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REITS: A Viable Alternative For Income Investors

Last year's market correction has presented some attractive opportunities in Real Estate Income Trusts (REITs) for investors who are looking to rely on income in the form of dividends and interest from investments.

Finding blue-chip stocks that pay good dividends and are likely to continue to do so in the near future has proven to be very challenging lately. As companies hunker down to weather the downturn, it is becoming increasingly common for even the most venerable names to cut dividends in order to preserve cash. A recent notable example is General Electric (NYSE: GE), which cut its quarterly dividend by almost 70%, from 34 cents a share to just 10 cents a share. Another heavyweight, this time on the financial side, is JP Morgan, which cut its quarterly dividend by 85% to only five cents a share. Doubts are being raised whether even the big Canadian banks, an island of sobriety amidst the shaky global financial system, will maintain their dividends.

If you are one of those investors who must supplement your income with some steady investment returns, real estate could be one of your options.

We know what you're thinking: Real estate? After all, isn't real estate the prime cause of the financial mess in the U.S. — and anyway isn't the whole real estate market in free-fall? The answer is yes, real estate is hurting badly, especially south of the border. However, as long as investors do not expose themselves to real estate at the top of the cycle, they should do well to invest in real estate based assets once prices have returned to more reasonable levels. What's more, for a variety of reasons such as less exposure to sub-prime loans, Canada hasn't witnessed, and isn't likely to witness, the kind of carnage in the real estate market that our big neighbour has.

So how does one go about investing in real estate? For individual investors, a good approach to investing in Canadian real estate is through Real Estate Investment Trusts (REITs). A Real Estate Investment Trust or REIT is a tax designation for a corporation investing in real estate, which reduces or eliminates corporate income taxes. In return, REITs are required to distribute to shareholders their net taxable income, which may be taxable in the hands of the investors. And remember that REITs are exempt from the regular taxation

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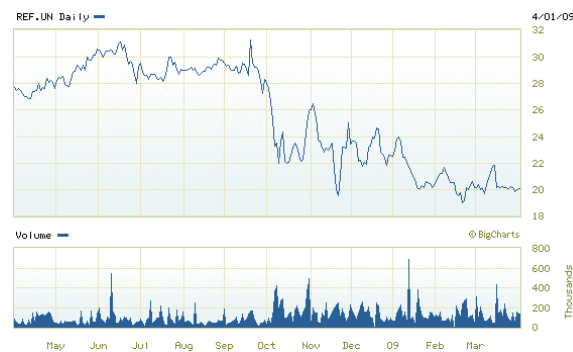
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that Ottawa has mandated for other income and royalty trusts starting in 2011. However, it needs to be mentioned that some REITs may not qualify for the tax exemption due to their business structure as per the new law. Please contact your Investment Advisor to know which REITs will retain their tax exempt status and which ones may not when the new law is implemented in 2011.

REITs invest in office buildings, shopping centres, rental residential buildings and other properties. By investing in REITs, you get real estate exposure without actually buying physical real estate. The good thing about investing in REITs today is that you are buying after a significant correction and therefore definitely not at the top of the market cycle. The S&P/TSX capped REIT index lost over 50% during 2008, and so far 2009 hasn't been very kind either.

Figure 1: S&P/TSX Capped REIT Index



Source: Bigcharts

A good strategy is to focus on large, well capitalized REITs that have manageable debt levels (a conservative level is less than 50% of the property book values) and that own a good real estate portfolio that includes marquee tenants. Another key consideration is the payout ratio — the amount a REIT distributes to unit holders as a percentage of available cash flow. A very high payout ratio can be more vulnerable to cuts if the economy deteriorates further and causes a deeper real estate slump.

A good example is Canada's oldest REIT, Canadian Real Estate Investment Trust (CREIT). CREIT has a diversified portfolio of over 150 properties, a payout ratio that is less than two-thirds of funds from operations, is well capitalized and currently yields over 6% annually. (Source: Ubika Research & Company's Financial Reports)

If the economy starts to recover later this year or early in 2010, as most forecasts believe it will, this is a good time to get some exposure to high quality REITs that can provide steady income while you wait for potential uptrend in the market. There's also the potential for capital gains when REIT prices go up.

Investing in REITs is not without risks. Although a good part of the slowdown in the real estate market has been already priced in, REIT prices can fall further resulting in loss of capital for investors. But as always, we would urge you to please consult with me (us) to discuss your financial objectives and risk tolerance, before making decisions on how to invest in the REIT sector.

List of major Canadian REITs

Company	Ticker	Price 01-Apr-09	Market Cap \$M	Current Yield %
RioCan REIT	REI.UN	12.27	2723	11.2%
Canadian REIT	REF.UN	20.13	1232	6.2%
Broadwalk REIT	BEI.UN	25.32	1236	7.1%
Cdn Apartment Properties REIT	CAR.UN	12.35	831	8.7%
Calloway REIT	CWT.UN	10.21	803	15.2%

Source: TMX Money

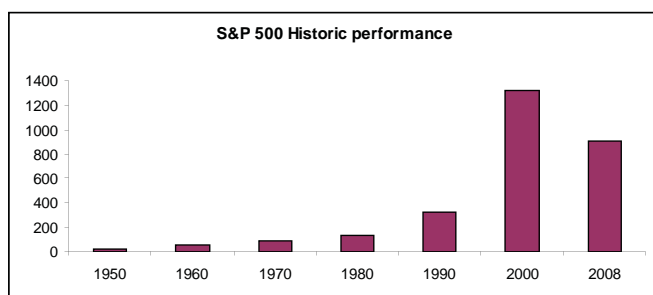
Large, well capitalized REITs with manageable debt levels, good real estate portfolios that includes marquee tenants and lower payout ratios are most suitable for investment.



Dealing with Market Swings

Over the past few months, the barrage of negative economic news and the wild market swings have been the focal point of the news media. While almost everyone is aware that markets can and do go up and down, managing through such wild market swings can be a stress-laden roller-coaster for investors. Given all this, now is a good time to re-visit some of the tried and tested principles for successful investing in the long-term and to reassure yourself about the prospects of your investments.

One of the most important guiding principles for successful investing in the equity markets is to stay invested. While it is hard to stay invested and continue investing when markets are going down, past performance offers some very interesting lessons on the need to stay invested.



Source: econstats.com, Ubika Research

As the above chart shows, in every decade since 1950, the S&P 500 has increased from the previous decade, and the decade beginning in 2000 is still not over. The year 2008 was the worst year for the S&P 500 since 1950, with a 38% decline, but it is important to note that the previous worst one-year performance for the S&P 500 was in 1974, when the index declined by just under 30%, only to bounce back over 30% a year later in 1975.

While most investors know markets are volatile many still end up taking decisions based on short-term fear when markets go through some of the worst days.

Having periodic discussions with your advisor and maintaining a current and relevant financial plan will help you stay focused on your long-term objectives; it also will give you confidence that your investment decisions are well thought out and carefully made in a disciplined manner.

Practice Portfolio Diversification

Markets like these amplify the importance of having a diversified portfolio with exposure to different asset classes, industry sectors and geographic regions. While one may argue that in such markets all asset classes are affected, a good diversification can help you minimize the volatility even if you cannot escape the downturn.

Invest Regularly And If Appropriate Derive The Benefits Of Dollar Cost Averaging

By investing a defined amount every month it is possible to manage the market volatility. For example when the markets are down you buy more units, when it's up, your investments are now worth more.

Be Aware That Markets Are Volatile And Economic Activity Goes Through Cycles

An economic cycle involves periods of high growth, moderate growth and decline. It is hard to time the economic cycle. Many investors tend to pull out of the markets during a downturn, also called a bear market, and are then unable to time the market to get back in, thus losing out on significant gains.

Having a disciplined approach to investing with a sound financial plan prepared in consultation with me is the best way to manage periods of market volatility.

Since 1950, there were only three occasions when the S&P 500 declined for more than one consecutive year*

*Source: Ubika Research



Market Indicators					Chg. from	Chg. from
	Mar-09	Feb-09	Mar-08	Feb-08	Previous	Previous
NA Stock Indices					Month	Year
S&P/TSX Composite	8720.4	8123.0	13350.1	13582.7	7.4%	-34.7%
DOW Jones Industrial Average	7608.9	7062.9	12262.9	12266.4	7.7%	-38.0%
NASDAQ (Composite)	1528.6	1377.8	2279.1	2271.5	10.9%	-32.9%
S&P 500	797.9	735.1	1322.7	1330.6	8.5%	-39.7%
International Stock Indices						
Hang Seng	13576.0	12811.6	22849.2	24331.7	6.0%	-40.6%
Nikkei 225	8109.5	7568.4	12525.5	13603.0	7.1%	-35.3%
FTSE 100	3926.1	3830.1	5702.1	5884.3	2.5%	-31.1%
DAX	4084.8	3843.7	6535.0	6748.1	6.3%	-37.5%
Morgan Stanley (EM- Emerging Markets)	570.0	499.3	1104.6	1167.7	14.2%	-48.4%
Commodities Closing prices (Spot)						
Oil West Texas US\$/bbl	49.7	44.4	101.6	101.9	11.8%	-51.1%
Natural Gas Henry Hub US\$ mmbtu	4.0	4.1	9.8	9.2	-1.7%	-59.0%
Gold US\$/troy ounce	919.2	940.1	916.9	974.5	-2.2%	0.2%
Silver US\$/troy ounce	13.0	13.1	17.2	19.8	-1.0%	-24.7%
Copper US\$/lb	1.8	1.5	3.9	3.8	21.1%	-53.0%
Lead US\$/lb	0.6	0.5	1.3	1.5	14.0%	-54.7%
Zinc US\$/lb	0.6	0.5	1.0	1.2	17.1%	-43.7%
Nickel US\$/lb	4.4	4.5	13.4	13.7	-1.7%	-66.9%
Reuters/Jeffries CRB Commodity Index	220.4	211.6	386.9	412.7	4.2%	-43.0%
Exchange Rate (Closing)						
C\$/US\$	79.9	78.6	97.9	101.5	1.7%	-18.3%
C\$/Euro\$	60.0	62.0	61.9	67.2	-3.3%	-3.1%
US\$/Euro\$	75.0	79.0	63.2	65.8	-5.1%	18.6%

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