TD Waterhouse

Wealth of Experience

Monthly Update

TD Canadian Quantitative Research Portfolio

March 2010

Canadian and U.S. equities may be entering a period of consolidation in 2010. This view is, in part, based on historical trading patterns. Following the strong market gains exiting past recessions, the market consolidated, as seen in late 1975, 1984 (technically the most similar to today), 1994 and 2004. The duration and potential downside risk through these periods will likely be a function of the rate of change in the economic recovery, the speed of the earnings recovery, and interest rate changes. From a quantitative perspective, the earnings recovery will be critical in justifying the recent price gains of the past year.

The importance of relative earnings in stock selection was very evident with the most recent Q4 results. There has been a separation in stock performance based on

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Fund Performance: *as of February 26, 2010*

1mth	3mth	6mth	1yr	3yr	YTD	Since Inception*
3.87%	0.86%	2.83%	27.04%	-1.09%	-2.19%	1.24%*

*Fund inception 02/01/06

Fund Codes

Series A ....FTC 521

Series F ....FTC 525

Sector Breakdown: *as of February 26, 2010*

Sector	February	January	% Change
Financials	29.73%	31.00%	-1.27%
Energy	**24.07%**	**22.50%**	**1.57%**
Materials	14.01%	14.51%	-0.50%
Telecommunications Services	**5.93%**	**5.82%**	**0.11%**
Information Technology	**5.36%**	**3.04%**	**2.32%**
Consumer Staples	**4.96%**	**4.86%**	**0.10%**
Consumer Discretionary	3.36%	5.79%	-2.43%
Industrials	**3.27%**	**3.15%**	**0.12%**
Utilities	2.03%	2.13%	-0.10%

Portfolio *as of February 26, 2010*

Name	Symbol	% Net Assets
Bank of Nova Scotia	BNS	6.28%
Royal Bank of Canada	RY	5.08%
EnCana Corporation	ECA	4.94%
Power Corp. of Canada	POW	4.40%
Canadian Imperial Bank of Commerce	CM	4.11%
Suncor Energy Inc.	SU	3.97%
BCE Inc.	BCE	3.33%
Manulife Financial Corp	MFC	3.29%
Research In Motion	RIM	3.25%
Enbridge Inc.	ENB	3.24%
Barrick Gold Corporation	ABX	3.14%
Husky Energy Inc.	HSE	3.08%
Bank of Montreal	BMO	3.04%
GoldCorp Inc.	G	3.00%
Potash Corp of Saskatchewan	POT	2.84%
Shoppers Drug Mart Corporation	SC	2.62%
Rogers Communications Cl. B	RCI.B	2.61%
Pan American Silver Corporation	PAA	2.59%
Imperial Oil Ltd.	IMO	2.41%
Technology Select Sector SPDR Fund	**XLK**	**2.11%**
Canadian Natl. Railway Co.	CNR	2.04%
Fortis Inc.	FTS	2.03%
National Bank of Canada	NA	1.98%
Pengrowth Energy Trust	PGF.UN	1.92%
Cameco Corp.	CCO	1.88%
Magna International Inc	MG.A	1.84%
Petrobank Energy & Resources Ltd	PBG	1.60%
Intact Financial Corporation	IFC	1.54%
Canadian Tire Corporation Cl.A	CTC.A	1.52%
Teck Resources Ltd.	TCK.B	1.40%
Loblaw Companies Limited	L	1.26%
Bombardier Inc. Cl.B	BBD.B	1.22%
Metro Inc. Cl. A	MRU.A	1.07%
Lundin Mining Corporation	LUN	1.15%
Pacific Rubiales Energy Corporation	**PRE**	**1.03%**
Cash		7.20%

February Addition(s) (Bold): Technology Select Sector SPDR (XLK), Pacific Rubiales Energy Corporation (PRE)

February Deletion(s): Shaw Communications Inc. (SJR.B), Inmet Mining Corporation (IMN)

For Additional Information, Contact:

First Defined Portfolio Management Inc.
330 Bay Street, Suite 1300
Toronto, ON M5H 2S8
877-622-5552
www.firsttrust.ca

First Trust Portfolios Canada

earnings momentum and earnings growth. As is typical in the earlier stages of a recovery, the equity market has rotated toward smaller and mid cap growth stocks, and away from more mature, slower growth large cap stocks. When growth is scarce, growth stocks receive a premium. This rotation is most evident in the resources as outlined below.

One factor that continues to bode well for the market is liquidity. With historically low short-term interest rates, there continues to be a rotation from money market funds into bond and stock funds. Through 2009, the majority of this rotation went into bond funds. This rotation could favour equities in 2010, if earnings recover beyond current expectations. This liquidity effect should also help prevent a sizable correction in stocks, as seen in 1975 and in 1984, when interest rates were much higher.

Materials

Following the steep recovery in 2009, the base metals are not without their risks. This became very evident over the last month. The greatest risk is a deceleration in the pace of the economic recovery in China. A slowdown in China could have very negative repercussions for metal prices, given the high level of inventory and speculative buying. If fundamental Chinese buying does not materialize this spring, then speculative selling could move metal prices lower. Changes in inventory levels will likely prompt the Portfolio to add to, or reduce, base metal exposure.

Gold is also at risk, as the pace of money growth has slowed. The improving U.S. economy and renewed strength in the U.S. dollar are also threats to the gold price. Admittedly, the recent sell-off in gold equities has made many large cap gold names relatively attractive and the Portfolio would not be a seller at current prices. But, like metals, the Portfolio may consider reducing exposure further in a rally.

Energy

Following the big moves in base metals and gold in 2009, energy may offer more relative upside in 2010, or potentially less downside, if the recovery stalls. The Portfolio tends to play the seasonal trends in energy, as oil and particularly natural gas have historically been the most consistent seasonal commodities. If seasonal patterns hold, prices could move higher this spring.

Natural gas is becoming one of the Portfolio's preferred commodities, as there have been several positive developments: declining year-over-year trend in inventories, rising U.S. industrial production, a flattening of the contango in the futures market, and a large speculative net short position. The Portfolio could be very likely to increase exposure to natural gas producers and/or drillers in the upcoming weeks. In February, the Portfolio again raised the position in **EnCana Corp (ECA-T, portfolio weight 4.94%)**. The outlook is less optimistic with oil, where there has been a high level of speculation and the potential for weak global demand.

In the energy sector, there has been a wide separation between smaller growth names and more mature large cap names. From a quantitative perspective, it is important to have exposure to higher growth names. The Portfolio's two preferred names are **Petrobank Energy and Resources Ltd. (PBG-T, portfolio weight 1.6%)** and recently added **Pacific Rubiales Energy Corp. (PRE-T, portfolio weight 1.03%)**. Admittedly, with high expectations comes higher risk, but, so far, both names continue to see strong underlying estimate revisions.

Industrials

One sector that continues to struggle from an earnings perspective is railways, as Q4 results led to reduced earnings estimates. Typically, it is a strong sector early in a recovery. The relative weakness of this sector may be an indication that this recovery is going to be very slow. Countering railways have been aerospace and **Bombardier Inc (BBD.B-T, portfolio weight 1.22%)**.

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While not traditionally an early cycle sector, the better growth prospects in **BBD.B** have given aerospace more relative upside potential than the rails.

Consumer Discretionary

The one standout from this sector is **Magna International Inc. (MG.A-T, portfolio weight 1.84%)**. Following its positive Q3, MG.A's trailing earnings trend turned positive, and estimates moved substantially higher, making it one of the top scoring earnings momentum names in the S&P/TSX. Q4 results did not lead to the same estimate changes, making the Portfolio reluctant to add to the position at present.

Information Technology, Telecommunication Services

With the recent pullback, despite higher estimate revision, the U.S. technology sector had become relatively inexpensive. It would appear that a new consumer upgrade cycle is underway, as semis, hardware and, most recently, software stocks have posted strong results. A business cycle upgrade has yet to materialize, but that could bode well for the sector later this year. Accordingly, the Portfolio added **Technology Select Sector SPDR Fund (XLK-US, portfolio weight 2.11%)**. The Portfolio may look to add to this position going forward.

Financials, Utilities

Following the banks' fiscal Q4 release, the Portfolio reduced the bank position close to a market weight by lowering the position in **Royal Bank of Canada (RY-T)** to 5.1% from 7% in December. The Q4 results represented a modest deceleration in revision momentum, as most banks' estimates remained unchanged or were slightly lowered. The banks are likely to enter into a trading range until earnings momentum can re-accelerate. However, with an exceptionally steep yield curve, the Portfolio is not yet willing to significantly underweight the sector. Within the sector, the Portfolio's preferred name is **Canadian Imperial Bank of Commerce (CM-T, portfolio weight 4.11%)**. For **CM**, the fiscal Q4 was the first quarter in two years in which estimates were not lowered. This was followed by a better than expected fiscal Q1/10. The lifecos continue to struggle as they reported weak Q4 results. The Portfolio reduced the position in **Power Corp. (POW-T, portfolio weight 4.4%)** toward the end of February.