



STUART INVESTMENT
MANAGEMENT LIMITED

Monthly Market Comment

January 2009

-
- **“ANNUS HORRIBILIS”**
 - **DOWN - DOWN**
 - **THE NEW TAX-FREE SAVINGS ACCOUNT**

VOLUME 19, NUMBER 1

December marked the end of the first year of the new management structure at Stuart Investment Management Limited, and it was not an easy year in which to assume such a historic and imposing mantle.

The worldwide markets performed abysmally as a result of the US financial meltdown, which rapidly spread its contagion globally. This resulted in a severe recession, which saw a number of US corporate icons disappear almost overnight. Globally, major banks and financial institutions were effectively nationalized to preserve the market confidence in those countries.

Following the trend, December continued a string of natural disasters, political problems and other disruptions around the world.

Suicide bombers and car bombers continued to wreak havoc in Afghanistan, Iraq and Pakistan. In the Ukraine and Russia, accidental blasts were apparently responsible for the deaths of over 20 people in an apartment building and a phosphate mine respectively. Yet another 4.9 magnitude earthquake in China forced the evacuation of tens of thousands of people, while in New England and upstate New York, 600,000 people were left without power after an ice storm knocked out power for several days in early December. Luckily it did not freeze in Venice which was subject to the worst flooding in 22 years with a 1.56 metre flood surge, in spite of the billions of dollars spent on flood control barriers in that city.

A fire in a Bangkok nightclub killed 58 revelers, after fireworks were set off to mark the New Year, and Thai protesters finally lifted their siege of Bangkok's airport after the government was forced from office.

On the subject of government change, Bangladesh returned to democracy after two years of military rule, in apparently free and fair elections, and the Somalian president resigned to end a deadlock in a fractured government. This, combined with the withdrawal of

Ethiopian troops from Somalia will unfortunately not help eliminate the piracy threat off the coast. American troops have begun a gradual withdrawal from Iraq and have handed back one of Saddam Hussein's numerous palaces, which they had been using as their headquarters.

In Cuba, Fidel Castro and his family celebrated 50 years of their "Revolution" which freed Cuba from the odious Batista government, but has kept Cuba shackled in a Fourth World "timewarp" with a well educated population kept from achieving their potential by a corrupt system of government. It is hard to believe it has already been a year since Benazir Bhutto was assassinated in Rawalpindi upon her triumphal return to Pakistan, resulting in her husband being elevated to president of that country.

The month ended with the Israeli air strikes and invasion of the Gaza Strip which was a predictable outcome after a continuous rain of rocket fire from Gaza onto Israeli towns and kibbutzim, which the Hamas government of Gaza was either unwilling or unable to stop. This unfortunate incident is ongoing with over 500 deaths, and has led to a tightening in oil prices as markets are wary of the stability of the Middle East after these raids.

DOWN - DOWN

The markets in 2008 were dreadful as the economic news got worse and worse after a peak in mid July. The Dow Jones Industrial Index closed down 33.84% for the year, the S&P 500 Index was down 38.49%, the NASDAQ dropped 40.54% and the Value Line Index was off 48.69%. The Canadian markets fared similarly with the TSX off 35.03% while the Canadian dollar drifted sideways over the year to close out at \$0.8210 to the US dollar.

In the month of December, the markets continued their downward swoop but rallied slightly after the tax loss selling season expired. The Dow Jones Industrial Index dropped a further 0.60% on top of the 5.3% drop in November, and 14.1% in October. In December the S&P 500 Index eked out a net gain of 0.78% after a 7.5% November loss. The NASDAQ gained 2.7% and the Value Line Index was up 3.61%. For Canadians, most of these slight gains were offset by the Canadian dollar dropping 1.54% versus the US dollar.

In our December Commentary we commented on the reversal of **CN Rail's** amazing shrinking act of the 1990's. They continued this trend by finally gaining permission from the US Surface Transportation Board to acquire the **Elgin, Joliet & Eastern Railway** allowing them to streamline traffic to the US Gulf and Midwest by routing traffic around the Chicago hub, which has been a rail bottleneck for years.

The hearings for the US bailout of **Chrysler** and **General Motors Corp.** finally concluded and US\$4 billion was transferred to **GM** and later another US\$4 billion to **Chrysler**. In addition, General Motors Acceptance Corp. (**GMAC**) received a loan for

several billion dollars to fund car purchases. **Ford Motor Company** declined immediate “aid” but said it may require some in the second quarter of 2009, depending on the unfolding market. Significantly, Kirk Kerkorian, the legendary US investor and gambling mogul, sold off all of his 133.5 million shares of **Ford** for a loss estimated to be between US\$475 and US\$800 million. That must have hurt! - especially since his shares of **MGM Mirage**, the gambling and entertainment giant, have dropped from a high of US \$75.08 to a low of US\$8.00 in 2008!

Precision Drilling Trust was successful in their takeover of **Grey Wolf Inc.**, a major US drilling company, as it looked to expand rapidly back into the US after exiting that market several years ago. **Husky Energy Inc.** expanded its exploration presence in the Sydney Basin of Newfoundland with a \$1.8 million winning bid on an exploration parcel, but is cutting its 2009 spending elsewhere by \$1 billion, primarily in Western Canada.

The biggest news, which was not unexpected, was the official collapse of the \$34.5 billion **BCE Inc.** takeover by the Ontario Teacher’s Pension Plan and other private equity investors, due to BCE’s failure to meet a “solvency test” set out in the takeover agreement. Lawsuits are ongoing to determine whether the \$1.2 billion “Breakup Fee” is still payable and who is liable for it. Bell’s main rival **Telus Corp.** took advantage of the 18 month distraction at Bell to improve its services and technology and steal market share from Bell. It is forecasting an earning jump of up to 10% for 2009.

Ted Rogers, the Canadian radio, TV and mobile phone Czar, died at 75 after a protracted battle with heart disease.

The **Toronto-Dominion Bank**, currently regarded as the strongest Canadian bank, recorded a 7% profit drop in the fourth quarter of 2008, while its rival the **Bank of Nova Scotia** recorded a 66% profit drop in the same quarter. **Freeport-McMoRan Copper & Gold Inc.** suspended its dividend, slashed capital expenditures, and lowered copper output to counteract the sudden slump in base metal prices.

THE NEW-TAX FREE SAVINGS ACCOUNT

As of January 1, 2009 any Canadian resident over the age of 18 with a valid SIN 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 that qualify. SIML offers TFSA’s to our clients in addition to our normal accounts. Several of our clients have already opened TFSA’s, and we would be pleased to discuss the advantages of these accounts with you.

*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.

416 363 8871
1 800 387 2883 (toll free)

* Any questions concerning this document may be directed towards:

Stuart Investment Management
Suite 910 P.O. Box 33, 95 Wellington Street West
Toronto, Ontario, Canada
M5J 2N7
1 800 387 2883
416 363 8871
416 368 6174 (FAX)