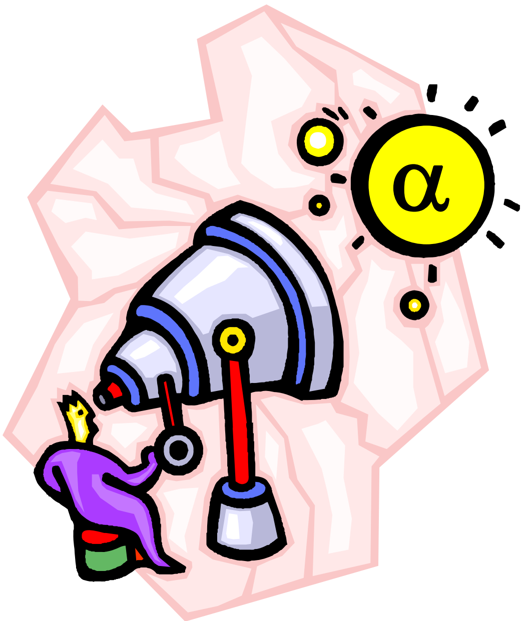
Desperately Searching for Alpha

February 4, 2009



Hillsdale Investment Management

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Top 10 Signs U.S. Banks Are In Trouble

10. Ask to withdraw $100 and they Xerox five twenties

9. Once a week, bank president is led away in handcuffs

8. Your bank teller is O.J. Simpson

7. Was a Savings and Loan; now a savings and loan and Chicken Shack

6. Bank is now Called “Obama Trust”

5. When you check account balance, ATM screen reads, “What Money?”

4. Sign on Vault Door says Out of Money But Will Work for Food

3. They tried to borrow money from you

2. When you ask where your money is, they start off quoting Alan Greenspan that “we are in a state of shocked disbelief”

1. Offers you a home in Vegas instead of your savings account

 Source: CBS, The Late Show with David Letterman, Sep 30, 2008 and Harry Marmer

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Agenda

- Why Are We Desperately Searching for Alpha
- The Magic Formula For Active Management
- The New Efficient Frontier

2008: One of the “Worst” Years on Record

60/40 Rolling 1 Year Returns 1924 – Dec 31, 2008

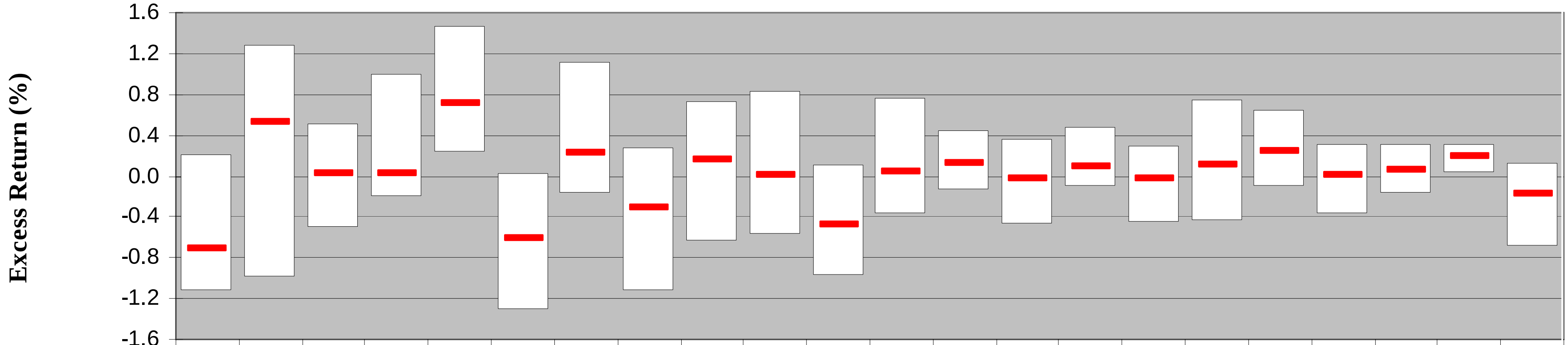
Statistics	
Mean	9.2%
Median	10.2%
Stdev	11.6%
High	33.9%
Low	-21.8%

-25% to -20%	-20% to -15%	-15% to 10%	-10% to -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	15% to 20%	20% to 25%	25% to 30%	30% to 35%
								1949 (15.5%)			
								1999 (15.6%)			
					1952 (0.5%)		**1977** (10.2%)	**1991** (16.6%)			
					1973 (1.2%)		**1988** (10.7%)	**1926** (16.7%)			
					2007 (1.4%)		**1963** (10.9%)	**1955** (17.0%)			
					1947 (1.5%)	**1987** (5.3%)	**1967** (11.2%)	**1964** (17.1%)			
					1946 (1.5%)	**1987** (5.3%)	**2005** (11.4%)	**1995** (17.5%)			
					1959 (2.1%)	**1956** (6.1%)	**1986** (12.8%)	**1989** (17.5%)			
				1981 (-4.3%)	**1970** (2.6%)	**1948** (6.3%)	**2006** (13.2%)	**1982** (17.8%)			
				1966 (-4.1%)	**1941** (2.7%)	**1938** (7.7%)	**1951** (13.2%)	**1935** (18.7%)			
				2001 (-4.0%)	**1953** (2.7%)	**2004** (9.3%)	**1943** (13.4%)	**1972** (19.1%)	**1934** (20.1%)		
			1937 (-9.7%)	**1932** (-2.8%)	**1992** (3.6%)	**1944** (9.3%)	**1976** (13.6%)	**1925** (19.3%)	**1958** (20.3%)	**1983** (25.6%)	
			1940 (-8.0%)	**1962** (-2.7%)	**1960** (4.1%)	**1971** (9.5%)	**1997** (14.0%)	**1978** (19.4%)	**1980** (20.7%)	**1993** (26.3%)	
		2008 (-14.9%)	**1929** (-6.0%)	**1939** (-1.1%)	**1965** (4.4%)	**1942** (9.6%)	**2003** (14.0%)	**1936** (19.7%)	**1961** (22.1%)	**1979** (26.7%)	
		1930 (-14.8%)	**1990** (-6.0%)	**1969** (-0.7%)	**2000** (4.5%)	**1998** (9.8%)	**1975** (14.2%)	**1996** (19.7%)	**1945** (23.7%)	**1954** (27.4%)	**1927** (31.0%)
1931 (-21.8%)	**1974** (-16.2%)	**1957** (-10.3%)	**2002** (-6.0%)	**1994** (-0.4%)	**1984** (5.0%)	**1924** (9.9%)	**1968** (14.5%)	**1928** (19.9%)	**1985** (24.5%)	**1950** (29.0%)	**1933** (33.9%)

Source: Canadian Institute of Actuaries, S&P Index Services, Calculated Using 40% Cdn Bonds, 60% Equities (See Appendix for Assumptions on Domestic/Global Equity Mix)

How Have Active Canadian Bond Managers Faired?

Annual Excess Returns (%) of 1st Quartile, Median and 3rd Quartile Managers vs. Scotia Capital Universe



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
1st Quartile - SCU	0.2	1.3	0.5	1.0	1.5	0.0	1.1	0.3	0.7	0.8	0.1	0.8	0.4	0.4	0.5	0.3	0.7	0.6	0.3	0.3	0.3	0.1
Median - SCU	-0.7	0.5	0.0	0.0	0.7	-0.6	0.2	-0.3	0.2	0.0	-0.5	0.0	0.1	0.0	0.1	0.0	0.1	0.2	0.0	0.1	0.2	-0.2
3rd Quartile - SCU	-1.1	-1.0	-0.5	-0.2	0.2	-1.3	-0.2	-1.1	-0.7	-0.6	-1.0	-0.4	-0.1	-0.5	-0.1	-0.5	-0.4	-0.1	-0.4	-0.2	0.0	-0.7

Data Source: Mercer Investment Consulting Pooled Fund Survey, $CDN

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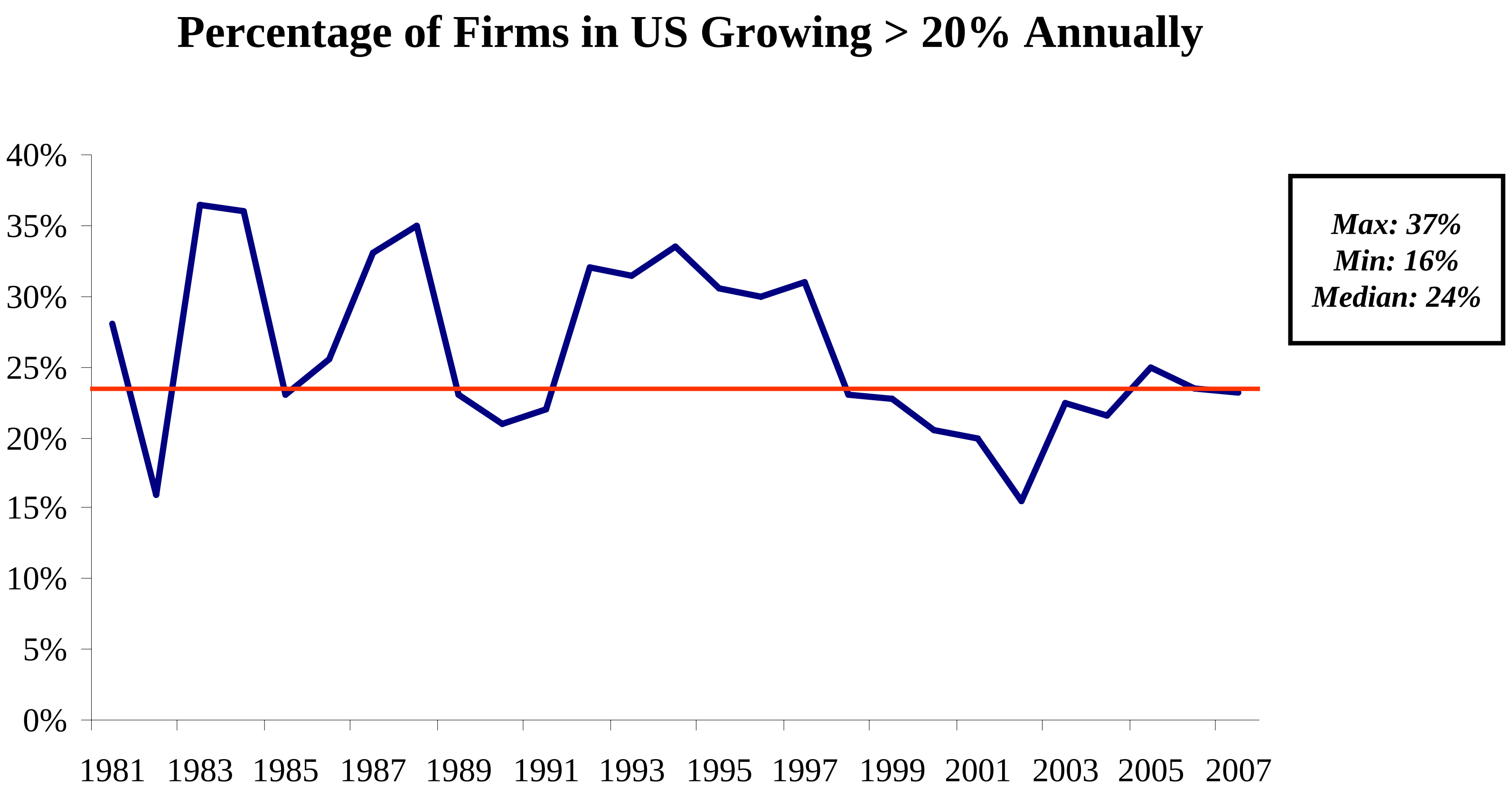
Enormous Breadth in U.S. Small Cap



Source: Hillsdale/Worldscope

Desperately Searching for Alpha

- Most “Traditional” Strategies Still Work
- Index or LDI Canadian Bonds and “Port Alpha on Top” or Accept Less
- “Extension” Strategies Increase the Odds of Success
- Small Cap Can be Big
- Always Consider the Fundamental Law of Active Management