



STUART INVESTMENT
MANAGEMENT LIMITED

Monthly Market Comment

February 2009

-
- **A FRESH START?**
 - **A LOOK BACK**
 - **GREAT EXCERPT-ATIONS**

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January was a ‘cruel month’. It started with high expectations in politics, capital markets and sports. The world watched as the United States went through the pomp and pageantry of inaugurating their new President, Barack Obama. It was a grand day in which the Americans came close to emulating their British cousins in putting on a ‘good show’.

All of the bi-partisan bonhomie and happy talk surrounding the inauguration was dashed by month end as the Economic Stimulus Plan passed the House with not one Republican vote! What was to be a program that would be ‘timely, targeted, and temporary’ morphed into a bloated, pork laden, and liberal Christmas wish list. Let us all hope that the adults in the U.S. Senate will take out the most egregious giveaways so that the U.S. economy will receive a much needed capital jolt.

Ottawa had its own political joke as the opposition tried to gang up on the Harper government by voting down its budget bill. The Liberals came to their senses and supported the budget bill, thus helping to improve Canada’s reputation on the world political stage.

Sports supporters of the Eagles, Giants, Ravens, and Chargers all had their Super Bowl hopes crushed in January as Pittsburgh and Arizona advanced to the big show on February 1st. (Sneak preview – Pittsburgh won 27-23!)

A LOOK BACK

After opening the year with a nice rally, the markets were torpedoed by horrific quarterly earnings, the biggest drop in GDP in twenty-seven years, and constant reports of job reductions. 595,000 were lost in the U.S. for the month. Both the Bank of

Canada and the Federal Reserve aggressively moved rates lower. The Bank of Canada cut its rate to 1% and the Fed remains at zero to .25%.

The markets were all uniformly down in January. The worst performer was the Value Line index with a 9.83% decline followed closely by the Dow Jones industrials with an 8.84% drop. The S&P 500 lost 8.5%, the NASDAQ was off 6.38% and the TSX dropped 3.26% in the month. The only increase was a 0.7% rise in the value of the Canadian Dollar.

We continued to keep our portfolios in a very defensive position. We sold both **John Hancock Preferred Income Fund** and its parent, **Manulife Financial Corporation**, due to real concerns about their large exposure to U.S. commercial real estate through direct lending and bond positions.

Cash was deployed into **Bell Aliant** and **Husky Oil**. **Bell Aliant's** fourth quarter results were in line with expectations. The pre-tax cash return of 11.5% in annual distributions looks secure and we continue to believe the stock will move towards a target price of \$27. It closed at \$24.35 at month end.

Husky Oil is well positioned to take advantage of a rise in the price of oil. The technical positions in oil are unwinding slowly, leading us to believe a bottom price has been reached. While we do not think you have to sell your SUV now, we do see oil near \$60 per barrel by July 1st!

General Electric reported its fourth quarter results with earnings of \$18.1 billion in 2008, its third highest yearly results. The market continues to question CEO Jeffrey Immelt's ability to keep both the AAA corporate rating and a dividend that is yielding 11.5%! Immelt said "the first quarter dividend is done, and we are committed to our plan

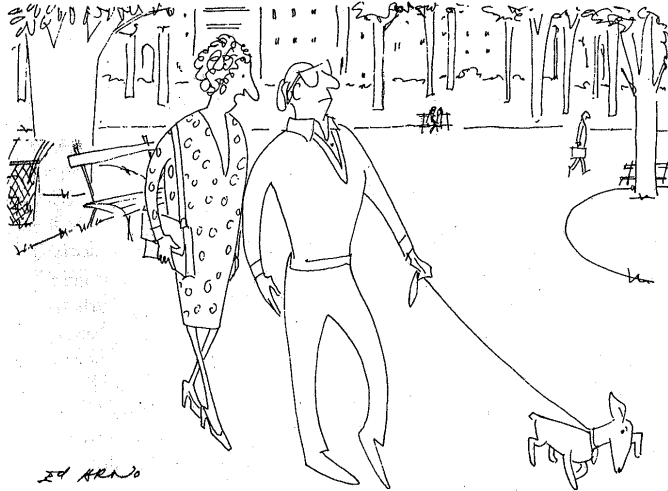
for \$1.24 per share for the year. We believe the dividend provides our investors with a solid return in this uncertain time." We believe Jeffrey Immelt will keep his word or lose his job if the dividend is cut. We continue to closely monitor **GE** and have our money invested there along with yours.

TAX-FREE SAVINGS ACCOUNTS - ENCORE

As of January 1, 2009 any Canadian resident over the age of 18 with a valid Social Insurance Number was allowed to open a new Tax-Free Savings Account (TFSA). Each person may contribute up to \$5,000 per year into their TFSA and the investment proceeds will grow tax-free within the account. You are able to withdraw money from a TFSA at any time without paying any taxes. Withdrawn money can be replaced in the TFSA without any penalty or taxes, up to the then unused contribution limit.

We at SIML believe that this is one of the best tax-free investment vehicles available to Canadians and recommend that all of our clients take advantage of these accounts and

establish a TFSA for themselves and any children and grandchildren who qualify. SIML offers TFSAs to our clients in addition to our normal accounts. Several of our clients have already opened TFSAs, and we would be pleased to discuss the advantages of these accounts with you.



"I'm sick of the economy, dear. Can't we disagree about something else?"

PHILOSOPHY REVISITED

Every so often we reprint portions of the practical wisdom in the brochure that most of you have read. It's been several years since we last published excerpts. We thought a reprise of our philosophical direction might be timely particularly in view of recent market conditions.

Successful portfolio management has been a continuing task combining careful analysis, mature judgement and most importantly, **the making of investment decisions**. There has, of course, been a constantly changing process in the economy in general and the securities market in particular.

Our objective is still to strive for superior investment results, measuring attendant market risk constantly and carefully. It is a positive approach and it is aimed at producing positive results over the years. It is, of course, impossible to entirely eliminate risk, a factor inherent in all avenues of investment. Yet we believe that there is less risk in making careful, qualified decisions than in simply standing pat and ignoring the essential fact that values are constantly changing. The sharp drop in equity prices in recent months certainly underlines the risk in all investments.

Rewarding investment results are usually achieved over a realistic period of time – not overnight. Our investment philosophy is being altered by the various changes in the market and the quality of a stock prospect is being carefully reviewed on the basis of the potential returns on individual holdings. One or two of them have increased their payout modestly in recent weeks but the majority have either reduced their dividend payment or eliminated it altogether. Our investment philosophy is geared to long-range performance rather than short-term profit and there could well be some very attractive profits as the

years unfold. We will doubtless be reviewing a number of our former favourites in accordance with developments.

We have often maintained that there is little wisdom in holding stocks whose future prospects have predictably dimmed. In view of recent changes in economical conditions and the marketplace, it could well be essential to view some candidates for sale and select others for longer holds.

A constant reappraisal of the relative value of each issue in every investment programme will be the vital steps that an investment advisor will follow as conditions clarify.

*New for 2009- We now offer our client's access to web based account statements. If you do not have an online account yet, and would like to view your statements in real time please call us to set up your free online account.

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