Leon Frazer & Associates
INVESTMENT COUNSEL

experience, integrity & commitment since 1939

JUNE 2008

LEON FRAZER QUARTERLY REVIEW

Equity Market Commentary: Opportunity for Growth in Canadian Market

THE US EQUITY MARKETS CONTINUE TO MAKE NEW LOWS and have finally caused a pullback from all-time highs in the Canadian market. Oil and gas securities, plus a few momentum stocks have, for the most part, been responsible for the divergence between Canadian and US markets.

HIGH ENERGY COSTS IMPACT CONSUMERS

Drilling stocks and natural gas stocks have continued to improve. Oil is now over $140 per barrel. We believe a correction is likely, possibly down to $100 per barrel. Consumption in the US is starting to be affected by the $4 per gallon price of gasoline. By year-end, US consumers will have absorbed an extra $100 billion in energy costs if gasoline prices stay close to current levels. Countries like China and South Korea have reduced their subsidies on consumer purchases of gasoline. There is tentative evidence that Americans are also cutting back on driving and energy consumption. If this continues, we can expect hedge funds to shift from long to short positions in energy futures markets. Such a swing in investor attitudes could have a significant effect on the oil market as speculative investment demand appears to have played a role in the recent sharp climb in oil prices.

Political concerns in oil-producing countries also need to be considered. Prior to 1972, companies like Exxon, British Petroleum and other large, integrated oil companies controlled reserves. Now that governments instead of companies control more major oil reserves, they generally do not make the capital expenditures necessary to keep up with rising demand.

Natural gas consumption will grow this summer, as temperatures are anticipated to climb. Coal is no longer considered an equal alternative due to environmental problems. A number of companies, such as Enbridge and TransAlta, are developing wind power projects, but this energy source is still at a very early stage and heavily subsidized. Solar energy is also a possibility; however, it too is still in the very early stages.

Nuclear power remains a probable energy alternative, and Cameco is our major investment choice in the area. We believe they will be the most logical supplier of uranium for over 160 new nuclear facilities in construction and development stages.

DIVIDENDS PROVIDE PORTFOLIO STABILITY

We continue to add to securities that have demonstrated an ability to maintain earnings and increase dividends. We believe dividends provide portfolios with necessary income and stability. Canadian banks have a history of not only maintaining dividends, but also increasing them regularly. Bank stocks have corrected significantly, and are now starting to show some improvement.

Although the Supreme Court of Canada has ruled in favour of the Ontario Teachers' Pension Fund takeover of BCE, the final chapter of this incredible story still needs to be written. The lenders have now officially committed to finance the deal at its original price and expect the deal to close in December 2008. It appears that current shareholders will not be paid dividends until the deal closes but will receive the full purchase price of $42.75 per share.

With the increases in money supplies around the developed world, and the far reaching impact of high oil prices, inflation will continue to be a concern. For that reason, we will hold gold stocks as a hedge against inflation.

CONSUMER SENTIMENT INDEX AT A LOW

The prices of imported goods coming into the US accelerated sharply in May. Much of this is the result of higher oil prices, but non-petroleum import price inflation also shows a major shift. Rising prices for capital goods, consumer goods and foods, feeds and beverages are also big contributors to rising import inflation. American consumers are showing they are being hit hard by the dual

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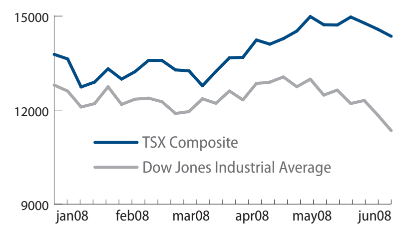

Source: Thomson Financial

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Opportunity for Growth in Canadian Market

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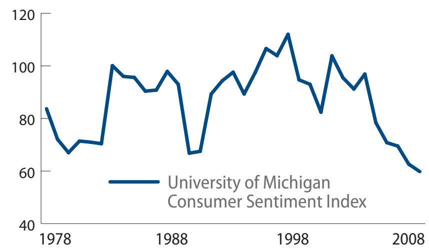
credit and energy shocks. Consumer confidence has plunged over the past six months, with the University of Michigan consumer sentiment index at its lowest level since June 1980.

"In times like these, we take the steps necessary to protect our clients' assets"



Source: Federal Reserve Bank of St. Louis

Another area that warrants mentioning is the housing market. US homebuilders do not believe the market has hit bottom, and see the deteriorating trend continuing for at least the remainder of this year and probably into 2009. It is estimated that more than 8.5 million US homeowners now owe more on their mortgage than their house is worth. Some estimate this could increase to around 12 million in 2009, putting increased pressure on defaults and foreclosures. In Canada, the market looks much better, although prices will likely trend down slightly as activity slows down.

We expect US markets to remain in a trading range until after the presidential election. The Canadian market will likely show weakness if the price of oil corrects to lower levels. Patience is a necessary virtue when holding an equity portfolio. In our experience, economies slow down and markets correct every four or five years; they cannot continually go up. When this happens, we wait for the next opportunity to lead to substantial gains in capital and income. We ask our clients, especially our new clients who have not gone through this process before, to bide their time. Our firm's history has shown that in times like these, we take the necessary steps to protect our clients' assets by investing in quality, income-producing securities. ■

Fixed Income Commentary

The focus in the fixed income markets has now shifted from expectations of slower economic growth to fear of inflation.

"The Jov Bond Fund's objective is to provide attractive income levels, while stabilizing portfolio value"

The Federal Reserve Board has lowered the overnight borrowing rate by a total of 3.25%, with 7 reductions in the last 6 months. At its last meeting, however, the rate was left steady at 2%, with the Fed stating, "although downside risks to growth remain, they appear to have diminished somewhat, and the upside risks to inflation and inflation expectations have increased." The Bank of Canada left its overnight rate unchanged at 3%, having reduced it by 1.5% in the last six months. The Bank of Canada also announced emergency liquidity provisions for the banking system would be terminated due to "the continuing improvement in market conditions."

While the banking system crisis has not escalated, there are still many concerns about the asset quality of the banks and fears of further write-downs. As a result, credit spreads have narrowed somewhat, but are still much wider than normal.

We expect growth for 2008 will be weak in the US and, to some extent in Canada, but growing inflation concerns will keep interest rates on a rising trend.

LEON FRAZER PROVIDES NEW FIXED INCOME SOLUTION

In conjunction with our parent company, Jovian Capital, we are pleased to announce the Jov Bond Fund, a new fixed income solution to complement our equity portfolios. In today's market, buying quality, individual fixed income investments at a reasonable price can be difficult. The Jov Bond Fund provides a streamlined approach to fixed income management. Managed by Frances Connelly, in conjunction with the Leon Frazer Investment Committee, the Fund's objective is to provide attractive income levels, while stabilizing portfolio value.

The Jov Bond Fund offers several key advantages over purchasing individual bonds, including:

- Diversification of issuers, maturities, and risk.
- Individual bond coupon payments are reinvested in the Fund while the unit holder receives a regular distribution.
- Ability for better pricing from institutional dealers due to the increased size of transactions.
- Ability to reposition the portfolio quickly and efficiently to take advantage of changing market and interest rate conditions.

Over the next few months, as appropriate, this new approach will be selectively utilized to better meet the fixed income requirements of our clients. ■

Spotlight: Dona Eull-Schultz

SAME COMMITMENT TO CLIENTS: NEW, UPDATED LOOK

Dedication to client service has always been a fundamental principle of Dona Eull-Schultz's investment practice. Now, in her newly created role as Chief Operating Officer at Leon Frazer and Associates, that commitment is even stronger than ever.

For over thirty years, Dona has built her practice on understanding her clients' needs, then finding the financial solutions to solve them. Her philosophy has been a key part of her extensive career in financial services, from stockbroker, to Portfolio Manager, to executive management positions within the wealth management industry. She believes the financial services industry faces an ongoing challenge to meet and exceed the increasingly sophisticated demands of clients. Exceptional client service and dedication to relationship management is often what distinguishes one firm over another. And that's exactly what drew her to Leon Frazer and Associates.

Dona recognized Leon Frazer as a "hidden gem," and thinks of the firm as one of Canada's best-kept secrets. Leon Frazer has sustained its long-term commitment to the basic concept of protecting people's assets from inflation since 1939. Dona feels this accomplishment is a true legacy to the dedication, perseverance and commitment of Leon Frazer, George Frazer, Bill Tynkaluk and colleagues.

Like the professionals at Leon Frazer, Dona is excited her new role in the firm will also allow her to stay true to the basic philosophy of her beliefs: to not only meet, but exceed client expectations. Dona believes education is key. She feels it is imperative that there is an understanding, within all levels of an organization, as to how the client functions and what is important to them. To achieve this, she aims to ensure the right people are in the right jobs and have the proper training, support and recognition to allow them to do their jobs well.

State-of-the-art technology and an increasingly global market have brought significant changes to the traditional financial services business model. Yet, despite these developments, the fundamental principles underpinning the industry remain essentially unchanged. This is why the company has been so successful in maintaining the same long-term commitment to clients and managing assets that Leon Frazer first established almost seventy years ago.

While holding to those same company beliefs, Dona sees an opportunity to take advantage of new tools and technology to ensure clients' expectations are met. To that end, Leon Frazer is pleased to announce some new changes, including an updated look and logo for the firm. Over the next few months, clients can expect to see a revamped website, as well as educational services to support the company's first, second and third generation clients. New internal processes have been put in place to ensure accuracy in reporting and the timely delivery of information.

Dona feels it is important for a company to understand their clients' needs, expectations and goals. She aims to provide a forum for ongoing communication and invites any feedback and comments. By combining the key characteristics of flexibility, dedication and innovation, Dona is working to ensure the dedication to client service Leon Frazer has been known for over the past 70 years, will continue into the future. ■

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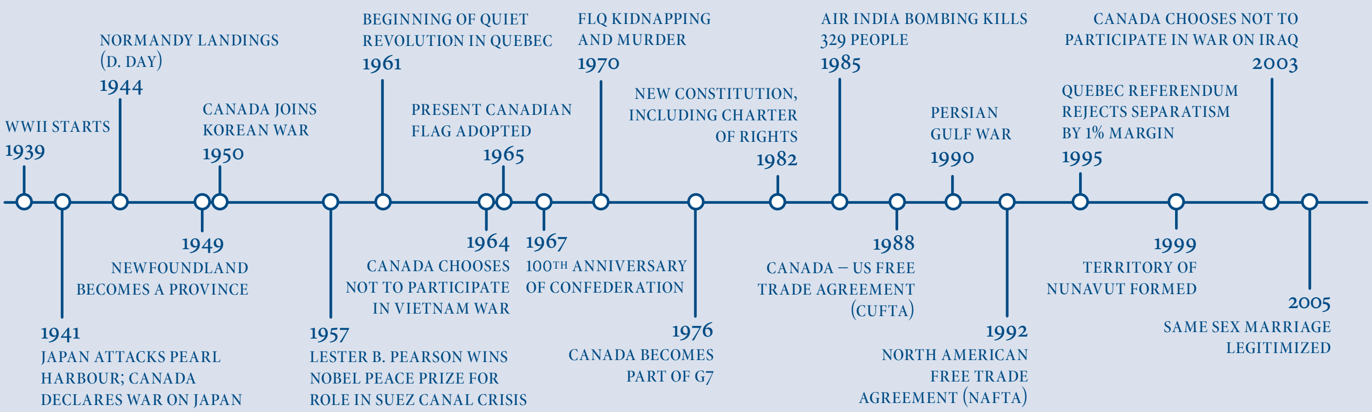
Fresh New Look

We are pleased to introduce our new logo; a modern look which will take us into the 21st century. In addition, we have "gone green," using recycled paper and environment friendly inks.

Leon Frazer Timeline

KEY POLITICAL EVENTS IN CANADA SINCE 1939



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