

## SPECIAL YEAR AHEAD ISSUE:



We believe global economic imbalances are at historical extremes and that currencies will ultimately reflect these imbalances – dancing along the way. In some cases, partnering a global stock with a domestic currency can lead to an ungraceful dance. Our goal is to find investments that have that unique chemistry with the Canadian dollar, so that they dance in unison to provide your portfolio with the return you expect. As a result, our research efforts in 2005 and beyond will listen to the Loonie Tune with a view to selecting the right Global Dance partners.

Our investment stance remains focused on taking advantage of global economic rebalancing away from the U.S. towards Asia. This is a long-term phenomenon that in 2004 reached the front pages of the financial press. What lingers behind the scenes for 2005? We say Japan, persistently strong energy earnings, supply-constrained inputs and, as always dividend growth.

*read on for our complete Outlook 2005 ...*

## D.C.I. Research Standards

- ☐ customized portfolio **direction**,
- ☐ **confidently** executed,
- ☐ with **independent** vision

Sandstone's D.C.I. research standards are guided by three principles: Direction, Confidence, Independence. We adhere to these standards in our daily research efforts.

### DIRECTION

We begin with an overall view of the global economy. Within the macro view, Sandstone utilizes asset allocation decisions to manage overall risk levels. Our direction is our own and we strive to avoid running with the herd.

### CONFIDENCE

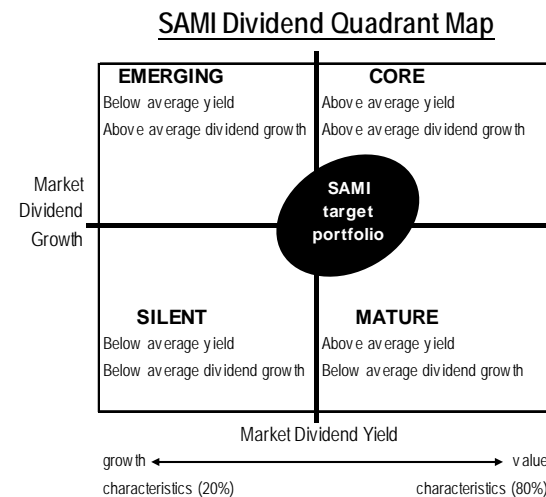
Sandstone's adherence to its research philosophy and process maximizes confidence in investment choices and minimizes downside risk. We take a conservative view of growth in determining underlying value, ensuring a higher level of confidence in potential returns.

### INDEPENDENCE

Our over-riding research standard is independence. We strive daily to challenge the consensus view in order to develop an independent vision for client portfolios. We do not engage in investment banking activities, nor do we operate a trading desk independent of client accounts. Through independence, our interests are aligned with yours.

## Our Approach

We manage individual portfolios to meet our clients' risk adjusted return expectations. To accomplish this, we select securities to provide above average returns with below average risk and volatility. This is executed by favouring dividend-growth equities and attractively priced fixed-income securities. Our equity target portfolio would fit into our proprietary dividend quadrant map as indicated:



## Investment Committee

**Sharon Watkins**  
President & CEO

**Brent Pickerl**  
Managing Partner, Director

**Cameron Webster, CFA**  
Managing Partner, Research

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<b>Loonie Tune, Global Dance</b> -----	<b>1</b>
<i>We are global investors conscious of the need to repatriate returns. Our mandate is to select the best global dance partners to ensure that portfolio returns shine under the spotlight.</i>	
<b>2004</b> -----	<b>2</b>
<i>Record oil prices and energy earnings brought China to the front page. Currencies continued to reflect the influences of global economic rebalancing. Our Overweight calls on Energy and Japan and Underweight call on the U.S. performed well.</i>	
<b>Rebalancing</b> -----	<b>3</b>
<i>We continue to utilize a rebalancing of economic wealth, growth, and activity away from the U.S. toward Asia as a guide for our investment decisions. In 2005, we favour a defensive stance. We see opportunity in Japan and select emerging markets. Long-term, economic rebalancing is particularly bullish for metals, energy, and food – the stuff the earth provides.</i>	
<b>Cycles</b> -----	<b>6</b>
<i>Three long-term cycles provide a road map. The U.S. market remains range-bound; commodities are 2-years into a multi-year cycle. Profit, inflation, and liquidity cycle indicates a defensive posture is appropriate.</i>	
<b>Developed Markets</b> -----	<b>9</b>
<i>Underweight U.S.; Overweight Japan. U.S. profit cycle has run its course and productivity has peaked. Japanese corporate and dividend reform are likely catalysts in 2005.</i>	
<b>Emerging Markets</b> -----	<b>11</b>
<i>Moving to Neutral on China from Underweight; Overweight strong GDP geographies such as Emerging Asia, Advancing Eastern Europe, internalizing South American economies.</i>	
<b>Canada</b> -----	<b>12</b>
<i>Canadian corporations will remain challenged by a strong currency. We will always be overweight Canada so our job is to manage risk. Income trusts are closing in on 10-year government bond yields, indicating high risk. Recent energy action is indicative of mania behaviour – buy on weakness.</i>	
<b>Dividends and Sectors</b> -----	<b>14</b>
<i>We are strong believers in dividend growth and believe dividends will contribute significantly to 2005 returns. What global sectors indicate the greatest dividend growth at the best value? Energy, Materials, Telecom, Agriculture.</i>	
<b>2005</b> -----	<b>17</b>
<i>Developed markets will correct on a profitability peak, particularly in the U.S. Chinese economic growth will continue to be strong, putting pressure on supply-constrained commodities it requires. This will benefit emerging market commodity exporters the most. Anticipation of Japanese corporate reform will drive asset values higher. U.S. dollar will be stable to up.</i>	

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