



STUART INVESTMENT MANAGEMENT LIMITED

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**VOLUME 19, NUMBER 6
JUNE 2009**

Last month's Market Commentary began with the announcement that the venerable **Chrysler Corporation** was forced into a 'clinical' bankruptcy by the US government with **FIAT SpA** of Italy ending up with control of the company! Unfortunately the theme continues this month with **General Motors** being placed into bankruptcy after burning through US\$10.2-billion in the first quarter, with Canada's **Magna International Inc.** taking control of **General Motors'** German '**Opel**' Division. Whether **Magna**, with its notoriously anti-union stance, can make any headway with the militant European Trades Unions and run **Opel** profitably remains to be seen. While we wait, we can console ourselves with the fact that the bailouts of **Chrysler** and **General Motors** collectively have cost the long-suffering Canadian taxpayer a total of \$12.5-billion, on which our grandchildren will still be paying the interest.

May provided some signs that the worst of the carnage of the Obama Depression may be over with some observers seeing signs of "Green Shoots". We at Stuart are a little more cautious and feel that the markets may yet have another test of the lows, and have positioned our portfolios accordingly. Our concern is that inflation and/or stagflation will return within the next 12 to 18 months and we are concerned about conserving our clients' purchasing power in these circumstances.

In North America, Canada unexpectedly added 36,000 jobs in April, leaving the unemployment rate

unchanged at 8%, and in the USA, the rate of layoffs eased by more than expected to the lowest rate in 6 months, increasing their unemployment rate to 8.9%, the highest since 1983.

The markets were generally positive over May, with the Dow Jones Index rising 4.1% and the TSX rising 11.2% over the month. The S&P 500, the NASDAQ Index and the Value Line Index recorded gains of 5.3%, 3.3% and 4.7% respectively. The Canadian Dollar roared up 15.54% versus the US Dollar from US\$0.793 to close at US\$0.916, while Canada's current account deficit hit a record high.

The move in the Canadian Dollar is positive for most Canadians as it means that imported food, consumer and capital goods will generally become cheaper in Canadian Dollars which will help abate some of the inflation we see arising from the madness of a \$2 Trillion 'Stimulus Package' – we see it as a 'currency debasement package'. Unfortunately a rising Canadian Dollar will hurt our finished goods exporters and with the automotive and aerospace sectors being some of our largest exporters, they can foresee tough times ahead until they can adjust their cost structures. If they can take advantage of the inflated Canadian Dollar to upgrade their capital equipment this will enhance their future competitiveness, but some of these industries are already in survival mode, unable to make large capital expenditures.

MAY DAZE

The financial crisis was blamed for May Day riots in Turkey, Germany and Greece which left some policemen injured. In Japan, it was determined that their Gross Domestic Product had fallen at an annual pace of 15.2% in the first quarter, which is the biggest drop since 1955 - greater even than the contraction in the 1980's and 1990's. The primary blame for the drop was the rest of the world's sudden loss of appetite for Japanese cars and gadgets.

May was a relatively quiet month for natural disasters, with Brazil suffering from flooding for several months, with a number of deaths and approximately 50,000 people left homeless. Brazil was also the departure point for the ill-fated Air France Airbus 330 which appears to have crashed into the South Atlantic, with the apparent loss of 228 passengers on board. No cause has been determined yet, and the search for the plane's 'Black Box' continues.

In Mexico there was some good news in that the World Health Organization lowered the swine flu alert for this country, allowing businesses in the capital to reopen and more than 6 million students to return to school. In another good news announcement, the Statue of Liberty's crown, which has been closed since September 11, 2001, is to reopen to the public on Independence Day. Approximately 3.2 million tourists visit this statue each year and approximately 100,000 p.a. will now be allowed up into her crown again.

Canada's Jim Balsillie, co-CEO of **Research In Motion** of Kitchener, Ontario has made a preemptive move to buy the Phoenix Coyotes Hockey Team out of bankruptcy and move the team to Hamilton, Ontario to once again give that city its own hockey team. The move is being actively opposed by the Head of the NHA for reasons which appear to be not entirely rational. A recent, very short, Letter to the Editor, reportedly complained that, "If Hamilton gets a professional hockey team, then Toronto will want one too!"

There were a number of tense days in the European capital markets when Britain defaulted on the interest payments on some of the loans it had guaranteed when some of its earlier Building Societies failed. There were a couple of UK Treasury Gilt auctions which received tepid responses at best, and the Government of Latvia had a failed auction of some of its Treasury paper. The recent flood of US Treasury auctions have all been consummated, but at bid/ask spreads which are unheard of, indicating reluctance on the part of the normal purchasers of this paper.

An improving capital and credit market allowed **Teck Resources Ltd.** to raise US\$4.225-billion of five-year, seven-year and 10-year senior secured

notes to repay a large portion of the debt assumed in its takeover of the **Fording Coal Income Trust**, on which deal most clients of SIML did very well. This has taken the spectre of insolvency off **Teck** and its shares have risen almost six fold from its lows in March 2009.

Enbridge Inc., one of Canada's largest utilities, announced a doubling of its profit and projects average annual earnings growth of over 10% through 2012! The company is continuing a multi-billion dollar expansion of its pipeline network to ship oil sands crude to US refiners. Another utility, **BCE Inc.**, reinstated its dividend despite its warning that the recession was battering their key wireless businesses. The dividend was cut during its abortive privatization which collapsed earlier this year. **BCE's** largest shareholder, the Ontario Teachers' Pension Plan responded by reducing its stake by \$713 million.

The CEO of **Precision Drilling Trust** announced that he sees a "lousy summer for drilling", after one of the lowest rig utilization rates on record for the first half of the year. SIML reluctantly sold our holdings in this Trust as we do not see any substantial upside in the Trust's unit price in the near future. As a replacement, we chose **Crescent Point Energy Trust** whose recent performance with oil and gas assets in Western Canada had caught our eye. It yields an attractive 8.5% on its \$2.76 dividend.

MAYHAP

May was a month of contradictions, with the US ISM Manufacturing Index actually shrinking less than expected after it was found that inventories had collapsed, causing manufacturers to ramp up production again to meet base orders, after consumer confidence in April jumped to its highest level since the crisis began in September 2008. Also 'better-than-expected' pending home sales gave Wall Street a boost which was reinforced by Warren Buffet saying that, "...he sees the recession ending soon and predicts that no big banks will fail"! **Wells Fargo** is one of his largest holdings, and he predicted his company, **Berkshire Hathaway Inc.**, would post a first quarter profit.

And, in Canada, building permits surged, growing in half of the 10 provinces which ended five straight months of decline.