



UNION SECURITIES LTD.

INFORMED INVESTOR

FIRST QUARTER 2010 REVIEW

(PREPARED BY JIM LOCKE, CFA)

The New Year's continuation of the rally from 2009 buoyed investor sentiment in the first part of January. However, this optimism was short-lived as the markets tumbled through to the end of the month and well into February. The result was a negative month for January and talk of "as January goes, so goes the rest of the year," which, according to market statistics, happens about three quarters of the time.

Nonetheless, the markets recovered in the rest of the quarter, resulting in positive returns.

Of the various events

that transpired during the quarter, the Greek sovereign debt crisis and the passage of the Obama healthcare bill stand out. The Greek debt crisis underscored the fragility of the European Union's single currency for all member nations. At the time of writing, this crisis appears to have been somewhat contained with the IMF and the EU agreeing to backstop Greece's efforts to raise funds in global debt markets. However, the shaky finances of other weak EU economies such as Portugal, Ireland, Italy and Spain helped to create the expression "PIIGS" as in "PIIGS can't fly" in reference to each of these nation's debt problems. In the US domestic front, President

Obama's healthcare legislation represented a significant triumph for the democratic forces seeking universal healthcare coverage for Americans but also shed light on the growing cost of the government's social programs. These two issues may yet come back to spook the markets as they may have an impact on future interest rates.

The world's major economies continue to maintain low interest rate policies as inflation remains muted. Indeed, there is presently less talk of inflation from currency devaluation while the gold price

appears to have reached a plateau amid concerns of a fragile economy and even a potential "double dip" scenario. Nonetheless, the Federal Reserve in the US and the Bank of Canada have both begun removing some monetary stimulus from the economy and there are even hints from Mark Carney, the governor of the Bank of Canada, that interest rates may need to be increased sooner than later. This would continue to add upward pressure on the surging Canadian dollar and further dampen the recovery of the Canadian manufacturing sector.

In the first quarter, the Dow Jones Industrials rose 4.1%, the S&P 500 gained 4.9% while the NASDAQ Composite climbed 5.7%. In

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Canada, the S&P/TSX Composite index moved ahead 2.5% as the TSX Venture Exchange Composite index added 3.7%. With most of the gains already earned in 2009, Canadian investors appeared to seek equities that offered relatively higher yields compared to the current dismal interest rates. In this regard, the banks and the utilities outperformed the energy stocks. On the TSX Venture exchange, most of the juniors were

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Charts courtesy of StockCharts.com

stuck in a trading pattern as commodity prices appear to have peaked for the time being.

Heading into the second quarter, the market is waiting for further validation of an economic recovery with the release of the first

quarter's GDP growth figures. Job growth is still anemic and a prime concern for US legislators as the slack in consumer demand represented by idle workers is holding back a sustainable rebound in economic activity. On the

brighter side in Canadian markets, the strong Canadian dollars affords considerable purchasing power to both retail and industrial consumers of imported goods and to those Canadian corporations looking to expand into the US or overseas.

## Convertible Debentures

Convertible debentures or bonds are an often overlooked, investment option that contain some features of straight equity and a bond instrument. These hybrid type investments can serve an important purpose in an investor's portfolio by offering the income and security of a bond and the capital appreciation potential of an equity. As a bond, they offer regular interest

income, repayment of face value at maturity and greater standing versus equity in the event of a bankruptcy. The equity feature arises from the ability of the bond to be converted into shares of the issuing company at a predetermined price set at the time the convertible debenture is issued. Typically, the conversion price is set at a premium to the existing share price while the

interest rate paid is lower than for a straight bond due to the conversion privilege. The following example illustrates the features of a convertible debenture. Please note that the selection of this particular security is for illustration purposes only and should not be construed as a recommendation or a solicitation.

<b>Issuer:</b>	Exchange Income Corporation
<b>Offering:</b>	7.50% Series G Convertible Senior Secured Debentures
<b>Offering Size:</b>	\$30,000,000
<b>Denomination:</b>	\$1,000 Face Value per Debenture
<b>Maturity:</b>	September 30, 2014 (5 Years from issue date)
<b>Interest:</b>	7.50% paid semi-annually in arrears on March 31 and September 30 of each year
<b>Conversion Privilege:</b>	Convertible into common shares of the corporation at the option of the holder at any time prior to the maturity date at a conversion price of \$14.50 per common share, being a conversion rate of 68.966 common shares per \$1,000 principal amount of Debentures.
<b>Listing:</b>	TSX under symbol: EIF.B.A

This Convertible Debenture offering was announced in August 2009 when the common shares of Exchange Income Corporation were trading at \$12.50 and at the time of writing are now trading at \$15.48. As a

result, the convertible debenture is trading at \$110.00 (as bonds are priced on the basis of a par value of 100) reflecting the gain from the conversion privilege and the potential for further gains that may accrue from the

future time to maturity.

For further information on offerings of convertible debentures available at Union Securities, please contact your investment advisor.

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