

Investment Outlook

Volume 7, Issue 4

An exclusive quarterly report from TD Waterhouse Private Investment Counsel Inc.



October 2005

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A Tale of Two Markets

In the January 2005 edition of Investment Outlook, we forecast that equity markets would avoid the negative returns that often characterize the first year of the U.S. presidential term. Instead, we felt that the equity portion of your portfolios would track corporate earnings growth, which we estimated would be in the mid-single digits – perhaps 6-7%.

So far this year, overall North American stock market returns are pretty much in line with the figures cited above. What is markedly different, however, is the performance of the individual American and Canadian market indices, which have followed divergent paths. Specifically, **the U.S. stock market is ahead marginally, with the S&P 500 advancing 2.6% year to date, and Canada's S&P/TSX Composite Index up 20% over the same period. Why the big disparity? In a word, oil.**

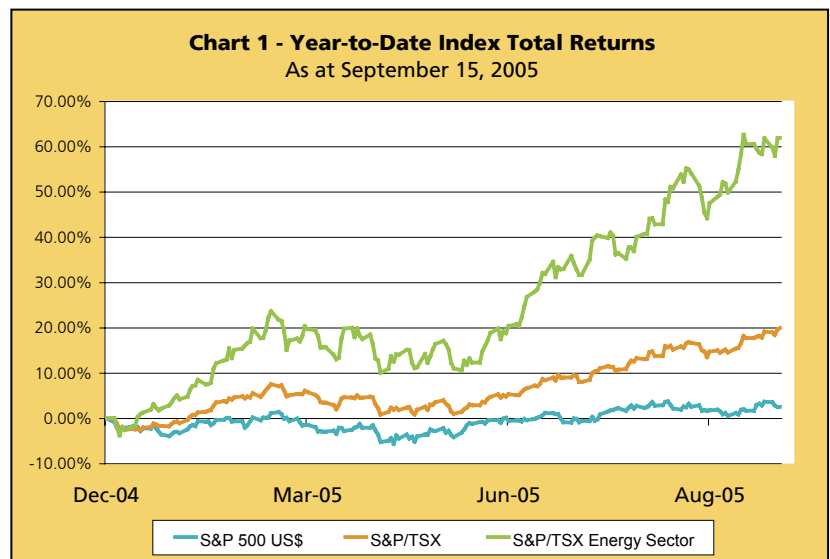
Energy prices dominate investment landscape

As every motorist who has faced sticker shock at the gas pump can attest, oil prices have pushed relentlessly higher in 2005. While there have been periodic pullbacks in the price of crude, the trend has been upward and the

price per barrel was well over \$60 U.S. at the time of writing. The extent of the upward price movement has generally surprised industry observers and has had differing effects on the U.S. and Canadian economies and their respective stock markets.

In brief, the United States is a net importer of energy while Canada is a net exporter. Imported oil, in part, fuels American industry, and those rising costs squeeze industrial margins and, in turn, profitability. At the same time, higher bills for gasoline, home heating oil and natural gas drain consumers' wallets and dampen demand for other goods and services. One of the results is the above-mentioned tepid performance of U.S. stocks year to date as illustrated in Chart 1.

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A Tale of Two Markets

(Continued from page 1)

Canada, on the other hand, produces more oil and natural gas than it consumes and the energy sector is a much larger factor in our economy and stock market than is the case south of the border.

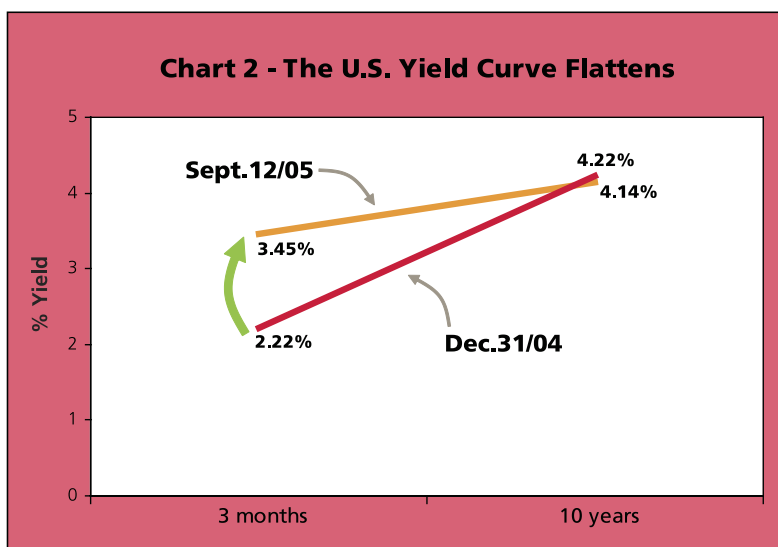
To illustrate, fully 26% of the S&P/TSX Composite Index is comprised of its energy sub-index. Only 10% of the S&P 500 is represented by its energy sub-index.

With energy producers benefiting from higher prices, it comes as no surprise that the TSX energy sub-index has risen 62% in 2005 to date (see Chart 1) and has powered the S&P/TSX Composite to its 20% advance. Put another way, the energy sector has generated 65% of the TSX's overall return so far this year, and 50% of that index's return since the end of June. So, by far the biggest single factor accounting for the Canadian stock market's outperformance of its American counterpart has been the rising price of energy.

Impact of rising U.S. interest rates

A second factor, having a subtler, less pronounced effect on their respective

stock markets to date, has been the differing paths of U.S. and Canadian short-term interest rates. Since bottoming in June 2003 at 1.0%, the short-term U.S. federal funds rate has been raised by a quarter point on 11



successive occasions, several this year, to 3.75%. In contrast, the Bank of Canada's benchmark overnight rate has been raised only once since October 2004, to its current 2.75%.

Rising short-term U.S. interest rates are consistent with our January 2005 forecast of a "flattening of the yield curve". This means that short-term rates (up to, say, two years) edge closer to long-term (10-30 year) rates. This is important since a narrower spread between short and long-term rates generally means reduced profitability for financial institutions, tighter credit policy and often portends an economic slowdown. The schematic illustration in Chart 2 shows the change in the yield curve since the end of 2004 and

is another reason why U.S. stocks have underperformed their Canadian counterparts in 2005 to date.

Your portfolio in the months ahead

Since client portfolios have generally had relatively high exposure to Canadian equities and the energy sector, the trends cited above have benefited you. As oil and gas stocks have accounted for a high proportion of the TSX's recent advance, the market is vulnerable to a pullback in energy prices and we have trimmed some positions accordingly. We continue to expect modest progress in the final quarter of 2005.

R.J. Gorman, CFA
Vice President,
Managed Investments

Your Portfolio:

- Modest overweight in equities.
- Slight 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.

Stocks Outperform Bonds Overall

June 15, 2005 - September 15, 2005

SC* Universe Bond Index	1.9%
S&P/TSX Composite Index	11.6%
S&P 500 Index	-2.2%
MSCI EAFE Index**	4.2%

* Scotia Capital

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

Notice to TD Private Fund Unitholders

The 2005 semi annual reports for the TD Private Funds are now available. Please contact your Portfolio Manager if you would like to receive a copy.

Understanding Income Trusts

Income trusts are one of the most topical types of investments in today's market, growing rapidly in popularity and now accounting for almost nine percent of the value of issues traded on the TSX. What are income trusts, what do they offer investors and how should you participate are questions we will briefly address below.

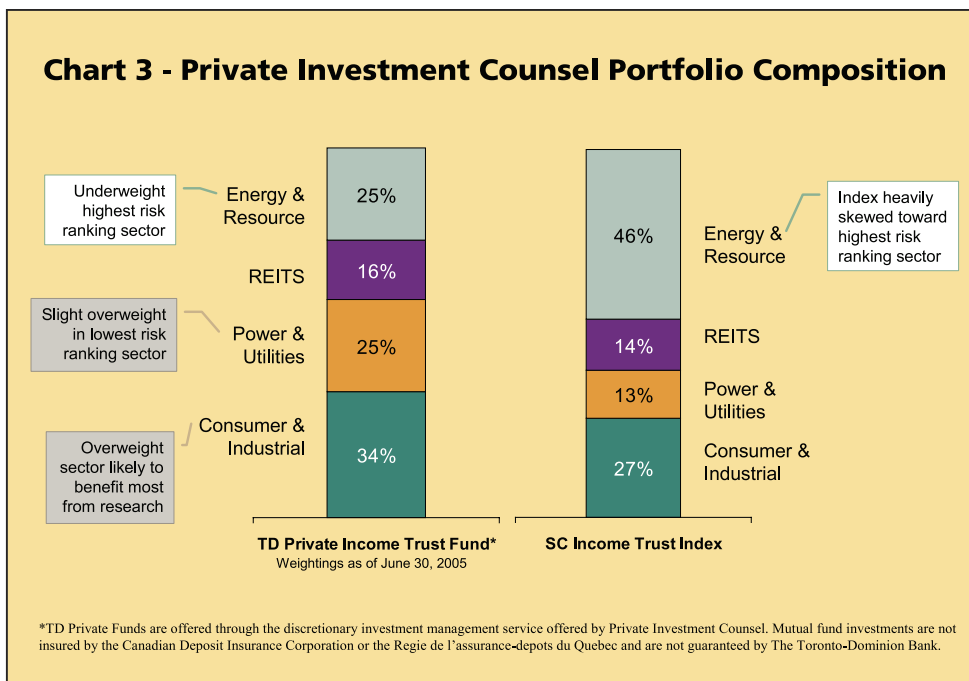
What are income trusts?

First, an income trust is a form of equity, not fixed income, investment. Many investors view the title "income trust" and assume the investment's principal and stream of income are somehow guaranteed. This is not the case as income trusts represent an ownership stake in a business, with the same risks and uncertainties of common shares.

Second, while public companies generally retain most of their earnings to re-invest in their businesses and pay relatively modest dividends to shareholders, income trusts will direct most of their cash flow to their investors. This is because income trusts are typically established by businesses in mature industries which do not need to re-invest large sums in the enterprise.

What do income trusts offer investors?

Most importantly, income trusts generate a higher stream of income for investors than most bonds or common stocks. To illustrate, while bonds typically provide a yield in the 3.5-4.0% range, most income trusts have a yield on the order of 6-9%. **In addition, income trusts may be able to increase their distributions**



to unitholders as the business grows, which in turn can lead to modest capital appreciation of the income trust unit price. Since income trusts represent an equity stake with the higher income normally associated with fixed income investments, it is not surprising that **the risk, or volatility, of income trusts lies between that of common stock and bonds.**

How to participate in income trusts

There are well over 150 income trusts on the TSX and distinguishing between the high and low calibre trusts is of vital importance. Some trusts of dubious quality have come to market in recent years that may well have difficulty making their projected distributions to unitholders and could see their unit prices suffer as a consequence.

As the bar on the right-hand side of Chart 3 illustrates, there are four broad categories of income trusts: the very large energy and resource group; real estate investment trusts

(REITS); power and utilities and; the highly diverse consumer and industrial sector. When investing in any of these categories, **managers of the Private Income Trust Fund look for stable, predictable cash flow, low capital expenditure requirements, long-life assets in the case of energy and resource trusts, prospects for modest growth and the ability to distribute cash to investors on a monthly or quarterly basis.** As shown on the left-hand side of Chart 3, our income trust portfolio differs notably from the income trust sub-index as the Private Fund focuses on the lower risk sectors best able to generate stable, sustainable distributions.

For more information on employing income trusts in your investment strategy, speak with your portfolio manager.

R.J. Gorman, CFA
Vice President,
Managed Investments

The South Pacific - A Touch of the Exotic

Original article from the Spring 2005 issue of the TD Gold Travel® Visa Travelogue.*

“These are the lands before the wind. Life is lived in the moment. Tomorrow is only a concept. Today is a joy.”

Those words, spoken by a long-forgotten journalist, capture the essence of this beautiful and magical corner of the world. Of the 3,300 islands in the South Pacific, Fiji and Tahiti are probably the most well known and now, owing to the popularity of TV’s Survivor series, you’ll be familiar with Vanuatu.

Fiji

The archipelago of Fiji is the central hub of the South Pacific. On the main island of Viti Levu you can enjoy a wealth of tropical scenery. Palm-fringed beaches entice you while rocky jungle pools invite you in. The best way to see Fiji is by boat – luxury cruises, sailing safaris, adventure cruises, and yachts are available. There’s truly something for everyone.

Fiji is a land of almost indescribable beauty. You can be silently drifting in a boat while dolphins leap high in the air beside you. Walk in the rainforest and

watch orange doves flapping overhead. And delight in the smiling faces of the children as they beat their hollow log drums.



Tahiti

The islands of Tahiti have seduced romantics and adventurers, writers and artists for years, and these days, honeymooners are drawn to romantic

sunsets and giant turquoise waves breaking over colourful reefs.

Popular pastimes in Tahiti include snorkeling and diving and even shark feeding. The country is now a world-class spa destination – just imagine a soothing treatment surrounded by natural beauty and floral fragrances. Tahiti is also world renowned for its beautiful black pearls that actually come in several stunning colours – blue, green, bronze, aubergine and pink.

Vanuatu

Vanuatu’s rich and diverse culture is one of its primary attractions to visitors who are fascinated by the many forms of art, song and dance. There is no written language so story telling, both spoken and sung, is very important.

Visitors are also attracted to the incredibly diverse scuba diving sites. Visibility is superb, the water is warm, and underwater attractions are easily accessible. Vanuatu is as beautiful below the surface as it is above – mountainous terrain, grottoes, huge caves and interconnecting tunnels. Sea fans, corals, sponges and thousands of stunning fish delight the curious.

For more information on the TD Gold Travel Visa Card, call 1-800-9TD-VISA.



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