

FEBRUARY 2012

cardinal UPDATE

DIVIDEND INCREASES

CN Railway Co.	15.4%
Imperial Oil Ltd.	9.1%

(During the period: January 1 – 31, 2012)

MANAGING THE DEFINITIONS OF RISK

Many investors believe the stock market is risky because stock prices fluctuate every day, every quarter, and every year. Fortunately, at Cardinal we fully understand the value and quality of the underlying companies we own for our clients, so we do not view fluctuating stock prices as a measure of risk. We view fluctuating stock prices as a potential opportunity to either buy or sell high quality companies at attractive prices. At Cardinal we understand what “risk” means to our clients.

An investor's most substantial risk is not the fluctuation of their portfolio's stock prices, nor is it underperforming the benchmark, nor is it underperforming their neighbour's investments; rather it is being unable to meet their own long-term investment objectives and their future income requirements.

In the current environment of very low bond yields and the potential for higher levels of inflation, we view bonds as potentially a risky option for investors in trying to achieve their long-term investment objectives. Bond investors may need to lower their expectations for their long-term investment objectives, or look for investment alternatives, such as stocks or real estate, in order to keep pace with inflation. Most individuals live and sleep in one of their most significant assets, their home. This is not a risk free asset as a number of individuals south of the border have learned. Investing all of your eggs in more real estate may not be the wisest solution for every investor. Having a diversified equity portfolio by sector, by industry, and by business can provide a prudent alternative for investors.

Not all stocks are of equal risk or quality. We focus on the value of the company, thereby minimizing the potential of overpaying for a single investment. We avoid low quality investments that carry a greater amount of company specific risk, such as a weak balance sheet, an unsustainable business, or weak industry fundamentals. Investors who own companies that don't have sustainable business and sustainable earnings, as well as a steady dividend stream, are in some ways gambling or speculating with their investments. Most investors cannot afford to speculate or gamble with their life savings in order to meet their long-term investment objectives.

Although the stock market regularly fluctuates in price, Cardinal's investment philosophy and approach is conservative and makes the daily stock prices less relevant over the short-term. At Cardinal we believe that focusing on high quality companies that pay dividends and grow dividends should provide our clients with the best opportunity to achieve their long-term investment objectives and their future income requirements.

COMPANY FOCUS

MAGNA

Magna is the fourth largest auto parts company in the world. Its shares have been volatile, falling sharply in the fall of 2011, but are now a top performer in 2012. Despite the stock price volatility, we maintain our focus on the company's fundamentals, which are in excellent shape.

North American vehicle sales bottomed in 2009 at 12.7 million. Approximately 15.2 million vehicles were sold in 2011, and we expect this recovery to continue towards 17.5 million vehicles in the next few years, equal to the average from 1990 to 2008. In this scenario, Magna's profits will increase faster than its revenues since most of its costs are fixed.

Magna has a pristine balance sheet, holding over \$1.1 billion in net cash, and is diversified globally. This positions the company to benefit from ongoing industry consolidation. For example, the Ford Focus has been sold in Europe and North America for years as two different cars. Now the cars are the same. This allows the auto maker to save costs and provides a major incentive to deal with a global auto parts company like Magna. At less than 10 times earnings, Magna's valuation provides plenty of upside.

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