TD Waterhouse
Private Investment Counsel

Investment Outlook

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Weighing Risk and Reward in Your Portfolio

In the January edition of Investment Outlook, we stated that the stock market would likely track corporate earnings growth in the mid-single digits in 2005. As a result, we were staying overweighted in stocks for now but indicated that there were risks to our forecast and that we might pare equity exposure if the need arose. A number of readers have correctly observed that this is a much more cautious view compared with our bullish stance of the past few years and have asked us to outline more fully the risks to the financial markets as we perceive them.

Twin Deficits and U.S. Dollar

The U.S. current account and Federal budget deficits are weighing heavily on the greenback. **The current account deficit – the extent to which imports of goods and services to the U.S. exceed exports – remains very high at over five percent of U.S. GDP. This is an issue because it means the Americans must receive over $1 billion in foreign capital each day to finance this deficit.** Similarly, the U.S. Federal Government is running deficits of about $400 billion annually, which adds to the U.S. Government's debt and must be serviced. All of this undermines confidence in the U.S. currency, which has lost about 20% of its value on a trade-weighted basis over the past several years.

While the decline of the greenback has been orderly to date, there is concern that the U.S. Dollar could fall sharply if some event acts as a catalyst to further undermine confidence in the currency. For example, Asian countries such as Japan, Taiwan, Korea and China, finance much of the U.S. twin deficits by buying American bonds. Should those countries' governments tire of buying bonds issued in the declining U.S. Dollar, the greenback would weaken and the U.S. would very likely have to raise its interest rates to attract other buyers of its bonds. This would have a negative impact on bond prices and, in turn, the stock market.

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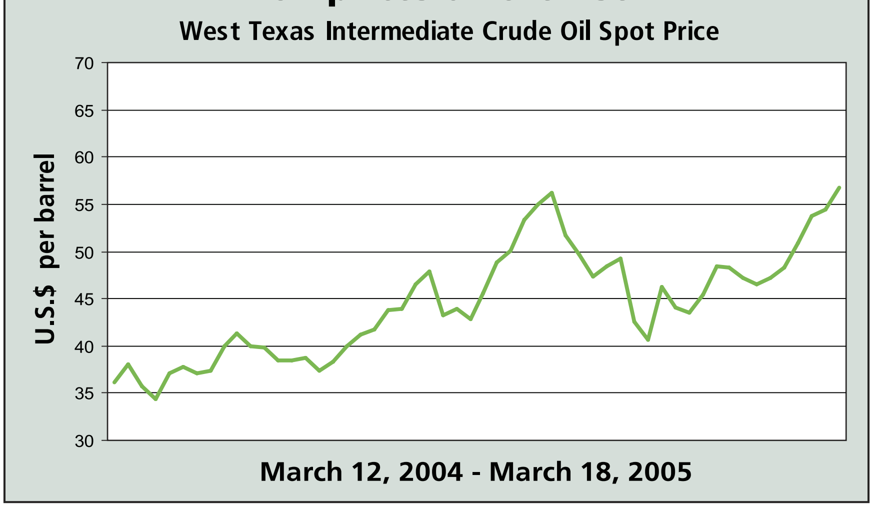
Oil prices on the rise



Weighing Risk and Reward in Your Portfolio

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The scenario illustrated above is improbable as it would be counterproductive for Asia to undermine the economy of its biggest export customer. Nonetheless, **the possibility cannot be dismissed and serves as an illustration of the U.S. Dollar's vulnerability to forces America cannot readily control.**

...there are signs that the appreciating Canadian Dollar is now taking a bigger bite out of the export sector. Our trade surplus is slipping and manufacturers' margins are declining, impairing profitability. Other industries, such as the hospitality sector, are facing similar margin pressures as prices are trimmed to attract U.S. visitors.

Stronger Canadian Dollar

The flip side of the weakening greenback over the past few years has been the recovery of the Canadian currency from around 62 cents to over 80 cents today. To the surprise of many, the stronger Canadian Dollar has not yet exacted a heavy toll on the Canadian export sector. Why? First, because rising commodity prices have more than offset the impact of the stronger Canadian currency for many of our natural resource exporters. Second, a strong U.S. economy has readily absorbed many Canadian manufacturers' products to this point, despite higher prices caused by our rising currency.

Notwithstanding the above, there are signs that the appreciating Canadian Dollar is now taking a bigger bite out of the export sector. Our trade surplus is slipping and manufacturers' margins are declining, impairing profitability. Other industries, such as the hospitality sector, are facing similar margin pressures as prices are trimmed to attract U.S. visitors. **Since stock prices reflect corporate profits, slowing profit growth or an outright decline will be bad news for Canadian share prices and is something we need to monitor closely.**

Rising Energy Prices

To this point, the surging price of oil has had minimal adverse effect on economic growth, inflation or interest rates in Canada and the U.S. The reason is that our economy is much less energy-intensive than was the case during oil price shocks of the past. For instance, energy is now about 7% of U.S. GDP versus 14% in 1981 and takes up roughly 5% of consumers' disposable income today versus 8% then. Despite a jump in gasoline prices, the overall impact of higher crude prices has been modest to date.

Overseas, there is potential for greater economic fallout from high crude prices. **In low-income China, for example, Morgan Stanley estimates that current oil prices will reduce GDP growth by 2%. Since China has been a major engine of global economic growth, the potential ripple effects of such a slowdown in growth could be significant with an attendant impact on financial markets.**

Higher Interest Rates

While a continued rise in short-term U.S. interest rates has been widely anticipated, there is a possibility that the adverse impact on the economy and financial markets could be worse than forecast. The U.S. auto sector, for example, is already staggering due to lower sales and higher costs. Higher interest rates may impair affordability, further reduce sales and have widespread impact on the economy and financial markets. To a lesser extent, the same can be said of the housing industry.

Where We Stand

Our overweight position in equities has paid off so far this year. Canadian stocks, to which we generally have major exposure, have staged a solid advance thus far in 2005 while our smaller position in U.S. equities is down slightly. We are maintaining our equity position for now. While there is always a proverbial "wall of worry" to climb as stock prices move higher, the roster of issues noted above warrants particular attention. We will be following these and other topics closely in the weeks ahead to help ensure we strike the right balance between preserving your capital and making it grow in a responsible fashion.

Robert Gorman, CFA, is Vice President of Managed Investment Solutions, TD Asset Management Inc.

Stocks Outperform Bonds Overall

December 15, 2004 - March 15, 2005

SC* Universe Bond Index	0.1%
S&P/TSX Composite Index	7.1%
S&P 500 Index	-1.7%
MSCI EAFE Index**	3.9%

* Scotia Capital

** Morgan Stanley Capital International Europe, Australasia and Far East Index

Your Portfolio:

- Overweight in equities.
- Underweight in bonds. Bond holdings have a slightly shorter term than benchmarks.
- Among bond holdings, overweight high quality corporate issues
- Overweight Asia in international equities.

Charity begins at home

Canadians were lauded for their generosity in donating cash and other aid to help victims of last December's Asian tsunami catastrophe. But what is the general state of charity in Canada?

On the surface, it would seem to be sound. Statistics Canada reports that Canadians contributed $6.5 billion to charity in 2003 — the most ever reported and an 11% increase from the previous year.

But the reality is that many Canadian charities are struggling, finding it difficult to recruit volunteers to secure enough funding as demand for their services grows.

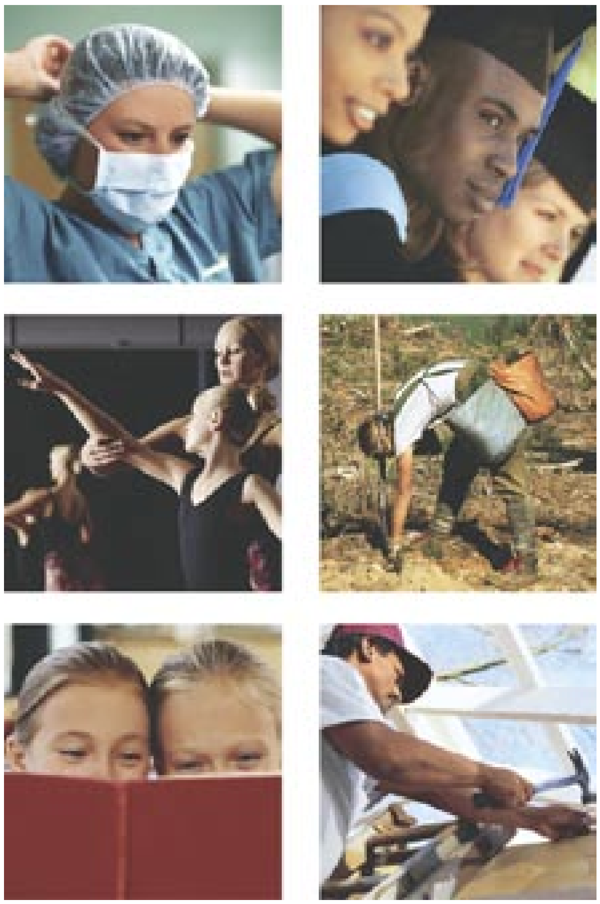
Under pressure

Part of the problem is the increasing number of charities, which means a smaller slice of the pie for each. The number of charities has increased by about 1,500 every year over the past three decades. As of 2003, there were more than 80,000 registered charities in Canada and almost 71,000 non-profit organizations.

Canadian charities are active in a wide array of fields, including health, the environment, social services, arts and culture, sports and recreation, and religion. In addition to improving the quality of life for many, charities are important to Canada's economic health as well. In 1999, the non-profit sector accounted for 6.8% of gross domestic product (GDP), representing $61.8 billion.

Making a difference

There is certainly hope for improvement on the donor front, however. Corporations are likely to step up the pace of charitable donations in their efforts to be seen as good corporate citizens.



Individuals, too, can play a key role. "The baby boom generation has the potential to usher in a golden age of philanthropy," says Jo-Anne Ryan, Executive Director of the Private Giving Foundation and head of philanthropic strategies at TD Waterhouse.

Over the next 10 years the boomer generation is expected to receive a massive income transfer through inheritances, amounting to as much as $1 trillion. While many of these boomers could end up making large charity bequests in their wills — and their beneficiaries passing along more of their inheritance to charities — the process can begin sooner.

A new way to give

The Private Giving Foundation, a new initiative at TD Waterhouse®, provides a simple, innovative way to support the causes that matter to you. With a minimum donation of only $10,000, this structure provides many of the benefits of a private foundation without the complexities and costs normally associated with establishing one.

In addition, when publicly traded securities or mutual funds are donated to the Private Giving Foundation, the capital gains on the donated securities is cut in half to 25% from 50%. This benefit is not available for private foundations.

The Private Giving Foundation, which is exclusive to TD Waterhouse, was launched in the fall of 2004. Donations have been generously pouring in and within the first few months, the Foundation has received contributions exceeding $15,000,000. In 2005, the Foundation will grant more than $700,000 to charity.

In order to find out how you can build a legacy of helping others through the Private Giving Foundation, please visit **www.tdwaterhouse.ca/privategiving** or contact your portfolio manager.

Federal Budget Proposes Eliminating RSP Foreign Content Limit

The recent Federal Budget proposed eliminating the limit on foreign content held within RSP's and RIF's. Currently, investors are limited to 30% foreign content within their Plans. The Budget has since been approved by the House of Commons, is now moving on to other rounds of approval and is expected to be passed into law in June or July. In the meantime, we will be determining how to take maximum advantage of the changing rules within your portfolios.

Celebrating 150 years

Join a TD 150 Celebration in your community on May 19, 2005

As we mark our 150th year, we've planned many ways to celebrate with our customers, our employees and our communities. Mark May 19, 2005 on your calendar and plan to stop by your TD Canada Trust branch and say hello.

For more information on your closest TD Canada Trust branch or your closest TD Waterhouse office please visit: **http://www.td.com/150/celebrate.jsp.**

Beyond 150

In addition to local celebrations on May 19, 2005, we look forward to the many ways we plan to play a vital role in the history and development of Canadian culture in the years to come.

On March 18, 2005, Canada Post launched an official, limited-production TD Bank Financial Group 150th Anniversary Commemorative Stamp. TD Bank Financial Group will send our world-famous Inuit Art Collection on a six-city Canadian tour to give Canadians a chance to see this impressive collection up close. And, we will sponsor the latest edition of the Canadian Atlas Online.

Joe Talirunili, The Migration, 1964.
TD Bank Financial Group

We're bringing you the best in Canadian Inuit art.

To help celebrate our 150th anniversary, together with the National Gallery of Canada, we are proud to present our unique collection of Inuit art to the Canadian public.

The touring exhibition ItuKiagâtta! Inuit Sculpture from the Collection of the TD Bank Financial Group[1] features exceptional pieces from one of the most comprehensive collections of this distinctly Canadian style of art. The show celebrates the history, culture, and artistry of Nunavut and Nunavik.

TD Bank Financial Group has sponsored this six-city national tour because we believe that these remarkable carvings that have helped shape our national identity should be shared with all Canadians.

The collection was first assembled by the Bank to honour Canada's Centennial in 1967, with the idea of raising awareness of Inuit artists and the Canadian North. It has become an important part of our company heritage and has a special significance to us on our anniversary.

For ticket information, contact the individual gallery or museum:

- **National Gallery of Canada - March 23, 2005 to June 5, 2005**
- **Winnipeg Art Gallery - July 8, 2005 to September 5, 2005**
- **Art Gallery of Nova Scotia - September 23, 2005 to November 20, 2005**
- **Edmonton Art Gallery - December 9, 2005 to February 26, 2006**
- **Art Gallery of Greater Victoria - April 6, 2006 - June 11, 2006**
- **The Montreal Museum of Fine Arts - June 29, 2006 to September 24, 2006**
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