



STUART INVESTMENT MANAGEMENT LIMITED

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The markets were positive in August, with the Dow Jones Index rising 3.54% and the TSX rising 0.75% over the month, briefly topping the 11,000 mark again. The S&P 500, the NASDAQ, and the Value Line Composite recorded gains of 3.37%, 1.55% and 4.57% respectively, while the Canadian Dollar dropped 1.62%.

In our last Market Commentary we said that we at Stuart Investment Management Limited remain very cautious about the current market, and we have not changed our view. The United States government's US\$3 billion "Cash for Clunkers" program ended on August 24th, 2009, and was roundly declared a major "success". This program paid up to US\$4,500 cash for Americans who traded in and scrapped a ten-year or older, high gas consumption vehicle for a new vehicle with a significantly higher gas mileage. Over the short period that it existed, this program resulted in the sales of over 690,000 new cars in the US, primarily those of Honda and Toyota, as two of the US "Big Three" automakers were temporarily closed.

We feel that most of these "C for C" sales were merely cannibalized from sales in future months and the automakers will face yet another slow down over the next few months. A couple of idled US and Canadian steel mills were restarted to meet the sudden demand for automotive steel, but these could shut down yet again if this scenario unfolds. The one unexpected beneficiary of the program will be the US and European "Mini-Mills" which reprocess scrap steel using electric-arc furnaces.

Their raw material costs will probably drop significantly over the next few months.

While on the subject of plant closings, **General Electric Co.** announced that it will cease manufacturing light bulbs at its Oakville plant. The old incandescent light bulbs are rapidly being replaced by the much more efficient 'compact fluorescent bulbs', which could save the North American economy an enormous amount of energy over the next few years. Did people recognize the trend when the first few "buggy-whip" factories closed down early in the last century? Stock up on incandescent light bulbs now if you value the warmth of their light as they will become increasingly scarce and expensive over the coming years.

COMINGS & GOINGS

We note that **Reader's Digest**, the largest circulation magazine in the world, filed for bankruptcy after being unable to carry the massive debt load imposed on it by a private equity leveraged-buyout several years ago. Its circulation had dropped from a 1970's peak of over 17 million copies in many languages, to only 8 million in 2008, a victim of the internet age and the advertising slump!

August saw the passing of Corazon Aquino, the first Female President of the Philippines and the heroine of the 1986 "Yellow Revolution" which overthrew the corrupt Marcos dictatorship, and also caused a very large second-hand shoe sale! Another indomitable female passing was that of Eunice Kennedy Shriver at 88, the sister of the late President John F. Kennedy and the wife of Sergeant Shriver, a former Vice-Presidential candidate and founder of the Peace Corps. Eunice received the Presidential Medal of Freedom for her work in founding the Special Olympics after being strongly influenced by the treatment of her mentally handicapped sister Rosemary.

The month of August was particularly hard for the Kennedy Family, as Senator Ted Kennedy, the last surviving son of Joe Kennedy and brother of the late President Kennedy and Eunice Kennedy Shriver, also

succumbed to brain cancer after a valiant fight. His passing almost assures that the US Congress and the Upper House will jam through President Obama's Medicare Bill as a "Tribute to Ted".

We at SIML feel that this enormously expensive Medicare program will be very negative for the US economy in its present perilous state, and will result in more massive deficits, rampant inflation and hence much higher interest rates and taxes. We see this as reinforcing and justifying our currently very cautious stand on the market outlined in the second paragraph!

On a lighter note, even the inherent rights of power and intellect are no inoculation against "Swine Flu", as the Costa-Rican President and Nobel Laureate, Oscar Arias (69), contracted the virus and was quarantined at home as a precaution. He recovered in spite of a previous asthma problem. Fidel Castro appeared to be in good health in photos released by his son Alex at his 83rd birthday while his politically and economically bankrupt, long suffering country suffers under the kleptocracy of Fidel and his brother and current President Raul Castro and friends. These wonderful brothers recently reiterated that, "Washington should not expect concessions from Havana, and that they will not shift Cuba to capitalism!"

MAKING WAVES

One of our favourite stocks **Crescent Point Energy** took advantage of its strong balance sheet to pay C\$665.3 million to acquire privately owned **Wave Energy**, the largest landholder in the Lower Shaunavon Play in S.W. Saskatchewan. **Wave** currently produces 3,000 bbl/day of oil. **Crescent Point** also purchased a further 3,750 bbl/day of oil production in the same general area for a further C\$258.5 million, and simultaneously announced a C\$200 million share offering to help pay for these purchases.

In spite of the economic turmoil south of the border, Canadian Consumer Confidence jumped 5.5% and retail sales rose 'more than expected' at 1% in June as the Canadian Inflation Rate dropped to a 56-year low of 1.8%. (Strangely, while inflation hit new lows in Canada, global sugar prices hit 25-year highs due to a weak monsoon in India and growing demand!) The Canadian trade deficit shrank, under a mixed outlook, but the assets of the Canada Pension Plan Investment Board rose 10.5% in the quarter, and ended the quarter at C\$116.6 billion, a sharp reversal from the 14% loss the previous fiscal year.

Canada's major banks seem to have shrugged off the malaise of 2008 with the **Royal Bank of Canada** reporting record third quarter earnings of \$1.56 billion, up 24% from a year ago. The **Canadian Imperial Bank of Commerce** reported a profit of \$434 million up from \$71 million in the same quarter last year, while the **Bank of Montreal** reported earnings up 6.9% at \$557 million. The **Bank of Nova Scotia's** earnings dropped due to increased loan loss provisions, but it still beat Bay Street estimates at \$931 million for the quarter.

In the United States, the market reacted positively to President Obama reappointing Ben Bernanke as Chairman of the Federal Reserve Bank for a second four-year term, while the Federal Reserve Bank claims to have made a US\$14 billion 'profit' on the hundreds of billions of liquidity loans it provided during the financial meltdown of 2008. Several of the larger recipients of these loans like **Goldman Sachs** have repaid their TARP loans to avoid government restrictions on their operations, primarily salary and bonus restrictions. One of the largest recipients of this government largesse was **AIG** which actually reported its first quarterly profit of US\$1.8 billion since the financial crisis. The stock has jumped almost four times over the month, but the company is a long way from financial health, or being able to reimburse the government for the US\$80 billion in aid it received in 2008.

In spite of some positive signs, there have been 81 bank failures in the US to date in 2009, and we feel more are to come, as the commercial real estate market continues to be wrung out, and loan defaults continue to rise despite the apparent uptick in the markets. Needless to say, as a result, the Federal Deposit Insurance Fund, which insures deposits up to US\$250,000 per account, has declined by 20%.

EXTRA! EXTRA!

We wrote late in 2008 that all of our clients should open Tax Free Savings Accounts ("TFSA") for themselves and any of their children or grandchildren who are over 18 years old. This program began on January 1, 2009 and, in our opinion, is one of the best and most tax efficient programs the Canadian government has introduced in many years. We feel that, if it was not for the smaller contribution limit, it is arguably a better program than a Registered Retirement Savings Plan. We think that the program is so good that it will only last for a few years before some future government decides it leaves too much money in the taxpayer's hands and

either cancels the program, or caps and grandfathers the existing contributions.

So far, very few of our clients have taken advantage of these accounts with us, so as an incentive, SIML is prepared to absorb the first year's administration charge of \$50 for any client that wants to open one of these accounts.

Please contact Helen or Rina at our office if you would like to open one or more of these accounts.