

QVGD's Pooled Funds – Month End Unit Values

Unit Values	Dec-06 [^]	Jan-07	Feb - 07
Cdn Balanced	\$14.13	\$14.11	\$14.22
Cdn Small Cap	\$21.70	\$21.87	\$22.26
Cdn Equity Fund	\$10.00	\$10.18	\$10.21
Global Equity Fund	\$10.00	\$9.94	\$9.78
Cdn. Income Fund	\$10.35	\$10.32	\$10.39

[^] Post Distributions

With the exception of the Global Equity Fund, unit values advanced in to the end of February. On a per unit basis, the Global Fund dropped 2.2% from December, something we would prefer not to display at start-up. A glance at the Total Return Table shows that the S&P 500 Index has also fallen in the year and in the latest month. Our building plan for the selection of international stocks has been to add partial positions thereby leaving cash available for future purchases. Obviously, the cash did not provide the degree of defence in the month we might have desired. Most of our selections fell in price. As we personally have money invested in the Global Equity Fund, we are highly motivated to choose our securities well.

The Crack in the Stock Chart



Source: Stockcharts.com

Share prices, and commodity prices, soared in the first two months of '07. The S&P/TSX Composite touched a high of 13,433 on Monday February 26. The next day the Toronto market cracked and lost nearly 800 points over the next few trading sessions. It was a global affair. The chart above shows the March panic on the Toronto market in the context of the past year's appreciation. Markets worldwide are nervous. In our opinion, valuation in Canada and worldwide is high. We are concerned about the ever-creeping evidence of failure in lending that has left the consumer without savings and the economy at risk of some asset liquidation to meet debt.

Total Return – Capital Gains plus Income (%)

To February 28, 2007	1 Mo	3 Mo	1 Yr	5 Yr	10 Yr
QVGD Pooled Funds:	%	%	%	%	%
Canadian Balanced Fund	0.8	1.0	9.2	10.6	9.9
Canadian Small Cap	2.2	4.9	11.6	23.5	16.0
Canadian Equity Fund	0.2	2.1 [^]	-	-	-
Global Equity Fund	-1.7	NA [^]	-	-	-
Canadian Income Fund	0.7	0.7	4.6	5.3 [*]	-
Benchmarks:		[^] 2Mo		[*] 4yrs	
Balanced Fund Index	0.6	1.9	10.2	10.2	8.5
BMO Small Cap Index (unwtd)	2.1	6.5	9.6	15.2	6.5
Scotia Capital Bond Universe	1.3	0.4	5.4	6.7	6.9
S&P/TSX Composite Index	0.3	1.4 [^]	14.4	13.5	9.7
S&P 500	-2.7	-0.1 [^]	-	-	-

⁻Our pooled fund returns are gross of management and custodial of fees. Returns over one year are annualized.
⁻The Balanced Fund Index reflects the total rates of return earned by the Scotia Capital (SC) 91-Day T-Bill Index (10%), the SC Bond Universe (35%), and the S&P/TSX Composite Index (55%).

HSBC has just announced the write-off of \$11 billion in the US sub-prime mortgage market, equivalent to 10% of their shareholders equity. We think the movement from risk taking to risk aversion is inevitable. The inability of the US consumer to buy is shown by growth in inventories. Such accumulation suggests lower production and profits are at hand.

Our circumspection has been a clear liability when share prices have been so strong. In 2007, our cash and/or bond holdings, our bias to equities of stable and steady businesses and dividend paying companies as compared to cyclical, non-dividend companies should prove beneficial.

We are still selecting stocks. In our equity funds, we have purchased The Washington Post, a publisher and educational services company, UPS Inc. (United Parcel Service), a courier, Cossette Communications, a marketing firm and Pason Systems, an oil service company.

In the income portfolio, we have made no new commitments or changes to our bond policies over the past month. With the stock market jitters, investors sought bonds and drove rates lower, prices higher. However, sustained support for bonds requires clear evidence the business cycle in slowing.

Risk Prevention

Simply expressed, we are ever more focusing on the credit quality and cash generation of our security selections. If prices take more of a tumble, we intend to purchase more of the excellent firms we already own.