

Petitions for Patience

*Lord make me an instrument of your peace
Where there is hatred let me sow love
Where there is injury, pardon...*

The Prayer of Saint Francis speaks to the balance all need in their lives between satisfying appetites and maintaining sanity and good will. Balance in government, business and finance allows management to sustain a solid franchise.

In March of last year the markets were setting new lows. Bankruptcy loomed from an excessive global extension of unqualified credit and the lapse of regulatory oversight. Governments' actions focussed on spending money to push the economy, on printing money to float sinking markets and on buying broken securities to bandage bleeding banks. The world was enjoying a crisis of its own making. Last year the priority was to drive growth to offset the bursting debt bubble and defer concern about the consequences. Deference is now bumping against failing sovereign debts.

A year later, the world is attending to the consequences of the hyper-bailouts as the credit of one country after another becomes questioned in the bond markets, Greece being the latest bankrupt.

Now, as ever, governments face living within their means, never an appetizing prospect, and are moving to balance budgets by boosting taxes and reducing spending.

On Thursday, we witnessed the Canadian government table a budget signalling a reduction in stimulus. By all means, please, read this document. While a start, the moves are so tentative and improvements so protracted that we fear it risks being considered a contributor to the trend of global warming.

On Friday, Premier Wen Jiabao of China addressed some of the consequent excesses of their stimulative programs. Previously, China raised interest rates and reserve requirements for banks to curtail some speculation. Recently England, Australia, and the United States made starts at restraint.

As ever, human nature is to delay and to moderate for political expedience, as Saint Augustine said, "Oh Lord, please give me chastity, but do not give it yet." Stuff gets stretched out.

Currently the market's sense of optimism, unlike the feelings of last year, is floating on a reluctant but ebbing tide of stimulants. It gives us little confidence markets can go higher. We've said that before.

We will not bet on outcomes but will invest where we can find good value. While we have little confidence in the fiscal or monetary leadership, in this country, we observe the cashing up by consumers and by companies are trends we like and believe will support sustainable business in time.

In 2010, policy stimulants are waning. They have given rise to some positive economic statistics buoyant commodity and equity markets. While we would like to embrace some good news, we will not abandon the notion governments have created an artificial lift to good feelings, markets and a few business numbers. We will not purchase overvalued companies simply to feel part of a happy crowd.

Therefore, we remain committed to the principle of holding securities more for their ability to generate income and maintain capital value than for their possibilities of capital appreciation or their ability to satisfy a theme - inflation, dollar deflation, or economic angst.

Wendy Booker-Urban has been selling bonds having a shorter term and a guaranteed yield of less than one percent to maturity. Darren Dansereau in our large cap investing has been taking the proceeds and cash and re-investing in the equity of companies capable of weathering whatever squalls real or imagined that the companies may encounter. Darren has carefully chosen those stocks generating dividend income four to eight times the yield on cash or bonds. We also have the happy opportunity to buy companies offering cash flow yields in the mid to high teens and we are tending to buy more equity and reduce our bonds since we are reluctant to bet on an unsustainable low rate market forever. We are trimming companies having had a great run over the past year and are well advanced in their valuations.

The performance numbers for all funds and portfolios over the past year is probably at its apogee. We have no confidence the BMO Small Cap Index will duplicate its 102% gain or the S&P/TSX Composite, its 48% gain. We, being the risk adverse people we are, are inclined to think this market is putting in a rounding top. However, we might have worried about that for the last nine months or more!

Looking at our performance numbers, you might observe we did not beat the market. To the end of December or to the end of February, we have clearly flown under the index whereas a year ago we were flying well over. That is fine. There are times you do not want to beat the market because of the risks required to do so.

Or as Warren Buffett noted in his annual report presented this week, "...our defence has been better than our offence, and that's likely to continue."

Unlike the contents of our Federal budget, we can commend Warren's wisdom (www.berkshirehathaway.com) for it is common knowledge that by putting pen to paper Warren has an inimitable way of adding to the sum of investment wisdom.

Small Company Investing

A year ago, the markets hit bottom. At that time, the price of small cap shares fell to below their book value and to a discount to the price to book of the S&P/TSX Composite Index. Opportunity knocked.

For some time after, Joe Jugovic and Ian Cooke were buying stocks. With a rare exception, they spent their funds on the companies they already owned. We hold to the view that if a common stock represents a good business franchise and good value at higher prices, at lower prices, it is better value and we should open our wallets on behalf of our clients.

Joe and Ian took cash reserves down to the lowest level QV had had in years. In the year of the hare, the market rewarded their sensible actions with tortoise-like annual returns of about 46%. The BMO Small Cap Index hopped to a 102% total return.

This year, in contrast to last, Joe and Ian are trimming positions, squirreling away some cash, and seeing little by the way of compelling values to buy. The market is talking and they are listening.

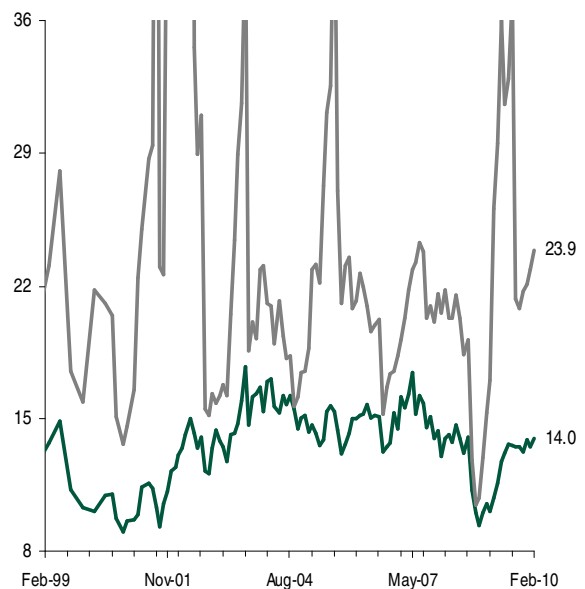
"So you didn't beat the index?" is a frequent question. A hare's lifespan is 10 years. A tortoise lives over 100. Last year was a time you should not want beat the index since the most risky of companies benefited most from federal largess. A hyper-return in a one-year span is not their bogie. We want to be here for a long time, not just a good time and expect in this

world of over-leveraged governments and under priced money, the hares will fall back to earth with a thump.

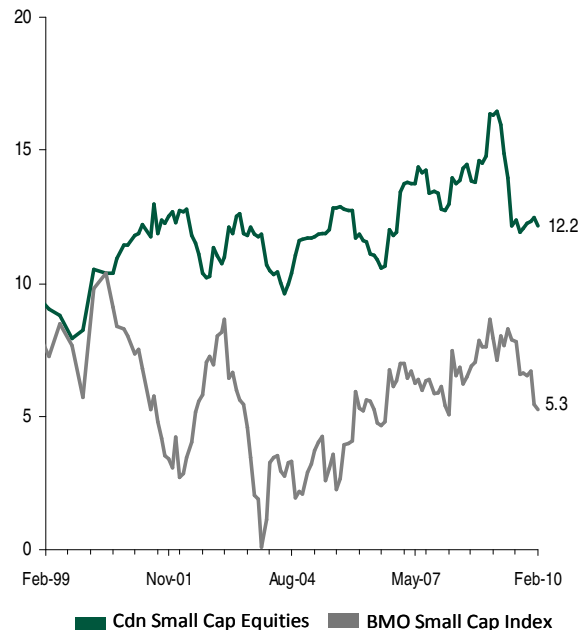
Joe and Ian continue to construct a portfolio of companies that carry less risk than the Index. They are adhering to QV's philosophy of more growth and return for less price. And they hold the companies brimming with cash for the opportunities to come.

A couple of our risk management charts, the long term price to earnings ratio and the return on equity of the fund tell the story.

Price to Earnings



4 Year Average Return on Equity



Pooled Fund – Month End Unit Values[^]

Unit Values	Dec-09 [†]	Jan-10	Feb-10
Cdn Income Fund CI D	10.76	10.79	10.83
Cdn Balanced CI A	13.77	13.68	13.96
Cdn Equity Fund CI A	9.67	9.31	9.72
Cdn Small Cap CI A	20.17	19.72	20.37
Global Equity Fund CI A	8.20	8.13	8.20

[^] Fund NAVs reflect “full-fee” class * Post distribution

Total Return – Capital Gains plus Income (%)

To Feb 28 [†] 10	1 Mo	3 Mo	1Yr	3 Yr	5 Yr	10 Yr
QV Pooled	%	%	%	%	%	%
Cdn. Income	0.5	1.0	7.2	6.0	5.6	5.6 [†]
Cdn. Balanced	2.2	3.9	21.6	4.2	6.4	10.4
Cdn. Equity [†]	4.8	7.3	42.1	2.0	8.4	16.0
Cdn. Small Cap	3.5	6.3	46.4	0.5	7.5	15.1
Global Equity	0.7	2.4	21.5	-1.8	-	-

[†] Historic equity returns from the Cdn. Balanced Fund

* 7yr

Benchmarks:

DEX Bond Univ.	0.2	0.6	7.8	5.5	5.4	6.7
Balanced Fund	2.8	1.8	24.4	2.1	6.1	5.6
S&P/TSX Comp	5.0	2.3	47.6	-0.9	6.5	4.7
BMO Small unwtcd	3.6	11.8	102.4	-1.1	4.0	6.2
MSCI World (\$CA)	0.1	-1.8	25.0	-11.9	-3.8	-4.8

- Pooled fund returns are gross of management and custodial fees. Returns over one year are annualized.

- The Balanced Fund Index reflects the total rates of return earned by the DEX 91-Day T-Bill Index (5%), the DEX Bond Universe (45%), the S&P/TSX Composite Index (40%), and the MSCI World Index (C\$) (10%)