RBC DOMINION SECURITIES

Strategy-in-Brief and Recommended Equities: Fall 2009

EQUITY PORTFOLIO ADVISORY GROUP

Friday, Sept 3, 2009

- *The global economy is in the midst of a synchronized recovery in trade and the manufacturing sector, driven by strong fiscal stimulus and a rapid depletion of inventories. Sustainability of the recovery remains a concern and relies upon improvement in the corporate sector leading to higher employment and resumption of growth in consumer spending. While taking their foot off the gas pedal in relation to Quantitative Easing, central banks remain committed to maintaining a supportive monetary policy stance. Fiscal stimulus too will remain a key economic driver in the year ahead. Longer term headwinds suggest that the recovery may prove to be less robust than would historically be expected after a recession of such severity.*
- *Superior fundamentals in relation to government finances, the financial system and the housing market serve to differentiate the Canadian landscape, but the inescapable trade links to the US have aligned Canada's economic trajectory with that of the US, on a lagged basis. Rising commodity prices have spurred strength in the Canadian dollar which threatens to undermine certain sectors of the Canadian economy, suggesting that The Bank of Canada will likely hold the Bank Rate at 0.25% for some time.*
- *Despite universal expectations of a pullback, equity prices have marched steadily higher and may continue to do so, although at a slower pace. The prospect for normal returns in an environment of low interest rates and zero returns on cash leaves us biased towards equity outperformance in the year ahead, although the risks just beyond our forecast window remain elevated.*

The Economy

- ***US***
  - The pace of economic contraction slowed dramatically from -5.7% in Q1 to -1.0% in Q2 aided by government expenditures, net exports and increasing manufacturing activity, following an unprecedented inventory drawdown. Our outlook is for growth approaching 2% for the remainder of 2009, bringing the 2009 rate to -2.8%, and a modest 2.2% for 2010. Fiscal stimulus will play an important role in 2010 with only 10-15% of stimulus funds spent so far.
  - The US housing market has seen encouraging signs with sales and home prices rising modestly from very low levels and unsold inventories falling, even while foreclosures continue at a high pace.
  - A surge in unemployment of 4.8 percentage points so far in 2008/2009 looks set to moderate, with the rate likely peak near 10% later this year. Sustainability of the recovery rests with the consumer who, after being a net drag so far, will likely increase consumption by a modest 1.8% next year as the growth in the household savings rate abates.
  - Despite the outlook for positive growth, the recovery is set to be less robust than would traditionally be expected following a recession of the depth experienced over the past year.
- ***Canada***
  - GDP rose for the first time in June at +0.1%, having fallen by -3.4% in Q2 and -6.0% in Q1. With outsized trade exposure to the US, Canadian GDP tends to follow the US with a lag. Business capital investment continues to be a net drag on output. However, a sound banking system has provided effective transmission of lower interest rates into the economy, spurring a rebound in housing and consumer activity. GDP growth should pick up to +2% in Q3 and +2.4% in Q4 and outpace the US modestly in 2010. Unemployment, at 8.7% is likely to peak at 9.2% by the end of year.
  - Rising oil and commodity prices are a positive for some sectors of the Canadian economy although the related run-up in the Canadian dollar increases pressure on the beleaguered manufacturing sector.
- ***Europe -*** Typically a laggard, Eurozone GDP data surprised to the upside with positive German and French GDP due to rising industrial exports and major auto incentives. A moribund consumer and the lapsing of these incentives leaves the strength of the recovery in question, although improved business sentiment bodes positively for future employment.

➢ ***Asia***

- Export-oriented Emerging Asian economies, amongst the hardest hit in the downturn, are leading the recovery. Q2 GDP rose at over a 12% annual rate as exports rebounded and a consumer sector unencumbered by the excesses of many Western nations forged ahead.
- In Japan, surging exports and increasing confidence amongst manufacturers lie in contrast to a sluggish household sector which remains dependent upon government stimulus, likely to be continued under a newly elected government. Unemployment recently hit an all time high of 5.7%.
- Chinese GDP growth remains on track for 8% in 2009 and 9% in 2010. The rate of bank lending and investment has eased from a blistering pace. Retail sales, housing activity, and a modest recovery in exports support the fundamental outlook.

Monetary Conditions and Inflation

➢ ***US*** - Though core inflation remains positive, headline inflation has fallen below zero on a year-over-year basis. High unemployment and low capacity utilization mean the economy would need to grow at an improved rate for a prolonged period before inflation becomes a concern. Traditionally, the Fed has avoided raising policy rates until a positive employment trend has become established. Short term interest rates are likely on hold at a range of 0%-0.25% for the foreseeable future, although an improving growth outlook implies a reigning in of non-conventional policy.

➢ ***Canada*** - The Bank of Canada has taken its benchmark rate to a record low of 0.25%, which it has committed to maintaining through early 2010. CAD strength, and its potential drag on the economy, has kept discussion of quantitative easing alive, but it remains a low probability as other central banks reign in their QE activities.

➢ ***Europe*** - At 1%, the ECB refinancing rate is the highest among its peers, although recent upside GDP surprises likely remove the possibility of further cuts. Rates are expected to stay level into 2010.

➢ ***Asia***

- Japanese rates remain on hold at 0.1% as the economy grapples with accelerating deflation, and significant excess economic capacity.
- In China, concern that bank lending, the primary vehicle for delivering fiscal stimulus, was contributing to a potential stock market bubble has led to a reigning in of short term loan activity. However, benign inflation (-1.7% in June, 1.5% forecast for 2009), and concerns over the longer term sustainability of the recovery leaves policymakers disposed to maintaining their current pro-growth stance at least until Q2 next year, at which time policy rates may commence a gradual march higher.

Interest Rates and Currencies

➢ ***US***

- 10-year Treasuries have remained in a 3%-4% range near calculated fair value given an outlook for low inflation and steady policy rates for the foreseeable future. Excess supply poses only a modest threat given a higher US savings rate. As the recovery progresses, asset flows out of bonds into more risky assets should push yields above the 4% range.
- Narrowing corporate bond spreads have offset the rise in government bond yields. Although the lion's share of gains is likely behind us, corporate bond valuations remain attractive given that the apparent stabilization in profitability bodes well for a moderation in expected default rates.
- Long term fundamentals remain poor for the US dollar given large budget deficits and bond issuance; however, this has been reflected in an already significant decline in the currency to date. A strong negative correlation with equity prices leaves room for some US dollar recovery in the event of a pullback in equity markets.

➢ ***Canada***

- For the Canadian dollar, levels at or above $US 0.90 probably exceed what is justified by fundamentals in the near term, leaving the currency vulnerable to any softening in optimism regarding the economic outlook and equity markets.
- Movements in Government of Canada bonds are likely to be influenced by Treasuries, though Canada's more benign supply picture should see GoC bonds outperform on any sustained backup in yields. A strong currency may also threaten the economic outlook, leading to a longer period of low rates from the Bank of Canada, which would also be supportive of Government bonds.

Earnings and Equity Markets

➢ ***US***

- At $44, recurring earnings for the S&P 500 have fallen below the peak from the previous economic cycle set in 2001 and are down some 51.5% from their 2007 high water mark. However, while the momentum of actual reported earnings remains neutral, RBC CM's earnings estimate revisions index has turned up and is in positive territory for the first time in two years. Consensus estimates for forward 12 month earnings has troughed and is now rising, standing currently at $65 while RBC CM projects calendar 2010 and 2011 index earnings just below consensus at $70 and $84. Earnings growth is the dominant driver of returns for investment horizons of one year and beyond. From this perspective, current expectations remain well below the 2007 peak of $91, but provide ample support for equity markets from current levels.

- In recent months, equity markets have travelled a substantial distance from pricing in the bankruptcy of the financial system, to pricing in the first tentative signs of recovery. We look for further equity strength, although prospects from here are much more modest, with a target of 1,150 for the S&P 500 one year out. Our view rests on three considerations: (i) leading economic indicators and massive fiscal stimulus still in the pipeline suggest there will be upside economic surprises in the quarters ahead, (ii) we are in the part of the cycle where earnings improvements tend to exceed forecasts, leading to increased confidence, lower risk premiums, and rising valuations, and (iii) the combination of low inflation, zero returns on cash, large cash holdings, and ample liquidity argue we remain in a sweet spot for risky assets. Ironically, while most investors remain focused on the risk of a double-dip recession and its impact on earnings visibility, a greater impact on equity markets would be felt from rising inflation and interest rates. This could happen if the economy were to recover too strongly/quickly combined with a Lazarus-like resuscitation of the US banking system causing central banks to abruptly reverse policy course. Given the huge amount of economic slack and ongoing consumer and financial deleveraging this remains a low risk scenario. We regard the current environment as a cyclical bull market within a potential secular bear.
- Technically, the S&P 500 is now nearly 2 standard deviations above its 200-day moving average, suggesting an inevitable slowing in the pace of gains. Many investors have waited for months (in vain) for some pullback to provide a more appealing entry point. Historical seasonal patterns highlight the potential for underperformance in September and October and our technical analysts indicate that a risk window for correction remains open. While history suggests any pullback could range from between 5% to as much as 20%, from a 12-month perspective, the trend is still up, and as yet is showing no real signs of longer-term deterioration.
- On a substantially longer-term view (5 years or more), the likelihood of a mean reversion to the long term trend in corporate earnings and equity valuations leaves substantial opportunity for investors with long time horizons. This stands in contrast to the past decade in which equities underperformed both cash and bonds.

➢ ***Canada***

- The decline in TSX earnings is less advanced relative to the S&P 500 with Canadian earnings having peaked in Nov 2008 versus July 2007 for the US. Consensus earnings expectations for 2010 have started to turn up, but are still some 7% below current levels, suggesting some tough quarters ahead.
- Returns for the TSX are highly correlated to the S&P 500 and commodities prices. Assuming a 10% gain in commodities prices and a return to positive economic growth in Canada and the US, our 12 month target for the TSX lies at or about 12,000.
- On the basis of normalized earnings and longer term fair value models, the TSX is reasonably priced but remains one of the developed world's more expensive markets. The resource-heavy composition of the TSX implies a higher degree of leverage to additional signs of a firming global economic recovery, particularly amongst Asian economies which are significant consumers of commodities. In such an environment, Canadian stocks are likely to outperform. Conversely, a reversal back towards the levels of risk aversion witnessed in recent quarters would likely result in a period of underperformance for the Canadian market and the Canadian dollar. Eurozone equities have fallen the furthest below our estimate of long term fair value.

Asset Allocation

In our view the odds favor continued outperformance of equities as an asset class over the next 12 months, although the overall return prospects are much lower than what has recently been delivered. For risk-oriented and agile investors, we would regard any softness in markets near term as opportunities to add exposure so long as leading indicators on the economy continue to point to continued economic expansion.

For conservative investors with a longer term investment horizon, we would note that while valuations over a 5-year or longer horizon are compelling, the sustainability of the current economic recovery is by no means assured and substantial risks remain, suggesting that investors should be at their long term strategic asset weightings, but need not chase this market.

All-Canadian Portfolio – Stocks 60%, Bonds 30%, Cash 10%

Global Portfolio – Stocks 60%, Bonds 35%, Cash 5%

Sector Strategy

	CANADA	U.S.
Financials	***Market Weight*** – Underlying environment remains challenging, as credit losses are likely to persist in the next several quarters. However, Canadian banks have for the most part demonstrated strong ability to earn through the crisis. Poor earnings quality continues to weigh on the lifecos. Thus, Focus List remains more heavily weighted toward banks than insurers.	***Market Weight*** – The underlying environment remains challenging but recent trends suggest slowing in pace of credit losses may be on the horizon while revenue has been supported by robust capital markets and expanding net interest margins. Clarity with regards to capital adequacy was achieved by the stress tests, and as a result the focus of investors has shifted to the normalized earnings potential.
Telecom Services	***Underweight*** – Sector reduced to UW from MW for current quarter. Competition amongst existing players has intensified, while new wireless entrants have begun to enter the market and could further erode competitive landscape.	***Underweight*** – The wireless landscape remains very competitive with smaller incumbents offering aggressive pricing alternatives. Furthermore, consumers remain diligent with respect to their wireless plans despite continued growth in smartphone sales.
Utilities	***Underweight*** – Defensive characteristics should be supportive of stocks, while regulated business models better insulate them in a difficult credit environment, as many of the companies can pass on higher borrowing costs to customers. Focus List is currently weighted more toward economically sensitive stocks and thus Utilities are maintained at UW.	***Underweight*** – Sector offers attractive attributes such as above average dividends yields and relative earnings resiliency. However, power demand remains weak and sector could lag in a global economic recovery.
Consumer Staples	***Underweight*** – Sector offers investors stable growth and strong balance sheets. While Focus List is more heavily geared toward the more economically sensitive sectors of the market, the relative underperformance of Staples has made valuations more compelling than the recent past.	***Market Weight*** – Sector offers strong international growth opportunities and relative stability. Potential for reacceleration of input costs could limit margin expansion; volumes facing risk of greater private label competition.
Consumer Discretionary	***Market Weight*** – Favor media companies over more consumer focused businesses. Canada offers limited opportunities and we would recommend investors consider US alternatives.	***Overweight*** – While the US consumer remains under pressure, upside potential in share prices remains as signs of stabilization of economic and consumer confidence in the US continue to emerge.
Healthcare	***Underweight*** – Investors should look to US market for more broad-based group of names.	***Market Weight*** – Overhang of healthcare reform could persist through the fall although risk may be reflected in valuations. Favour companies with less exposure to potential legislation and those that continue to see relatively good earnings trends.
Industrials	***Overweight*** – Committee believes that the likelihood of a second half economic recovery has grown considerably. Sector offers strong economic leverage and OW is maintained.	***Market Weight*** –Sector offers exposure to global economic recovery. Favour early cycle exposure as well as international end markets where activity has shown signs of reaccelerating.
Technology	***Overweight*** – Sector increased to OW from MW because of strong relative performance and sensitivity to an economic recovery. Look to US for some exposure as it has more diverse names.	***Overweight*** – Evidence emerging of stabilization in demand trends, consequently, looking to position the sector towards companies with a higher degree of cyclicality in their end markets.

Energy	***Overweight*** – Sector raised to OW from MW. While inventories remain elevated, especially for natural gas, the expected economic recovery could boost NA and European demand. Further, significant supply reductions could begin to show up late in the year, creating a supply/demand imbalance, which could quickly erode inventories.	***Market Weight*** – The outlook for crude oil has improved, driven by early signs of stabilization in the global economy and OPEC's compliance to stated production cuts. The outlook for natural gas is more mixed, as inventories remain well above normal while demand in the US remains muted.
Materials	***Overweight*** – Sector raised to OW from MW. While base metal stocks have staged a strong recovery, significant upside remains should global economic recovery play out as expected. Fertilizer stocks continue to offer compelling long-term valuations, while gold is entering strong seasonal demand period.	***Overweight*** – The outlook for the sector has improved on the back of a reacceleration in global leading indicators. Favour more cyclical areas of the sector that offer leverage to improving economic activity, both domestically and overseas.

Stock Recommendations

Canadian Focus List:

Bank of Montreal (BMO)
National Bank (NA)
TD Bank (TD) – addition
Brookfield Asset Management (BAM.A) - addition
Royal Bank (RY)
Power Corp (POW)
Tim Hortons (THI)
Thomson Reuters (TRI)
Finning (FTT)
Research in Motion (RIM)
EnCana (ECA)
Husky Energy (HSE)
Imperial Oil (IMO)
Canadian Natural Resources (CNQ)
TransCanada Corp. (TRP)
Cameco (CCO)
Barrick Gold (ABX) - addition
Potash (POT)
Goldcorp (G)
Inmet (IMN) - addition

Additions:

Barrick Gold (ABX) - Barrick Gold is the largest gold producer in the world, with a strong management team and one of the best reserve profiles in the industry. Barrick has gold production on four continents, and copper production from its Zaldivar mine in Chile provides a meaningful second cash flow source. The company recently guided to a range of 7.3 to 7.7 million ounces of gold production for 2009, which is expected to grow to 7.7 to 8.1 million ounces in 2010 with the start-up of the Cortez Hills project. It has a reserve base of approximately 138 million ounces of gold, which is more than 18 years of production at current rates. Further, ABX has implied resources that bring reserves to more than 200 million ounces, which provides the Company with a rich asset base and strong long-term visibility.

Brookfield Asset Management (BAM.A) – Brookfield Asset Management is a specialist asset manager focused on property, power and infrastructure assets. The company has approximately $80 billion of assets under management, including premier office properties, power-generating plants, electricity transmission and distribution assets and various private equity funds. BAM recently formed a $4 billion investor consortium that will focus on acquiring distressed real estate properties. Further, BAM has also joined a consortium that will provide debtor in possession financing to distressed companies. In addition, Brookfield Properties recently raised nearly $1 billion through an equity issue, which should help alleviate some of the balance sheet concerns that have plagued the company over the past year, as BPO has significant debt maturities in the 2011-12 timeframe.

Inmet (IMN) – Inmet Mining is a diversified mining company. Its primary products are copper, zinc and gold. The company has more sensitivity to copper than it does to zinc or gold, which increases the overall portfolio's exposure to an economic recovery, as copper tends to be more sensitive than other metals to the ebbs and flows of the economy. Inmet is in the process of ramping up the Las Cruces (Spain) copper mine, which will significantly raise copper production over the next several years. Further, the Petaquilla (Panama) copper project could potentially double IMN's copper production by 2015. With the closing of a recent equity issue, Inmet has a well capitalized balance sheet with more than $10/share of cash, leaving the Firm well-positioned.

TD Bank (TD) – TD is Canada's second-largest bank by market capitalization and by assets, with more than 1,100 retail branches in Canada, 1,000 branches in the U.S. and 260 retail brokerage offices. The company has favorable longer-term positioning relative to other Canadian banks and leverage to improving credit conditions. The strength of its retail banking franchise, its solid funding base and lower reliance on capital markets should allow the bank to generate solid and predictable earnings growth. Meanwhile, as the macro-economic environment continues to improve, the shorter-term credit concerns overhanging the stock is expected to continue to dissipate.

Deletions:

Bank of Nova Scotia (BNS) - While from a longer-term perspective, BNS's international exposure provides an important engine for growth, because of the slowdown in global trade and the heavy reliance of many Latin American countries on trade, there is a growing risk that a recovery in that region will lag that of the US and other markets. As a result, other banks may emerge from the credit loss cycle sooner than BNS.

Intact Financial (IFC) – Intact was added to the Focus List because of its very strong balance sheet (no debt, no credit issues, low equity market exposure). The markets subsequently turned and the crisis eased. Those balance sheet virtues mean the shares are less geared to the economic/financial markets recovery that now appears to be underway. In addition, Intact recently raised some money through a debt issue. Coupled with Firm's already strong balance sheet, there is a risk that the Firm will attempt to make an acquisition in the coming months that could hinder near-term stock performance.

Note that more detailed rationale on the above changes is available upon request.

Canadian Focus List:

Bank of Montreal (BMO)
National Bank (NA)
TD Bank (TD) – addition
Brookfield Asset Management (BAM.A) - addition
Royal Bank (RY)
Power Corp (POW)
Tim Hortons (THI)
Thomson Reuters (TRI)
Finning (FTT)
Research in Motion (RIM)
EnCana (ECA)
Husky Energy (HSE)
Imperial Oil (IMO)
Canadian Natural Resources (CNQ)
TransCanada Corp. (TRP)
Cameco (CCO)
Barrick Gold (ABX) - addition
Potash (POT)
Goldcorp (G)
Inmet (IMN) - addition

Deletions (continued):

Rogers Communications (RCI.B) – Rogers reported declining ARPU at its last quarter, primarily because of lower roaming revenues and decreased overage charges. Management expressed caution regarding a quick turnaround, and combined with increased competitive risks, there is a serious threat to the oligopoly enjoyed by Rogers, BCE and Telus which could weigh on Rogers' premium valuation.

Kinross Gold (K) – Kinross lowered its production guidance for 2009 from 2.4-2.5 million oz to 2.3-2.4 million oz. The reduction in guidance was based on slower than anticipated ramp-up of production at the Paracatu mine, a site which commands over 40% of the company's net asset value for 2010. While Kinross has not announced an increase in its cash cost expectations, it has guided to the higher end of its previously stated range. Although the slower ramp-up does not present a longer-term problem for the company's growth profile, it is a shorter-term issue that could weigh on the company's valuation.

Note that more detailed rationale on the above changes is available upon request.

Stock Recommendations

Equity Income Focus List:

Intact Financial (IFC)
BCE (BCE)
Royal Bank (RY)
Power Financial (PWF)
Sun Life (SLF)
National Bank (NA)
Boardwalk REIT (BEI.UN)
TD Bank (TD)
George Weston (WN)
Shaw Communications (SJR.B)
Thomson Corp (TOC)
CML Healthcare (CLC.un)
CN Rail (CNR)
Toromont (TIH)
Husky Energy (HSE)
Vermillion Energy (VET.un)
TransCanada Corp. (TRP)
Enbridge (ENB)
EnCana (ECA)
Pembina Pipeline (PIF.UN)

No changes this quarter.

Note that more detailed rationale on the above changes is available upon request.

Stock Recommendations

U.S. Focus List:

Air Products & Chemicals (APD) - addition
Apache (APA)
EMC Corp (EMC) - addition
Cisco Systems (CSCO)
Coca Cola (KO) - addition
Gilead Science (GILD)
Halliburton (HAL) - addition
Honeywell (HON)
Intel Corp. (INTC)
JP Morgan Chase (JPM)
Kohl's (KSS) - addition
McDonald's (MCD)
Medco Health (MHS)
Occidental Petroleum (OXY)
Oracle (ORCL)
Quest Diagnostics (DGX)
State Street Corp (STT)
Travelers Group (TRV)
United Technologies (UTX) - addition
Wal Mart (WMT)

Additions:

Air Products & Chemicals (APD) – a leading manufacturer and supplier of industrial gases with a diverse customer base ranging from healthcare service providers, electronics and semiconductor makers, industrial product makers, and oil refiners. The company's earnings have historically been more resilient than many other commodity-based companies owing to the dynamics of the industry where pricing and revenue have been relatively stable despite demand trends. Earnings could meaningfully benefit from a recovery in early cycle end markets such as the electronics industry as utilization rates re-accelerate.

EMC Corp (EMC) – one of the largest providers of data storage hardware and software solutions. The company offers information storage, content management, and security services. It is also the majority owner of VMWare, a leading provider of virtualization solutions that separates application software from the underlying hardware to optimize resource utilization. EMC's earnings may benefit from a meaningful recovery in enterprise spending on storage solutions. The company may also be well positioned for the shift to web-based computing.

Coca Cola (KO) – the largest beverage maker in the world and owner of one of the most iconic brands. With approximately 80% of the company's revenue generated outside United States, Coca Cola provides exposure to international consumers. Volume growth remains impressive and the company may have an opportunity to expand its shares gains as its largest competitor undertakes a transformative integration of its largest bottling partners.

Halliburton (HAL) – a provider of services to the oil and gas sector. These services include well completion, pressure pumping, reservoir modeling, fluid services, and directional drilling, among others. HAL's bundled offerings have generated impressive contract wins of late while its international growth prospects are robust, as an increasing amount of expenditures on services are moving overseas where they generate more than 50% of their revenue.

Kohl's (KSS) – operates department stores that sell moderately-priced home products and apparel, footwear, and accessories for women, men, and children. The company has seen better same-store sales trends than many of its competitors as it has gained share from higher priced retailers. A combination of a tepid recovery in consumer confidence and Kohl's focus on moderately priced apparel and household merchandise leave it well positioned for future gains.

United Technologies (UTX) – a diverse industrial company with leading brands such as Pratt & Whitney in aerospace, Otis in elevators and escalators, Carrier in heating and ventilation, and Chubb in fire and security. The company has an impressive track record of generating strong cash flow, owing to some of its recurring maintenance-based revenue. Furthermore, its earnings may benefit from an early recovery in some of its businesses, including Carrier and Chubb. Meanwhile, its presence overseas should benefit from improving activity and stimulus spending.

Deletions:

Chevron (CVX) – shares were removed based on more favorable opportunities within the Energy sector. In particular, we believe that drilling activity will re-accelerate as we head into the end of the year and into 2010 after a period of cutbacks to capital expenditures and project delays. We believe the oilfield services sector could particularly benefit as earnings potentially trough and begin to recover with improved utilization rates. Chevron remains an attractive opportunity among the integrated energy names because of potential upside to production guidance.

General Mills (GIS) – shares were removed following strong price appreciation that have left the shares less compelling from a risk/reward standpoint. We believe General Mills remains a well run food company that has a history of innovation and strong brands but believe there are better relative opportunities within the Consumer Staples sector.

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Note that more detailed rationale on the above changes is available upon request.

Stock Recommendations

U.S. Focus List:

Air Products & Chemicals (APD) - addition
Apache (APA)
EMC Corp (EMC) - addition
Cisco Systems (CSCO)
Coca Cola (KO) - addition
Gilead Science (GILD)
Halliburton (HAL) - addition
Honeywell (HON)
Intel Corp. (INTC)
JP Morgan Chase (JPM)
Kohl's (KSS) - addition
McDonald's (MCD)
Medco Health (MHS)
Occidental Petroleum (OXY)
Oracle (ORCL)
Quest Diagnostics (DGX)
State Street Corp (STT)
Travelers Group (TRV)
United Technologies (UTX) - addition
Wal Mart (WMT)

Deletions (con't):

Lowes (LOW) – shares were removed following disappointing Q2 results. While traffic trends have improved, spending on big ticket items remains subdued and has led to inconsistent results at Lowe's, and weaker performance relative to its largest competitor. We believe the shares may continue to underperform until the company delivers stronger results that help restore investor confidence in the name.

PG&E Corp (PCG) – shares were removed given a preference for opportunities in other sectors. PCG remains attractive relative to its regulated utility peers given the favorable regulatory backdrop in California that has created a combination of superior earnings predictability and growth prospects.

Newmont Mining (NEM) – shares were removed because of a preference for companies within the Materials sector that offer greater leverage to the global economic recovery. We also believe there may be risks to seasonal demand for gold and risk to the unwinding of net speculative long positions in the commodity as investors look to gain exposure to other asset classes.

Raytheon (RTN) – shares were removed based on a preference for companies within the Industrials sector that offer greater leverage to the global economic recovery. Furthermore, we are mindful of the upcoming US Quadrennial Defense Review in February 2010, which could act as an overhang on the defense sector given the potential for long-term changes to the defense budget.

Note that more detailed rationale on the above changes is available upon request.

Stock Recommendations

ADR Recommended List*:

Air Liquide (AIQUY)
Allianz (AZ)
Anhueser-Busch Inbev (AHBIF)
ARM Holdings (ARMH) - addition
Banco Santander (STD) - addition
BG Group (BRGYY)
British American Tobacco (BTI)
Credit Suisse Group (CS)
E.ON (EONGY)
Honda Motor (HMC) - addition
HSBC Holdings Plc (HBC)
J Sainsbury (JSAIY)
Rio Tinto (RTP)
Roche (RHHBY)
Siemens AG (SI)
Syngenta (SYT)
Telefonica SA (TEF)
Teva Pharmaceutical (TEVA)
Total (TOT)
Vodafone (VOD)

Additions:

ARM Holdings (AMRH) – a leading semiconductor intellectual property company. ARM does not manufacture chip technology, but rather develops and licenses it, and earns royalty fees when chips are sold using its architecture. The company has built significant share with more than 90% of all mobile phones using ARM-based chips, owing to their combination of performance and low power usage. ARM has significant leverage ot the growing smartphone market and has opportunities to expand into new digital markets.

Banco Santander (STD) – one of the largest banks in Spain, with operations also in the UK, the US, Europe, and Latin America. We believe the company has strengthened its capital position and loan losses have showed early signs of stabilization. Meanwhile, we expect its exposure in Latin America to help offset weaker trends in its domestic market.

Honda Motor (HMC) – as one of the leading Japanese automakers, Honda is operating out of a position of strength with a favorable cost structure, a strong brand reputation, a more fuel efficient fleet, and leading-edge hybrid electric vehicle technology. We expect Honda's product lineup and reputation to help it gain share at the expense of weaker rivals who continue with their restructuring efforts.

Deletions:

Daimler (DAI) – removed from the ADR Recommended List following a quarter of strong price appreciation that has left the shares with less upside potential going forward. Furthermore, we are mindful of threats from its premium European counterparts that may have superior product lineups for 2010. Lastly, we remain concerned that Daimler's commercial trucking business may not recover as quickly as some expect.

Groupe Danone (DANOY) – removed from the ADR Recommend List because of unrealistic growth expectations for the second half of the year. We remain concerned that the company's premium-priced products will results in lackluster volume growth as consumers continue to seek lower priced alternatives in the food and beverage space.

Novo Nordisk (NVO) – removed from the ADR Recommended List because of the binary risk associated with the upcoming FDA decision on the company's diabetes drug Liraglutide. We believe the FDA could either approve the drug or delay an approval pending further data. The latter decision could results in meaningful price weakness. Longer-term, we remain confident in the growth opportunities in the diabetes market and believe Novo is the best positioned to benefit.

Note that more detailed rationale on the above changes is available upon request.

* *Unlike the Canadian, U.S., and Equity Income Focus Lists, the ADR Recommended List is a list of recommended securities to compliment an existing portfolio, not a Focus List or portfolio in and of itself.*

Required Disclosures

Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector.
Ratings:
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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