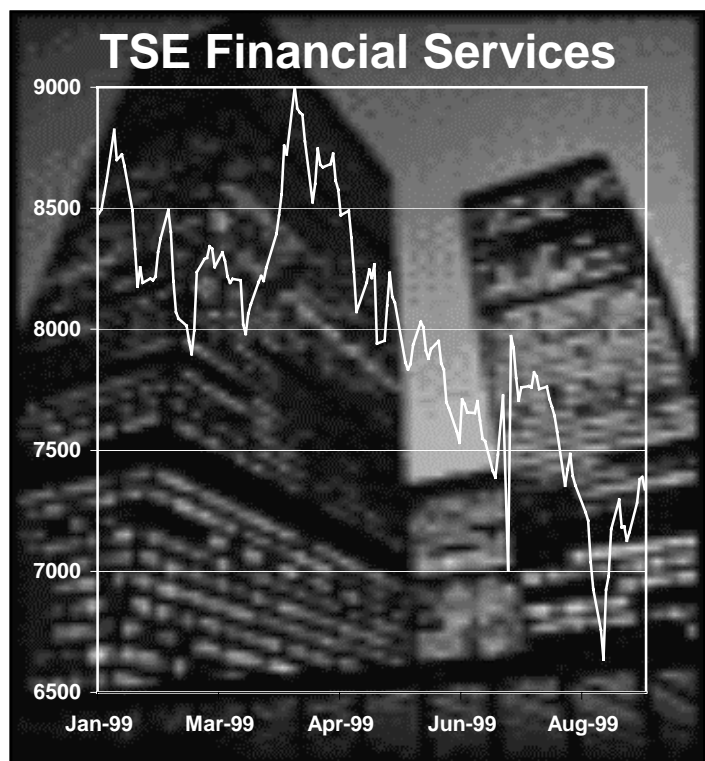


# UPDATE



## Income Financial INC.un

North American financial services stocks have had a rough time during the summer due primarily to the risk of rising rates. Over the past couple of weeks the stocks have turned higher but are still significantly below their old highs. As can be seen from the accompanying graph, the TSE Financial Services Index declined by over 25% from its spring highs to its summer lows. Financial services stocks represent excellent value trading significantly below average market multiples. The downside risk is believed to be very limited and these stocks should hold in fairly well during a market correction. Canadian bank stocks are among the cheapest bank stocks in the world.

During the recent correction, Income Financial successfully continued its option writing program which generated significant income. Income Financial distributes this income monthly (\$0.17708 per unit) and any additional income will be distributed as a special distribution at yearend. Income Financial is currently well ahead of its income targets.

Income Financial's significant holdings include TD Bank, Trimark Financial, CIBC, AGF, Merrill Lynch, Chase Manhattan Bank, Compass Bancshares, CITIGROUP, and Bank of America.

## American Income USA.un

We have been very conservative with American Income due to the lack of direction in the US equity markets. Positions have been initiated in securities where the downside risk is expected to be less than the market as a whole. Options have been written with strike prices close to the money in order to generate significant income while reducing the downside risk. We continue to hold a large cash component which is being employed as opportunities present themselves. Option prices are firm, which has allowed us to exceed our income targets even with a very conservative stance. Holdings include companies such as G.E., Disney, Bank of America, Monsanto, and Proctor & Gamble.



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