



Palos Weekly Commentary

Investment Themes



U.S. Equities Decline Slightly as Fed Liquidity Plans Are Offset by Persisting Credit Concerns in Financials

U.S. equities closed lower for the week, as the financial sector was subjected to renewed hardship. The pressure offset gains spurred by the Fed's liquidity plan and Standard & Poors' forecast that the credit crisis is ending.



Crude Oil Rises with Dollar Decline, Constant Supply and Decreasing Inventories

Crude Oil traded to new records as the U.S. dollar continued to decline relative to other major currencies.



Corporate Spreads Widen as Concerns Over Financial Institutions Rise.

Credit spreads widened during the week as investors grow increasingly concerned over the state of U.S. economy that could result in concerns over default rates, inflationary pressures, the fate of U.S. financial institutions and further asset write-downs.



U.S. Treasuries Rates Fall over Fears that the Fed Will Fail to End the Credit Crisis

U.S. Treasury prices rose on speculation that the Fed's liquidity plan to accept MBS's as collateral for loans won't be enough to stem credit-market losses. Street consensus indicated a 80 percent probability that the Fed will cut its key lending rate by 100 bps. Term structure differentials between two and 10-year maturities further widened.



Canadian Dollar Rises as Speculation of Further U.S. Rate Cuts Increase Continue

The Canadian dollar closed higher for the week as traders speculated that the Fed will continue to cut key interest rates in response to a slowing U.S. economy. The resulting widening of interest rate differentials would make the Canadian dollar attractive vis-a-vis its American counterpart. Furthermore, the Loonie is being supported by a firmer labor market, a better trade surplus, and a stronger economy than the U.S.

Investment Themes:

- Equity Markets:**
 U.S. Equities Decline Slightly as Fed Liquidity Plans Are Offset by Persisting Credit Concerns in Financial
- Energy Markets:**
 Crude Oil Rises with Dollar Decline, Constant Supply and Decreasing Inventories
- Credit Spreads:**
 Corporate Spreads Widen as Concerns Over Financial Institutions Rise
- US Treasury : U.S.**
 Treasuries Rates Fall over Fears that the Fed Will Fail to End the Credit Crisis
- Canadian Dollar:**
 Canadian Dollar Rises as Speculation of Further Rate Cuts Increase Continue

Comment Corner

Tired of paying too much tax? Few Canadians are aware that in the 2006 Federal Budget, Finance Minister James Flaherty raised the dividend 'gross-up' from 25% to 45% for dividend paying Canadian corporations (called 'eligible dividends'). For individuals who own these eligible Canadian dividend paying companies, the effect has been an extremely tax efficient form of investment income (only slightly behind capital gains taxation). The Palos Income Trust Fund LP, when held in a taxable account, enjoys maximum tax efficiency. Those Palos clients who receive their T-slips at the end-of-March, will benefit from the following tax characterized allocations: 1) Return of Capital - not taxable to Canadian resident taxpayers, 2) Eligible Dividends - generous 45% gross-up, 3) Carrying Charges - fully deductible and, 4) Trading Gains - taxed at lowest rate (Capital Gains). Please note that only via a 'pass-through' L.P. structure does the investor get to deduct 'carrying charges' (mutual funds do not allow for this). An additional, and often overlooked, Palos benefit is that all the 'pooled fund' accounting has been done by BDO Dunwoody so that your accountant does not have to keep track of any 'Adjusted Cost Basis or ACB's. In sum, the Palos Income Funds contain eligible Canadian dividend paying securities and is therefore a tax efficient vehicle.

Performance

| Funds | Value | Weekly Returns | Year-To-Date Returns |
|--|------------|----------------|----------------------|
| Palos Income Trust Fund LP | CAD\$11.28 | 0.75% | -1.93% |
| Palos Equity Income Fund - RRSP | CAD\$10.25 | 0.62% | 2.51% |
| Palos International Equity Income Fund PLC - CAD | CAD\$8.55 | -0.35% | -2.06% |
| Palos International Equity Income Fund PLC - EUR | EUR€7.99 | -1.24% | -7.26% |
| Palos International Equity Income Fund PLC - USD | USD\$9.96 | -0.60% | -2.83% |
| CTI Palos Equity Fund LP | CAD\$11.98 | 0.44% | -0.68% |
| CTI Palos Equity Fund - RRSP | CAD\$9.98 | 0.17% | -0.22% |
| CTI Palos Bond Fund LP | CAD\$10.51 | 0.42% | 2.58% |
| CTI Palos Bond Fund - RRSP | CAD\$9.99 | 0.23% | -0.11% |
| Gauthier Palos Global Macro Fund LP | CAD\$8.16 | -1.36% | -10.57% |
| MVest Opportunity Fund LLC | N.A. | N.A. | N.A. |
| Palos Capital Pool LP | N.A. | N.A. | N.A. |

Benchmarks, Interest Rates & Commodities

| Benchmarks, Interest Rates & Commodities | Value | Weekly | Year-To-Date |
|--|-------------------|-------------------|--------------------|
| S&P 500 Total Return Index | 1,288.14 | -0.36% | -11.86% |
| S&P TSX Composite Total Return Index | 13,252.84 | -0.15% | -3.72% |
| S&P TSX Capped Income Trust Total Return Index | 146.53 | 0.46% | 3.39% |
| MSCI All Countries World Total Return Index - CAD | 570.06 | 0.35% | -12.41% |
| DEX Universe Bond Total Return Index | N.A. | N.A. | N.A. |
| US Government 10-Year Yield | 3.4% | -0.06% | -0.61% |
| Canadian Government 10-Year Yield | 3.48% | -0.08% | -0.59% |
| Crude Oil Spot | \$110.21 | \$5.06 | \$14.23 |
| Gold Spot | \$999.50 | \$24.50 | \$164.50 |
| US Government 10-Year/Moody's BAA Corporate Yield Spread | 348 bps | 6 bps | 84 bps |
| USD/CAD Exchange Rate Spot | 1.0109USD/1.00CAD | 0.0016USD/1.00CAD | -0.0079USD/1.00CAD |

Sincerely,

Charles Marleau

Tommy Nguyen

Minh Nguyen

Robert Sands Jr.

