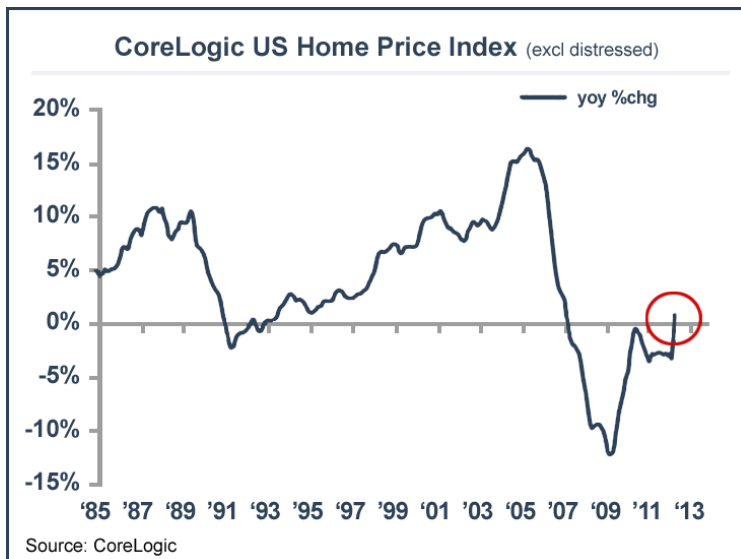


Market News for May

The month of May was filled with fears of a hard landing in China coupled with concerns about Spain's banking system and Greece's future in the euro zone. Investors fled to safety. The S&P/TSX Composite TR shed 6.1% for the month while the MSCI EAFE (\$CDN) fell 7.7% and the S&P/TSX Small cap TR index fell 7.7%. The major heavy metals and precious commodities took a beating along with WTI Oil and Brent Crude which were down close to 20%. By contrast, the global fixed income markets staged one of their best monthly performances, especially long duration bonds. US 10-year Treasury yields fell as low as 1.53% marking the lowest-ever point since records began 200 years ago.

Flat Is The New Up: US Housing Shows Signs of Life

With every passing monthly report of the S&P/Case-Shiller home-price index comes another prediction for a US real estate market turnaround. For nearly six years already, so-called real estate experts have been predicting an end to the US housing recession. This time around we saw more reason for optimism with early signs of price stabilization, but



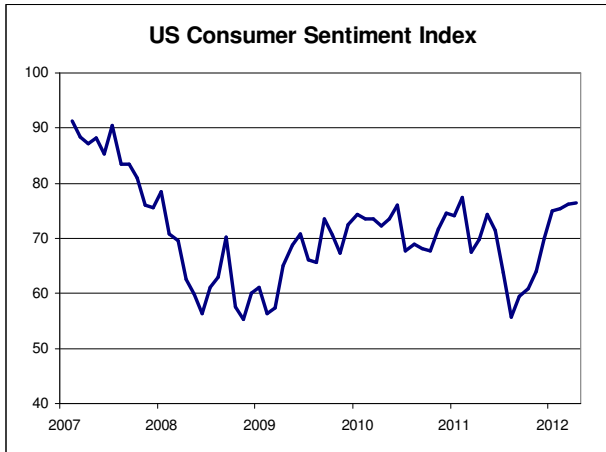
not across the board. According to Case-Shiller, the average sale prices of single-family homes nationwide fell by only 1.9% from a year ago. There were still five notable cities that reached new lows since the financial crisis (Atlanta, Chicago, Las Vegas, New York and Portland). But on the bright side, the National Association of Realtors announced a 3.4% monthly increase in existing home sales activity. This relatively flat year-over-year comparison in prices bodes well for the housing market and argues that we may be closer to a bottom. In addition, CoreLogic's March Home Price Index report showed that nationally home prices, excluding distressed sales, increased month-over-month for the third month in a row. Year-over-year prices actually rose for the first time since the beginning of 2007 (see graph). Of course with

distressed sales, CoreLogic's prices were actually down 0.9% year-over-year, but the tide appears to be turning.

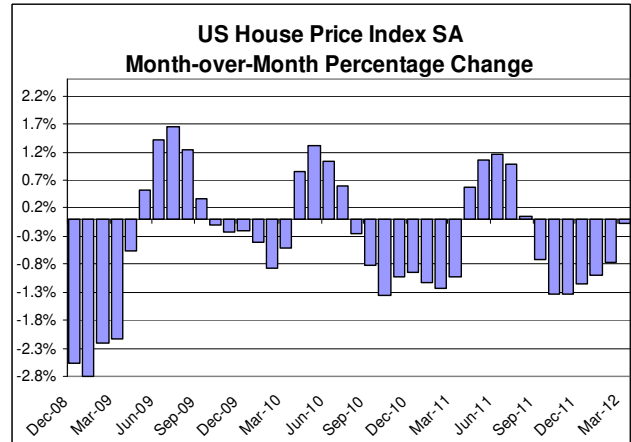
Why should we care about the housing woes of our neighbours to the south? Well, consumers tend to derive their emotional outlook on personal wealth from their largest asset (or liability as it were). In other words, when housing prices rise, consumers feel well-to-do and exhibit an increasing willingness to spend future income. This uptick fuels economic activity globally as the consumer is responsible for about 70% of US GDP. The opposite of course is true, as consumer spending eventually fell off a cliff once the US housing market began to slowdown in 2007.

Despite the positive pricing trends, pending home sales index fell 5.5% in April to its lowest level in four months. Nonetheless, pending sales are 14.4% above year ago levels and at their highest point since 2010 when buyers rushed to sign sales contracts to qualify for a federal tax credit. A flat national housing market is far from a turnaround despite mortgage interest rates being historically accommodative. We believe the US housing market still has some cobwebs to clean off before a turnaround can be claimed. However, we are much closer and when it happens we should see a corollary lift to the US economy.

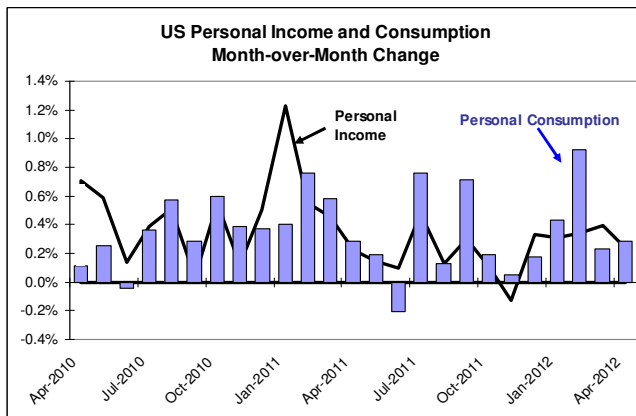
KEY ECONOMIC NEWS FOR SECOND HALF OF MAY



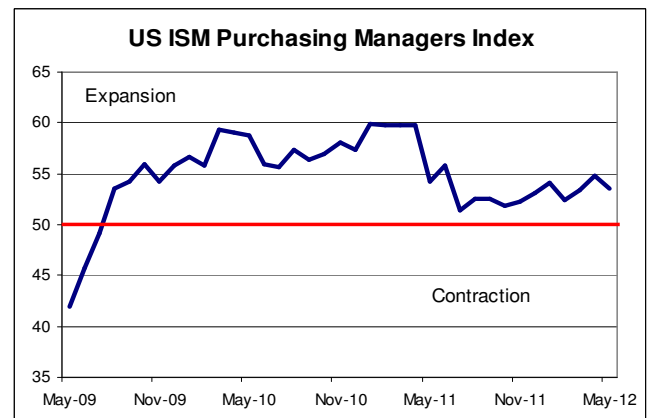
The Thomson Reuters/University of Michigan's consumer sentiment index jumped to its highest reading since October 2007. In sharp contrast, the Conference Board's confidence index unexpectedly tumbled to 64.9 this month, the lowest level since January.



Case-Shiller's Composite-10 price index declined 0.09% since February, while the Composite-20 index declined 0.03% over the same period resulting in its lowest level since early 2003. The March declines were not as sharp as earlier months.



US personal consumption expenditure rose 0.3% in April, which was in line with market expectations. Meanwhile, personal income rose 0.2% in April, which was slightly below market expectations for a 0.3% gain. The saving rate came in at 3.4%.



The Institute for Supply Management, a trade group of purchasing managers, said that its index of manufacturing activity fell to 53.5 in May, down from a reading of 54.8 in April. A reading above 50 indicates expansion.

Other Economic News: There was some good news on the US housing front as US housing starts for April rose by 2.6%, exceeding expectations; existing home sales for April were up by 3.4%, the fastest pace in 2 years; median home selling price was up 10.1% from a year ago; new home sales for April were up by 3.3%, compared to the market consensus of 2.1%; and new home prices were 4.9% higher than a year ago. US building permits unfortunately declined by 7% in April after two months of strong gains, but a rise in home builders' sentiment to a five-year high in May suggests that the April decline may be only a temporary setback. US durable goods orders for April were up by 0.2% following the 3.7% decline in March. However, non-defence capital goods, excluding aircraft declined by 1.9% following a 2.2% decline in March.

Canadian Economic News: In Canada, the inflation rate for April rose by 0.1% to 2.0%. Canadian retail sales for March were up by 0.4%, slightly ahead of expectations.

May 31, 2012
Total Returns in CDN\$

	1M	YTD	1Y	3Y	5Y	10Y
Canada						
S&P/TSX Composite	-6.1%	-2.6%	-14.2%	6.4%	-1.1%	6.7%
S&P/TSX Small Cap	-7.7%	-5.9%	-22.6%	13.2%	-3.5%	3.6%
Cdn. Energy Capped	-10.5%	-11.5%	-27.9%	-2.4%	-5.3%	8.7%
Cdn. Materials Capped	-6.6%	-12.0%	-26.9%	1.8%	1.6%	8.7%
Cdn. Industrials Capped	-2.9%	2.6%	-5.4%	15.0%	0.9%	3.6%
Cdn. Consumer Discretionary	-2.8%	12.5%	-3.7%	12.3%	-3.4%	2.1%
Cdn. Consumer Staples Capped	-3.7%	7.2%	6.5%	12.2%	3.6%	3.7%
Cdn. Health Care Capped	-0.9%	21.3%	16.2%	41.1%	10.2%	2.5%
Cdn. Financials Capped	-7.2%	3.0%	-8.3%	9.2%	-1.1%	7.5%
Cdn. Info. Technology Capped	-8.9%	-3.6%	-30.1%	-1.2%	-7.3%	0.7%
Cdn. Telecom. Services Capped	0.0%	-1.1%	7.1%	17.4%	3.4%	13.0%
Cdn. Utilities Capped	-2.6%	0.2%	1.8%	17.3%	4.8%	9.5%

US & International

S&P 500 (Large Cap)	-1.6%	7.0%	6.4%	12.7%	-1.6%	0.2%
Russell 2000	-2.2%	5.2%	-2.7%	14.3%	-1.4%	1.9%
World	-4.3%	2.5%	-5.0%	6.9%	-4.7%	0.0%
Europe	-4.6%	-0.1%	-4.2%	-1.0%	-8.0%	-2.3%
Japan	-7.7%	1.4%	-10.9%	9.8%	-0.5%	7.2%
Pacific ex-Japan	-7.2%	-1.7%	-14.6%	1.9%	-7.5%	0.5%
EAFE (Europe, Australasia, Far East)	-7.3%	-2.1%	-15.1%	1.4%	-8.0%	0.0%
EM (Emerging Markets)	-9.0%	-2.4%	-16.1%	4.9%	0.9%	14.1%

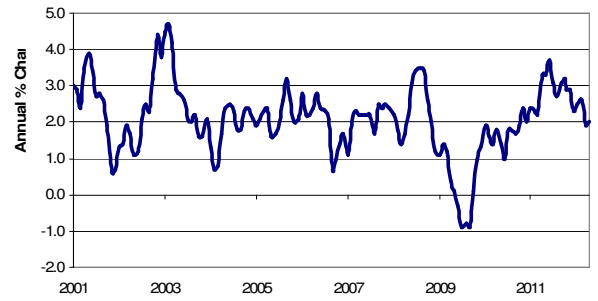
Source: TD Newcrest

Fixed Income	Latest Price	Week	Month	YTD	1-Year
iShares DEX Universe Bond	\$31.53	0.7%	1.6%	0.2%	5.2%
iShares DEX Long Term Bond ETF	\$23.65	1.4%	4.1%	1.2%	13.3%
iShares DEX Short Term Bond	\$29.00	0.1%	0.5%	-0.9%	0.1%
CDN 30 yr yield	2.328%	-3.1%	-11.9%	-8.2%	-33.8%
US 30 yr yield	2.723%	-7.4%	-15.0%	-8.7%	-36.4%

Exchange Rates	Latest Price	Week	Month	YTD	1-Year
Canadian Dollar (\$US)	\$0.972	-0.6%	-4.4%	-1.6%	-5.6%
Canadian Dollar (Euro)	\$0.786	0.8%	2.4%	3.3%	9.6%
Canadian Dollar (British Pound)	\$0.628	1.1%	0.7%	-0.3%	0.3%
Canadian Dollar (Yen)	\$76.860	-2.1%	-6.1%	0.2%	-8.5%

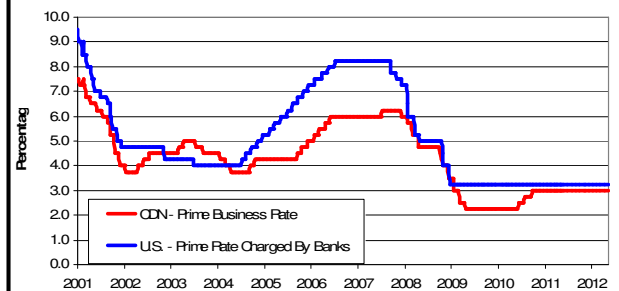
Commodities	Latest Price	Week	Month	YTD	1-Year
RJ/CRB Index	275.07	-3.2%	-10.7%	-10.6%	-21.1%
Dow Jones UBS Livestock	34.81	1.7%	3.3%	-5.0%	1.8%
Gold	\$1,563.40	0.3%	-6.1%	-0.3%	1.3%
Natural Gas	\$2.50	-8.5%	6.0%	-19.0%	-47.7%
Light Sweet Crude Oil	\$87.82	-4.6%	-17.5%	-13.2%	-13.7%
CBOE Volatility Index	24.06	11.7%	40.3%	2.8%	31.5%

Canadian Total Consumer Price Index



Current CPI (April 2012) → 2.0

Canadian and US Weekly Prime Rates



Current CDN Prime Business Rate → 3.00%

Current US Prime Rate Charged by Banks → 3.25%

(Sources: The Globe & Mail, Yahoo Finance and Bank of Canada)



Founded in 1979 as a fee-only personal wealth management firm, KERR has evolved into one of the largest multi-family office firms in Canada, bringing together sound tax advice, investment management and estate planning under one roof. We work with clients to help them maximize their personal financial resources, alleviate their financial and retirement concerns and simplify the administration of their affairs.

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