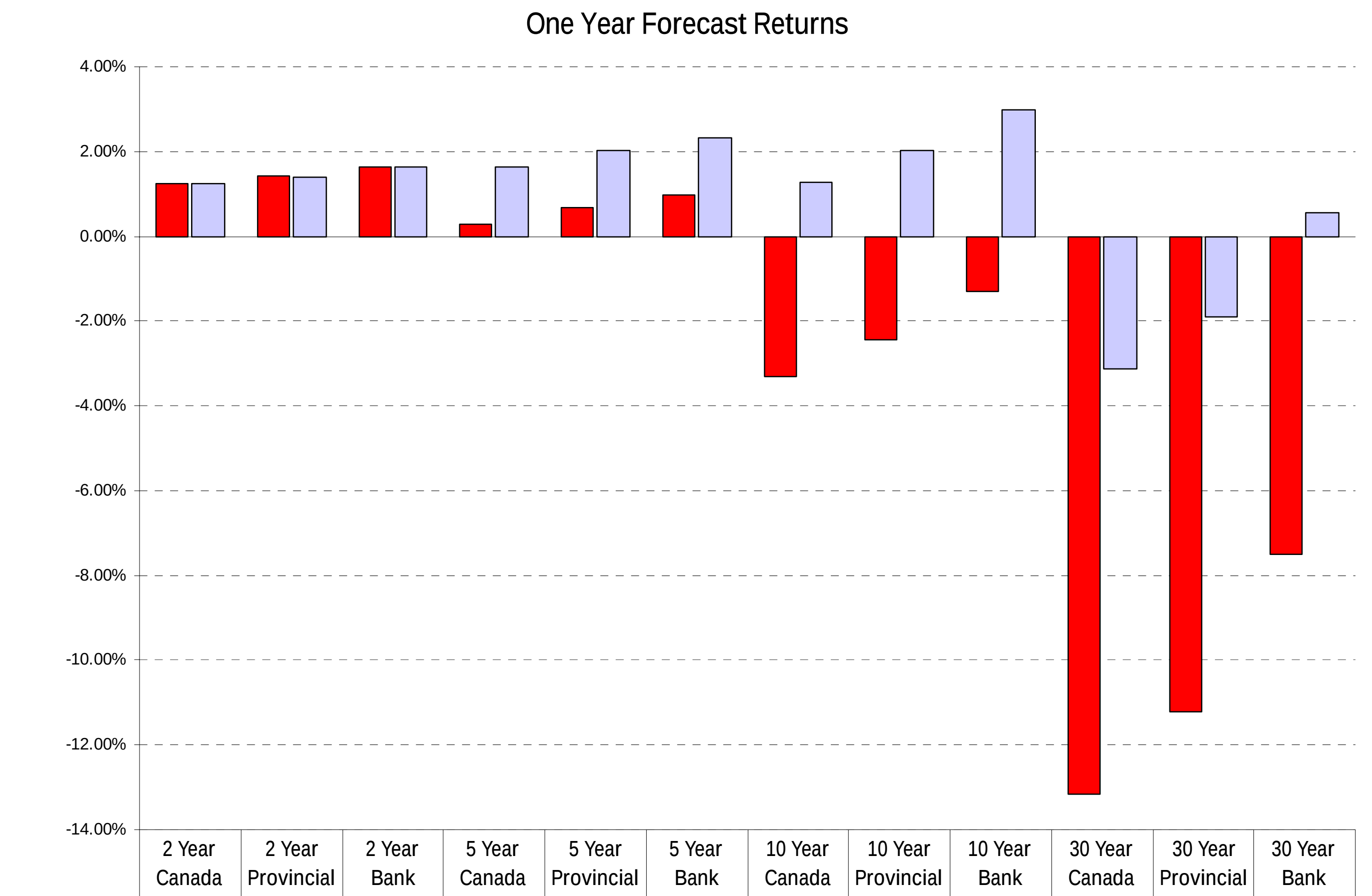
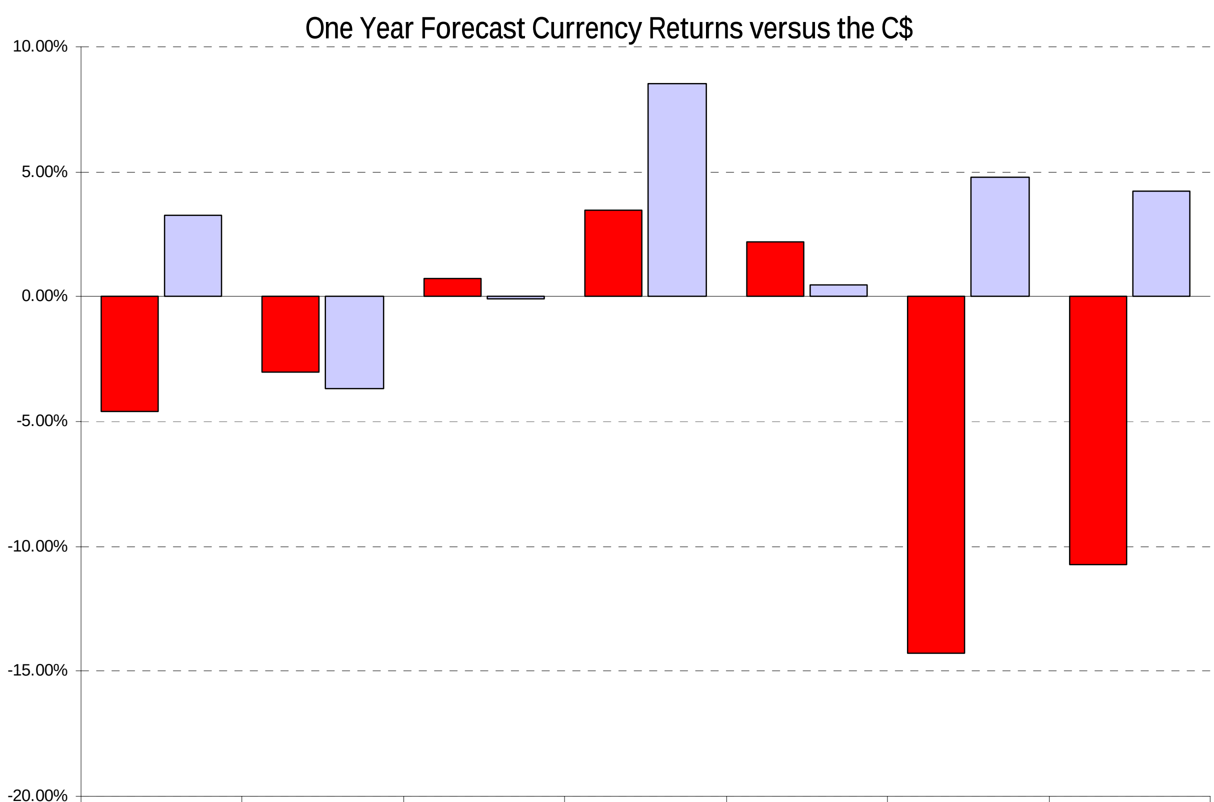



| | 2 Year Canada | 2 Year Provincial | 2 Year Bank | 5 Year Canada | 5 Year Provincial | 5 Year Bank | 10 Year Canada | 10 Year Provincial | 10 Year Bank | 30 Year Canada | 30 Year Provincial | 30 Year Bank |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Scotia | 1.26% | 1.42% | 1.64% | 0.28% | 0.66% | 0.98% | -3.31% | -2.44% | -1.31% | -13.15% | -11.20% | -7.49% |
| Consensus | 1.25% | 1.41% | 1.64% | 1.64% | 2.01% | 2.32% | 1.27% | 2.02% | 2.98% | -3.14% | -1.90% | 0.55% |

***Source: Scotia Economics and Bloomberg***

2. **Sector Call –** In conjunction with our term call (to remain in cash or very short term investments), we recommend investors look to the provincial, municipal, and corporate sectors for yield enhancement. Credit spreads (the yield pick up over Canada bonds) still remain attractive in the provincial and municipal space, and although corporate bond yields are at multi-decade lows, there is still a significant yield pick-up available in the short end of the yield curve versus T-Bills and Canada bonds.

3. **Currency Call -** Scotia Economics' and consensus forecast expectations are for the Canadian dollar to outperform most major currencies over the next year, therefore we recommend Canadian investors remain in Canadian dollars for their fixed income holdings at this time.




| | USD | JPY | EUR | GBP | AUD | MXN | BRL |
|---|---|---|---|---|---|---|---|
| Scotia | -4.58% | -3.04% | 0.73% | 3.46% | 2.21% | -14.26% | -10.73% |
| Consensus | 3.29% | -3.70% | -0.11% | 8.56% | 0.47% | 4.78% | 4.23% |

***Source: Scotia Economics and Bloomberg***

4. **Alternative Strategies:** Within a broadly diversified portfolio our recommendations are as follows:

   **a) High Yield –** In conjunction with our positive equity market outlook for the next 12 months (based on the outlook for economic recovery), we now recommend investors shift to an overweight position in high yield debt.

   **b) Emerging Markets – Similar to our outlook for high yield and equities,** we continue to see value in this sector versus both investment grade and high yield. Hence, we continue to recommend maintaining an overweight exposure.

   **c) Inflation Protected Bonds –** with current real yields in the area of 1.55%, and the market pricing in an effective long term inflation rate of 2.50%, we see limited value in Canadian Real Return Bonds, and hence recommend an underweight exposure to the sector.

*__Anthony Mentor –__ Associate, Portfolio Advisory Group – Fixed Income*

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*-S&P/TSX Composite Index*


*-Dow Jones Industrial Average*


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## *-NASDAQ*


## *- S&P 500 Index*


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## Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

### Ratings

**1-Sector Outperform**
The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

**2-Sector Perform**
The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

**3-Sector Underperform**
The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

**Other Ratings**
Tender - Investors are guided to tender to the terms of the takeover offer.

Under Review - The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

### Risk Rankings

**Low**
Low financial and operational risk, high predictability of financial results, low stock volatility.

**Medium**
Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

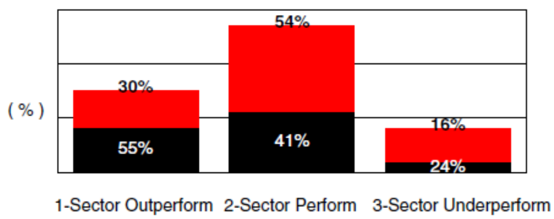
**High**
High financial and/or operational risk, low predictability of financial results, high stock volatility.

**Caution Warranted**
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk tolerant investors only.

**Venture**
Risk and return consistent with Venture Capital. For risk-tolerant investors only.

### Scotia Capital Equity Research Ratings Distribution*

### Distribution by Ratings and Equity and Equity-Related Financings*




- (red) Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- (black) Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

** As at February 28, 2010.*
*Source: Scotia Capital.*

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than buy, hold/neutral and sell, to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

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*The author(s) of the report own(s) securities of the following companies.*
***Research In Motion Limited**,*

*The supervisors of the Portfolio Advisory Group own securities of the following companies.*
*None.*

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