



# UPDATE

October 20, 2003

QUADRAREST INVESTMENTS

## INCOME FINANCIAL PLUS

TSX: INZ.UN

Trading Price **\$19.10**  
Current Yield **13.1%**

### Current Positioning

Cash	16%
Financials	70%
Non-Financials	14%
Cad. Holdings	16%
US holdings	68%

### Top Holdings

Bank of Montreal
CIBC
US Bancorp
Bank One
Morgan Stanley

### Market Commentary

Strong profit growth and improving capital markets have enabled North American financial services stocks to perform well for much of 2003. Lending institutions have benefited from improving loan quality and from a refinancing boom triggered by the lowest level of interest rates in 40 years. Investment banks and brokers have seen an increase in trading volumes and in investment banking activity. Banks and insurance companies have also benefited from improved equity prices. After a couple years of little or no growth, fund managers and investment management companies have seen assets increase not only from improving asset values, but also from growth in sales. All in all, this has been a fairly good time for most financial services companies.

Income Financial PLUS has benefited by focusing on early stage recovery financial institutions such as the investment banks and fund companies. The fund's option writing activities have been tailored to capture much of the growth in share prices this year.

Offsetting much of the positive move in share prices has been the rapid decline in the value of the US dollar relative to most currencies including the Canadian dollar. As the fund is currently 70% invested in US equities, the decline in the U.S. dollar has had a significant impact on the fund. The US dollar has declined almost 20% against the Canadian dollar, which has offset the 22.7% gain in the S&P 500 Financial Services Index year-to-date.

Going forward, the operating environment for financial services continues to be encouraging. Equity prices in many cases are supported by relatively strong dividend rates and reasonable valuations. Option premiums, while lower than in previous years should continue to provide a meaningful source of return.

### Option Premiums

Writing covered calls on selected securities held in the Portfolio generates income and assists in lowering the downside risk of the overall Portfolio (see example).

#### Example:

Buy "BAC" Stock	\$80.82
Sell Dec \$80 BAC Call Option	<u>\$ 2.50</u> (option premium)
Net Cost	\$78.32
Return If No Change in Stock (\$80.00 - \$78.32 = \$1.68)	\$ 1.68

*This translates into a 2.0% return for 60 days, or 12% annually.*



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