Q. **Reference: Page 76, Lines 20-21**

"In a recent Investment Strategy report (October 22, 2008), just as the market was crashing the Royal Bank of Canada stated…"

Please provide a copy of the referenced report.

A. Provided as Attachment A, CA-NP-39

RBC Capital Markets

INVESTMENT STRATEGY | **RESEARCH**

RBC Dominion Securities Inc.

Myles Zyblock, CFA (Analyst)
Chief Institutional Strategist & Director of Capital Markets Research
(416) 842-7805
myles.zyblock@rbccm.com

Kien Lim (Associate)
(416) 842-8745
kien.lim@rbccm.com

David Bezic (Associate)
(416) 842-7491
david.bezic@rbccm.com

October 22, 2008

For asset allocation summary, please see pages 8-9.

For Required Disclosures, please see page 10.

RBC Investment Strategy Weekly

Signs of Hope, but Too Early to Alter Strategy

The US equity market is now priced to deliver total annualized returns of about 7.4% per annum over the next ten years. The bear market has returned today's valuations to the mid-point of their 127-year range. Keep in mind, today's valuations offer no guidance about the returns that the market will generate over the next 10 months, 10 weeks or 10 minutes despite what some analysts might be saying. We warn against following Warren Buffet's recent counsel unless, of course, you can also follow his actions. Valuations are put to their most powerful use by the long-term, low-turnover, patient Buffet-like investor.

Despite the improving long-term outlook, we believe it is still too early for those with mandates focused on shorter horizons to make a pronounced shift into the equity market. We are seeing some signs that the forceful policy efforts over the past couple of weeks are helping to stabilize financial system stress. This is a necessary condition that should allow for eventual economic healing. However, we also believe that stabilization in the underlying fundamental outlook is the sufficient condition for a sustained rally in the equity market in particular and riskier assets more generally. What we are looking for here is an upturn in the breadth of leading economic indicators, a condition that remains elusive.

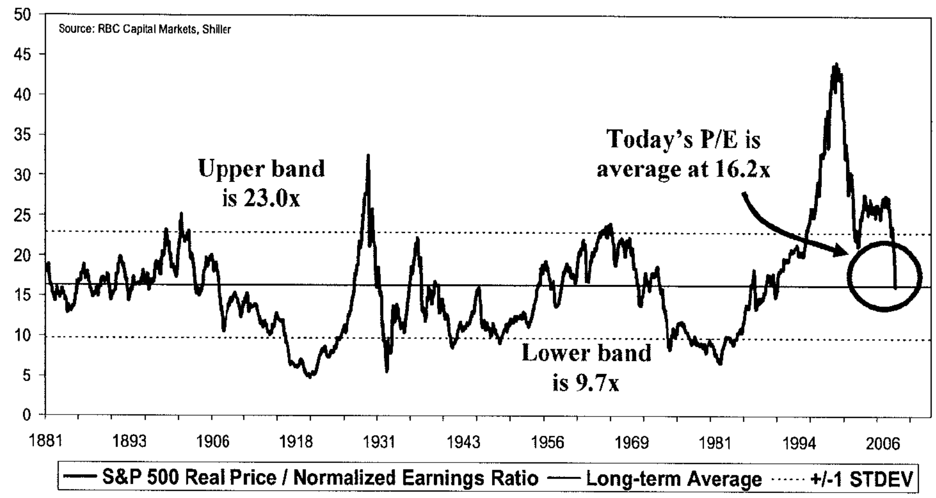
We continue to bias our equity choices toward top-ranked stocks according to our quant team's predictability model. These are stocks that typically generate superior returns as a group during periods of sluggish economic and earnings growth. **The shelf-life on this trade is likely to be an additional 6-9 months AFTER leading economic indicators begin to turn up, an event that has yet to occur. Exhibit 6 and Exhibit 7 in the main body of this report contain names from the S&P 500 and TSX, respectively, that meet these screening criteria.**

In this week's *Stock Chart of Interest*, we take a look at some interesting divergences between the performance of energy stocks and oil prices since the energy bull began in earnest earlier this decade.

Valuations Are All About the Long-Term

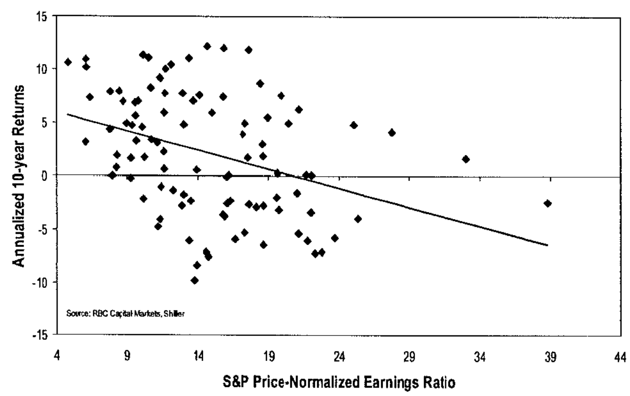
At its nadir, the S&P 500 was down by 42.5% from the last cycle peak set in October 2007. The scale of the price damage during this most recent slump rivals pretty much any other experienced during the post-WWII period. The 1973-74 bear market, for example, wiped away 48% of the stock market's value over 21 months. Meanwhile, the 31-month drop that started in early 2000 resulted in a 49% decline in stock prices. Simply stated, the current bear market is as brutal as anything observed over recent decades.

Exhibit 1: The US P/E Ratio Is Back to 127-Year Average Level



On the bright side, the price destruction has returned valuations to an historically average level (Exhibit 1). Today's market is now trading at 16.2 times its 10-year moving average of reported earnings per share, which is down significantly from the 27.3 times recorded one year ago. The rationale for looking at the moving average of reported earnings is to adjust for the influence of the economic cycle in order to paint a clearer picture of the range of valuations investors have been willing to pay for recurring earnings over time.

Exhibit 2: P/Es and Forward Returns, Estimated Link Between P/E and 10-Year Forward Return



Price-Normalized Earnings	Expected Price Return	95% Confidence Interval Low	High
5	8.1	(2.4)	18.5
10	4.0	(6.5)	14.5
15	1.6	(8.8)	12.1
20	(0.1)	(10.5)	10.4
25	(1.4)	(11.8)	9.1
30	(2.4)	(12.9)	8.0
35	(3.3)	(13.8)	7.1
40	(4.1)	(14.6)	6.3
45	(4.8)	(15.3)	5.6
50	(5.4)	(15.9)	5.0
55	(6.0)	(16.5)	4.5

*Based on a regression of real price-normalized earnings against subsequent 10-year real stock market returns.
Source: RBC Capital Markets, Shiller

If there is anything that even hints at an axiom in this business, it's that the cheaper the stock market is at the time of the initial investment, the more likely it is that the initial investment generates superior inflation-adjusted returns over the subsequent decade (Exhibit 2, LHS). The contrary can be said for an initial investment in an expensive stock market. It is critical to note that there is no statistically significant link between valuations and subsequent one-year, two-year or even three-year annualized returns.

Valuation analysis is really about the long term. Take, for example, the last 10-year period beginning in October 1998. On our measure, the initial normalized price-to-earnings ratio for the stock market was 33.8 times. The results from a simple regression analysis at the time would have said the subsequent 10-year annualized inflation-adjusted price return would be somewhere in the neighborhood of -2.4% to -3.3% (Exhibit 2, RHS). It turns out that we can now calculate the actual inflation-adjusted return over this 10-year period, and it was not far off the estimate at -3.5% per annum. It is critical to notice, however, that despite the poor long-term return prospects flagged by our model in October 1998, the market still rose at a dizzying 22.8% annualized pace between October 1998 and March 2000.

Today's stock market, trading at just over 16 times our measure of normalized earnings, is expected to return close to 1.6% per annum after inflation (please refer again to Exhibit 2, RHS). Grossing this up by adding back the average inflation rate over the past decade of 2.8% and today's 3.0% dividend yield generates an expected long-term annualized nominal total return of 7.4% over the next decade. Hey, this isn't so bad when it's placed in the context of the prior 10 years. That said, it tells us absolutely nothing about where stocks might head over the next 6 months let alone 6 years, although it is somewhat better at gauging the latter.

Bottom Line: The bear market has returned today's US stock market valuations back to their long-term (i.e., 127 year) average level. By one fairly reliable methodology, today's valuations now generate an expected long-term annualized nominal total return of 7.4% over the next ten years. This isn't too bad. But, keep in mind that today's valuations offer no guidance about the returns that the market will generate over the next 10 months, 10 weeks and especially not during the next 10 minutes despite what some analysts might have you believe. We warn against following Warren Buffet's recent counsel if you can't actually follow Warren Buffet's actions. Valuations are put to their most powerful use by the long-term, low-turnover, patient Buffet-like investor.

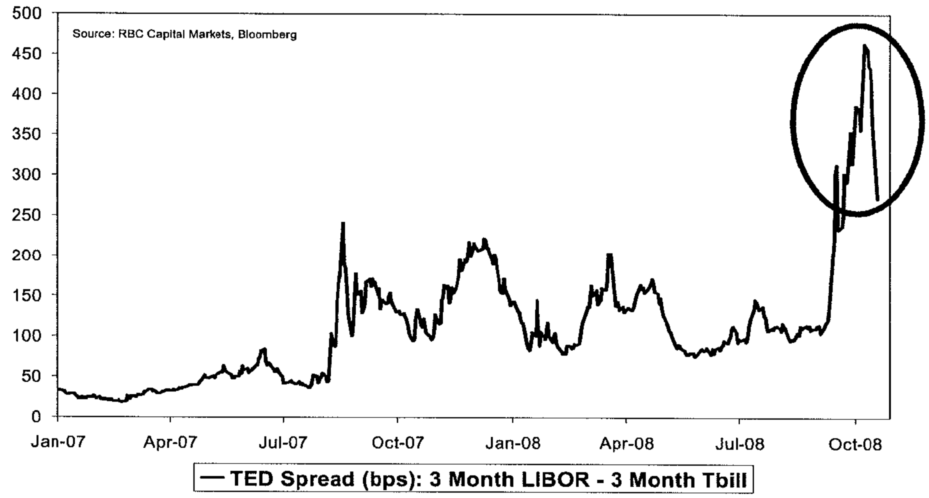
What About the Shorter 9- to 12-Month Horizon?

The past week has seen the equity market attempt to stabilize, various spreads compress, and, select cyclical sectors and groups start to lead to the upside. We were marketing in Asia and Australia over that period and a frequent question asked of us was whether the recent action represented "the bottom." Possibly. However, we do not believe it is all that helpful to "call a bottom." Rather, it seems more important to stick to a cyclical process that has worked fairly consistently over time in order to generate the best risk-adjusted portfolio decisions.

But before we get into that, let's provide you with some recent examples of where ad hoc rules of thumb for portfolio decision-making have backfired. Recall that in mid-March the Federal Reserve helped to orchestrate the Bear Stearns bailout. At that time, some people suggested the incident represented a "line in the sand" drawn by the authorities and marked the bottom for equities. The equity market subsequently made a new low. Then, when Treasury Secretary Paulson explicitly backed Fannie Mae and Freddie Mac in mid-July, we were told this event would be the one that defined the market's bottom. Equities once again proceeded to make a new low for the cycle. How about the heroic and coordinated global injection of funds announced by policymakers during the weekend of October 11? Sure, it could establish a bottom in the market. However, we are agnostic about whether this particular event marks an ultimate bottom for the stock market. Our investment process is likely to do a better job of gauging the outlook than our hopes, wishes or dreams.

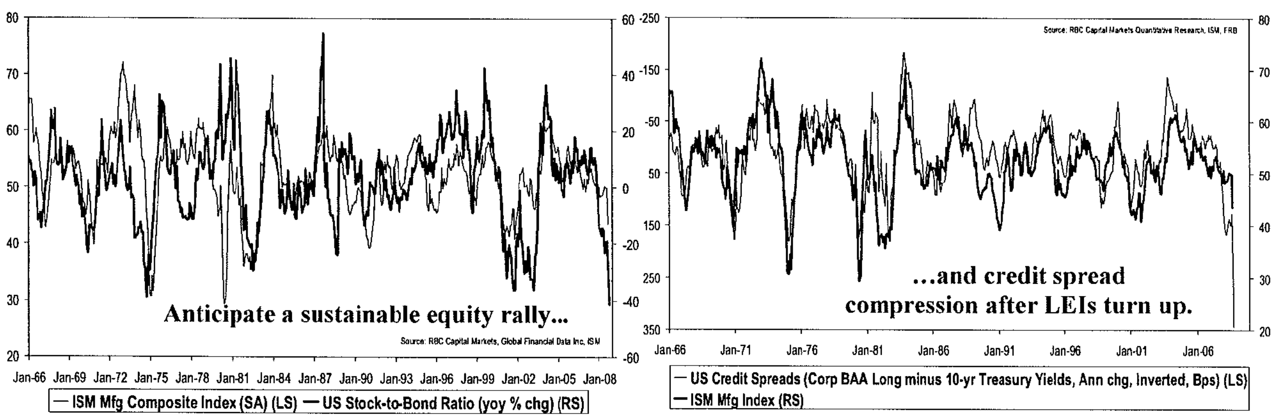
Why are we placing so much emphasis on process? This environment is being shaped by an epic deleveraging process and a never-before-seen policy response with numerous complexities and innate hazards. It is a first. Two things need to happen for us to become more comfortable about pushing our portfolio any further along the risk spectrum. They are as follows:

Exhibit 3: Financial System Stress Has Started to Recede



- **Relief from rising financial stress.** This is a first step and a necessary condition for a sustainable rally in stocks and other riskier assets to take hold, in our opinion. Governments around the globe are guaranteeing bank deposits, providing backstops for the interbank, commercial paper and money market,s as well as directly injecting capital into financial institutions. The compression of important funding spreads, such as the TED spread, suggests that these forceful policy efforts are being met with some success (Exhibit 3).
- **Stabilization in the underlying fundamental outlook.** We view this as the sufficient condition for a sustainable rally in riskier assets. This condition was absent during the mid-March and mid-July stock market rallies and remains absent today. What we are looking for here is an upturn in the breadth of leading economic indicators (i.e., the ISM manufacturing Index, the y-o-y rate of change of the Conference Board's Leading Index and the NFIB Small Business Optimism Index).

Exhibit 4: Stabilization in LEIs Is Sufficient to Add Risk to Portfolios



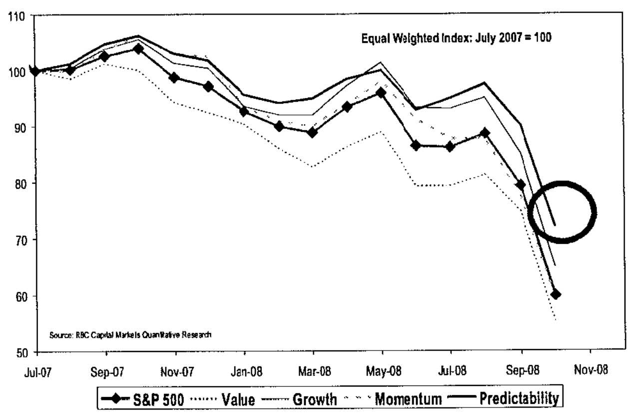
The critical message in the second bullet point above is highlighted by the two charts in Exhibit 4. Shortly after the leading indicators turn up, we will feel more comfortable about adding risk to the portfolio via equities (Exhibit 4, LHS) and/or credit instruments (Exhibit 4, RHS). It should also be around this same time that we will most likely begin adding additional funds to the early cyclical sectors and groups within the equity market.

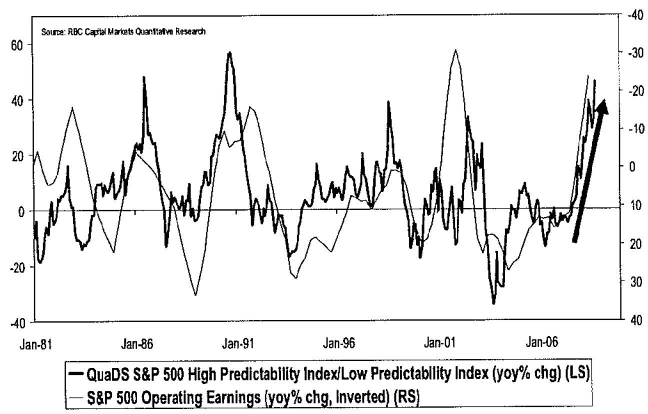
Bottom Line: Receding financial system stress suggests that one should probably stop aggressively selling equities into strength. However, this is something very different from saying that one should become a net buyer. We will be looking to deploy new cash and move more forcefully into riskier and economically-sensitive asset classes only after leading economic indicators begin to turn upward. Our process will probably make us a bit late at the turn, but we hope to lower the risk of exposing too much capital to a destructive process like the one experienced a couple of weeks ago. For now, we retain a healthy dose of cash and continue to favor stable growth attributes within the equity market.

Predictability Remains the Primary Investment Style for the Times

We continue to favor top-ranked stocks according to our quant team's predictability style model. These stocks tend to outperform in environments such as the one faced by markets over the past year or so (see Exhibit 5, LHS), which has been marked by high market volatility and sluggish earnings growth (see Exhibit 5, RHS).

Exhibit 5: Predictability Outperforms When Volatility Is High and Earnings Growth Is Under Pressure





As our regular readers may recall, the predictability model assesses each stock in a defined universe based on the following four criteria: total return stability, earnings stability, non-recurring item frequency and confidence of earnings estimates. A bottom-up analyst might say that a stock scoring well according to our predictability model possesses a "high degree of visibility" whereas a lowly ranked stock on these criteria "lacks visibility".

Exhibit 6: Top-Ranked S&P 500 Predictability Names

S&P 500 Top 10 Stocks Based on QuaDS Predictability Ranks

Name	Symbol	GICS Sector	Decile Ranks in US Universe: Predictability	Decile Ranks in US Universe: Overall QuaDS	Price	Market Float ($M)	P/E on Est. EPS	P/B	Div. Yield	ROE on Est. EPS	Est. EPS Growth	3M Price Return
Southern Co	SO	Utilities	1	1	$32.59	25,100M	13.6	2.0	5.2	14.2	1.5	-7.9
Altera Corp	ALTR	Info. Tech	1	1	$16.63	5,003M	13.5	6.2	1.2	38.4	21.7	-24.2
Campbell Soup Co	CPB	Cons.Stap	1	2	$34.68	12,506M	15.5	9.4	2.9	49.8	9.6	-4.7
Wal-Mart Stores	WMT	Cons.Stap	1	2	$50.05	196,895M	13.6	2.9	1.9	20.0	9.5	-14.6
Bard (C.R.) Inc	BCR	Health Care	1	1	$75.99	7,549M	16.1	4.0	0.8	22.4	11.9	-18.1
Lilly (Eli) & Co	LLY	Health Care	1	1	$32.54	36,996M	7.9	2.5	5.8	29.2	10.6	-30.9
Wyeth	WYE	Health Care	1	2	$30.54	40,723M	8.4	2.1	3.9	22.5	1.0	-24.6
Omnicom Group	OMC	Cons.Disc	1	2	$30.36	9,679M	8.9	2.3	2.0	23.0	5.7	-28.9
Xcel Energy Inc.	XEL	Utilities	1	2	$16.50	7,365M	10.5	1.1	5.8	10.4	6.3	-17.7
Bristol Myers Squibb	BMY	Health Care	1	2	$17.33	34,307M	9.6	3.2	7.2	31.5	30.4	-17.9

Source: RBC Capital Markets Quantitative Research. As of October 15, 2008.

In addition to the above predictability criteria, we further refine today's stock screens by restricting our choices to those names that also sit within the first two deciles of our quant system's overall factor ranking procedure. This overall ranking incorporates all four of our main factor models: predictability, momentum, growth and value. The net result of our particular process is a screen that significantly overweights a stock's predictability attributes while at the same time makes sure that a stock has broader investment merit. Exhibit 6 and Exhibit 7 contain names from the S&P 500 and TSX, respectively, that meet these screening criteria.

Exhibit 7: Top-Ranked TSX Predictability Names

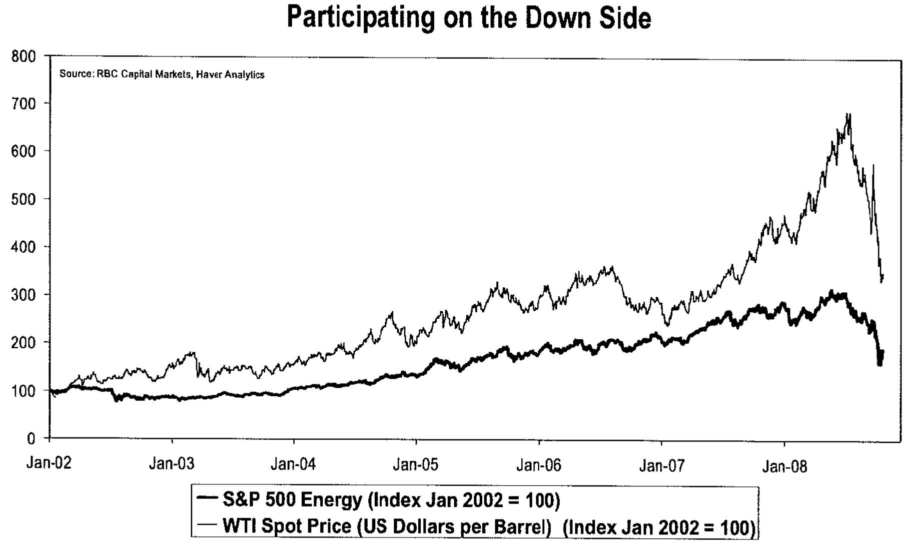
TSX Top 10 Stocks Based on QuaDS Predictability Ranks

Name	Symbol	GICS Sector	Decile Ranks in Cdn Universe: Predictability	Decile Ranks in Cdn Universe: Overall QuaDS	Price	Market Float ($M)	P/E on Est. EPS	P/B	Div. Yield	ROE on Est. EPS	Est. EPS Growth	3M Price Return
Shaw Communications Inc. 'B'	SJR.B	Cons.Disc	1	1	$19.90	6,547M	16.2	3.8	4.0	21.5	8.4	-11.8
Corus Entertainment Inc.	CJR.B	Cons.Disc	1	2	$15.91	1,240M	10.6	1.3	3.8	11.8	1.4	-15.6
Cogeco Cable Inc.	CCA	Cons.Disc	1	2	$33.76	885M	13.3	1.3	1.2	9.3	23.4	-20.0
TELUS Corporation	T	Telecom	1	2	$36.82	14,015M	11.8	2.0	4.9	16.2	5.1	11.0
Power Corp. Of Canada	POW	Financials	1	2	$27.70	9,225M	8.9	1.3	4.2	13.8	2.8	-14.7
CAE Inc.	CAE	Industrials	1	1	$6.86	1,748M	8.9	1.8	1.7	18.2	13.2	-40.3
Reitman's (Canada) Ltd. 'A'	RET.A	Cons.Disc	1	1	$14.43	796M	9.2	1.9	5.0	19.9	1.6	-12.5
Laurentian Bank Of Canada	LB	Financials	1	1	$42.00	1,001M	10.4	1.2	3.2	10.9	14.6	-3.8
Empire Company Ltd. 'A'	EMP.A	Cons.Stap	1	2	$43.54	1,076M	11.3	1.2	1.6	10.0	2.9	-6.6
National Bank Of Canada	NA	Financials	1	1	$44.24	7,045M	7.6	1.5	5.6	18.6	1.0	-14.9

Source: RBC Capital Markets Quantitative Research. As of October 15, 2008.

Bottom Line: We continue to bias our equity choices toward top-ranked stocks according to our quant team's predictability model. These are the stocks that typically generate superior returns as a group during periods of sluggish economic and earnings growth. The shelf-life on this trade is likely to be an additional 6-9 months AFTER leading indicators first begin to turn up. Currently, leading indicators remain in a down trend.

Stock Chart of Interest: S&P 500 Energy and Oil Prices



From the time that it began running up in early 2002 to its recent peak, oil advanced a whopping 625%. In comparison, related equities – as measured by the S&P 500 Energy sector – managed a return of only 218% en route to their peak. Interestingly, although the stocks failed to keep pace with oil on the way up, they have been punished to an almost equal degree on the downside, with each having given up around 40%-50% from its respective peak. The stocks have now come down to prices not seen since the fall of 2006, a time when the commodity was sitting at just $60/bbl.

RBC Capital Markets North American Economic and Market Forecasts

Asset Mix	Past Range	New Year '08 Canada	New Year '08 US	Spring '08 Canada	Spring '08 US	Summer '08 Canada	Summer '08 US	Fall '08 Canada	Fall '08 US
Stocks	40% - 70%	55	60	60	65	60	55	60	55
Bonds	10 - 55	25	25	20	20	20	20	20	20
Cash	0 - 40	20	15	20	15	20	25	20	25

Economic Forecast		Canada	Change from Last Quarter	United States	Change from Last Quarter
Real GDP	3Q'09/3Q'08	1.50%	(0.50)	1.50%	+0.25
	3Q'10/3Q'09	2.00	(0.25)	2.50	N/C
CPI	3Q'09/3Q'08	2.00	N/C	2.50	(1.00)
	3Q'10/3Q'09	2.25	N/C	2.50	(0.25)

Market Index Earnings (all net of unusual items)	2007A	2008E	Change from Last Quarter	2009E	Change from Last Quarter
S&P/TSX (top-down)	818.0	$995.0	+25.65	$1,045.0	(11.60)
S&P/TSX (consensus bottom-up)	818.0	1,036.5	+47.70	1,243.0	+115.59
S&P 500 (top-down)	83.3	76.0	+0.16	80.0	(3.42)
S&P 500 (consensus bottom-up)	83.3	84.2	(7.92)	105.9	(3.23)

Targets	29-Aug-08	Forecast 31-Aug-09	Change from Last Quarter	1 Year Total Return Est.
Canada 91-Day T-Bill Rate	2.40	3.00	N/C	2.6
Canada 10-Year Bond Yield	3.46	4.25	+0.25	(2.4)
U.S. 91-Day T-Bill Rate	1.72	2.25	+0.25	1.9
U.S. 10-Year Bond Yield	3.83	4.25	N/C	0.7
Canada Dollar	0.94	0.90	(0.10)	(4.4)
S&P/TSX Composite	13771	14000	(1250.00)	4.6
S&P 500	1283	1400	(150.00)	11.3

Source: RBC Capital Markets, BEA, Statistics Canada, Thomson Analytics

Asset Allocation Themes:

- **The asset mix remains defensively postured and positioned for modest further yield curve steepening.** A challenging economic and earnings growth environment limits our optimism toward equities. We are still waiting for the breadth of leading economic indicators to improve before adding to equity exposure.

- **Earnings growth could remain sluggish into 2009.** TSX earnings are expected to outperform, but the confidence in our estimates is substantially lowered by the role that highly volatile commodity prices play. Limited pricing power, margin erosion and sluggish volume growth are expected to continue to weigh on S&P 500 earnings growth.

- **Our year-ahead earnings targets imply higher all-in returns for the S&P 500 than the TSX.** We believe the prospect for valuation expansion in the US is much greater whereas the downside risks to Canadian earnings growth are more serious given that growth in the rest of the world is now slowing.

RBC Capital Markets Recommended TSX & S&P 500 Sector Exposure

Canadian Equity Sectors	Current Recommendation	Recent Change (Sep 2, 2008)	Comments
Telecom Services	Overweight	None	Solid free cash flow generation, margins holding in better than those for the overall market, attractive valuations and shareholder-friendly management.
Industrials	Overweight	None	Steady improvement in RoE, positive earnings estimate revisions and attractively valued on a P/B and P/S basis. Within the sector, we are biased towards Capital Goods.
Information Technology	Overweight	None	The acceleration in RoE and net margins combined with an upturn in earnings estimate revisions point to strong earnings reports in coming quarters. This is balanced against elevated valuation metrics.
Consumer Discretionary	Overweight	*Upgraded from Market Weight*	Margins are under pressure and earnings estimate revisions have dropped into negative territory. Sluggish economic growth in Eastern Canada might prove to be an issue. Media is our primary focus.
Materials	Market Weight	None	A deteriorating supply-demand balance, elevated valuations and moderation in global growth are key risks to the outlook. Emphasize Chemicals and Gold.
Energy	Market Weight	None	The long-term story of sustainably higher oil prices is compelling. However, slowing global energy demand and increasing supply could turn problematic for the underlying commodity prices. Valuations appear a tad rich.
Consumer Staples	Market Weight	None	Investors' quest for high-quality attributes provides some downside protection. Profitability metrics might be stabilizing while positive estimate revisions point to an improved earnings outlook. Valuations remain above their historic norm.
Utilities	Underweight	*Downgraded from Market Weight*	Earnings forecasts are starting to moderate as analysts clip their estimates. RoE is leveling off. Stability and attractive dividend yields offer portfolio ballast in a tough macro environment, but valuations are extended relative to history.
Health Care	Underweight	None	A select yield play with attractive valuations. Deteriorating profitability and lack of visibility remain ongoing concerns.
Financials	Underweight	None	Attractive dividend yields and relatively high-quality earnings streams are a plus. Turmoil in financial markets and continued spillovers into prospective profitability remain a concern. Continue to favor the Insurers over the Banks.

U.S. Equity Sectors	Current Recommendation	Recent Change (Sep 2, 2008)	Comments
Industrials	Overweight	None	Global infrastructure development is a long-term support. Superior profitability. Earnings outlook poised to brighten as ISM Composite Index swings higher in late H2'08. Favor Aerospace & Defense, Machinery, and Electrical Equipment.
Information Technology	Overweight	None	Improving margins and RoE with attractive valuations. Strong global exposure, but cyclicality is an important risk. Both Software and Hardware are attractive. Add to Semis in advance of a late H2'08 sales growth recovery.
Health Care	Overweight	None	An aging population remains a key long-term support. Late-year elections introduce risk. Attractive valuations, positive earnings revisions and improving net margins maintain our interest. Remain focused on Biotech, Health Care Equipment & Supplies.
Consumer Staples	Overweight	None	Stable earnings delivery and strong balance sheets are key supports. Profitability is being tested by rising input costs but positive earnings revisions suggest earnings are turning a corner. Fundamentals look strongest for Food, Beverage & Tobacco and Hypermarkets & Super Centers.
Energy	Market Weight	None	A relatively inexpensive way to capture the benefits of global growth. Global leading indicators point to risk of moderating energy demand. Favor the Integrateds.
Consumer Discretionary	Market Weight	None	Macro landscape remains challenging as payrolls and wage gains slow while energy prices remain elevated. Margins have peaked and earnings growth is under pressure. Aggressive policy reflation and extremely oversold readings limit our pessimism. Favor Restaurants.
Financials	Underweight	None	Weakening credit trends, softening loan demand and a slowdown in capital markets activity are placing a significant weight on fundamentals. We prefer Insurance.
Materials	Underweight	None	One of the worst performers when broad market earnings growth slows. Sector is also at risk from the downward trend in global leading indicators. Favor Chemicals.
Telecom Services	Underweight	None	Earnings outlook has deteriorated in response to slowdown in consumer spending on Telecom Services. Integrateds are favored over Wireless on the basis of stronger profitability, market share dominance, and higher dividend yield.
Utilities	Underweight	None	Offers a decent hedge against volatile financial market conditions. However, a premium valuation absent a premium earnings growth rate is a key long-term challenge.

Source: RBC Capital Markets

Required Disclosures

This product constitutes a compendium report (covers six or more subject companies). As such, RBC Capital Markets chooses to provide specific disclosures for the subject companies by reference. To access current disclosures for the subject companies, clients should refer to http://www7.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?EntityID=1 or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

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Distribution of Ratings, Firmwide
RBC Capital Markets

			Investment Banking Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
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HOLD[SP]	540	45.57	118	21.85
SELL[U]	98	8.27	21	21.43

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