



# STUART INVESTMENT MANAGEMENT LIMITED

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The markets were slightly negative in October 2009. The Dow Jones Index rose only 0.005% and the TSX fell 4.25% over the month, closing just above the 10,900 mark after peaking at 11,648 in September. The S&P 500, the NASDAQ Index, and the Value Line Index recorded losses of 1.98%, 3.64% and 5.93% respectively while the Canadian Dollar fell 1.04% versus the US Dollar from US\$0.9339 on September 30<sup>th</sup> to close at US\$ 0.92430.

Following our opening comment in last month's **Market Commentary**, the **Ford Motor Company** finally signed a new contract with the Canadian Auto Workers Union, which would match the contracts signed with its two recently bankrupt rivals, **General Motors Corp.** and **Chrysler Inc.** The CAW won some concessions from Ford as the company will allocate at least two new products to the Oakville Ford plant, and promises to manufacture at least 10% of its North American production in Canada. The CAW had to concede to the closing of the uneconomic plant in St. Thomas, Ontario, but did manage to keep the Windsor engine plant open and acquired a new V8 engine to build there. As part of their severance, about 1,400 St. Thomas workers will receive lump sum payments of \$75,000 to \$100,000 each, extended benefits after retirement, and vouchers to buy new Ford vehicles.

The big event of October was the run in gold prices which had all the normal Gold Bugs excited and was quoted repeatedly in the press. Gold rose from a level of US\$952 per ounce at the end of August, to a peak of US\$1,066 per ounce in mid-October, before settling back to end the month at US\$1,040.40. This rally resulted in some price rises in the senior producers and gave some of the Canadian junior resource companies something to cheer about. Early this month, India

announced that it had bought 200 metric tons of gold for US\$6.7 billion from the International Monetary Fund, who had previously announced they would sell off 403.3 metric tons to fund aid to struggling countries. India now holds 558 metric tons of gold, making it the ninth largest owner of gold globally.

Even Canada Post is suffering in the current recession, as postal volumes dropped 8.5% in Canada, and the US Postal Service is expected to lose \$7.1 billion in 2009. Britain is trying to privatize parts of its postal service operations, and the Swedish and Danish postal authorities are merging their services. The Dutch and German postal services are buying up post offices across Europe in anticipation of the European Union dismantling all of its postal monopolies in 2011, opening mail services to competition. All of this is occurring as e-mail and private courier services are steadily attacking the basis of the postal services, and the price of a stamp continues to rise steadily.

## **THE WORLD OUT THERE!**

According to the Financial Times, the People's Republic of China celebrated its 60<sup>th</sup> Birthday with a massive military and civilian parade through the centre of a 'deserted' capital, Beijing. Ordinary citizens were strongly encouraged to watch the show on television at home. China's rapid recovery from the global recession is remarkable, with its Gross Domestic Product jumping an astounding 8.9% in the third quarter alone and 7.7% for the first 9 months of 2009 as industrial output rose 12.4% in the third quarter. Chinese retail sales also jumped 15.1% in 2009 and Foreign Direct Investment

was \$7.9 billion as the Chinese Government's 4 trillion Yuan (US\$586 billion) stimulus package kicked in. In spite of all the spending, Chinese inflation was down and per-capita disposable income rose by a price-adjusted 10.5% and the country's foreign exchange reserves topped a staggering US\$2.27 trillion! China also signed a major gas deal with Russia to ensure a steady flow of about 2.4 trillion cubic feet of natural gas per year to feed its industries.

The Chinese Securities Regulatory Commission launched 'ChiNext', a NASDAQ-style stock market for 28 'growth enterprises', which was met with such enthusiasm on its opening day on October 30<sup>th</sup> that the shares of ALL 28 companies were suspended at least once before 11:20 a.m. due to upward price volatility. average P/E multiple on this exchange is currently 96 times compared with the S&P/TSX Index multiple of 16 times!

On the subject of developing stock exchanges, the Johannesburg Stock Exchange is creating a centralized bond-trading system and is also offering international investors a chance to buy common equity in companies from other African countries. Brazil seems to be running against world trends by imposing a 2% tax on all foreign portfolio investments in Brazil in an attempt to stem the rapid rise of its currency, which is now being perceived as the next 'Petro-Currency' and has advanced 36% against the US dollar this year. The awarding of the 2016 Olympic Summer Games to Rio de Janeiro also heightened the euphoria in Brazil.

Australia shocked the world by being the first country to raise its artificially low Bank Rate, introduced in response to the market meltdown last year. It followed through with a second interest rate increase less than a month later to 3.5%, and the Reserve Bank of India is also contemplating a similar increase.

A French magistrate ordered former French President, Jacques Chirac, to stand trial on embezzlement charges dating back to his days as mayor of Paris. Several bomb blasts were set off killing hundreds, including one in Iraq and two separate incidents in Pakistan, one while U.S. Secretary of State, Hillary Clinton, was visiting the country. Latvia denied plans to devalue its currency by resetting the peg to the Euro. This would cause serious problems as most Baltic citizens' mortgages are denominated in Euros and this would expose a number of Scandinavian Banks to a serious raft of defaults, endangering their weak balance sheets further.

In Canada, inflation actually fell 0.9% after a drop of 0.8% the previous month, driven primarily by an 18.7%

drop in energy prices over the previous 12 months when oil peaked at \$147 per barrel. Economists feel that, "in future months, inflation should continue to trend downward, in part due to Canadian dollar strength, in part due to economic softness."

The major social issue of the month is the confusion generated by the possibility of H1N1 'Swine Flu' shots being made available to all Canadians that want them, in spite of a fairly low incidence of the influenza to date. Shortages of the vaccine doses caused huge lineups across the country.

The Royal Bank of Canada became the first Canadian bank to sell a securitized bond issue since the market meltdown began over a year ago. The issue was well received and the size of the issue was increased by 50% to \$750 million.

Signs continue to be mixed in the USA! While the US Gross Domestic Product rose 3.5% for the third quarter, new initial jobless claims also rose to 551,000, but continuing unemployment claims dropped below 6 million in spite of the federal government extending benefit periods. Pending home sales jumped 6.4% because of a tax credit for first-time home owners, but new housing starts were flat at an annualized rate of 590,000, compared with 1.36 million starts in 2007 and 906,000 in 2008. Retail sales, excluding autos, rose slightly, but remained at a 2005 level, while producer prices fell and manufacturing growth slowed indicating sluggish wholesale demand. The huge service sector expanded for the first time since August 2008 in the face of declining consumer confidence.

The 2009 US Deficit was \$1.42 trillion up from \$455 billion in 2008, due to tax receipts dropping 16.6% while spending rose 18.2%. The FDIC announced that a bank in Bakersfield, California, became the 99<sup>th</sup> bank to fail this year. This compares to 534 bank closures in 1989 during the savings and loan crisis. The new US health care plan cleared an important Senate hurdle when two Republican senators agreed to support it, giving it a potential majority vote in the Upper House.

Finally, NASA successfully test launched its first new rocket in 30 years, the Ares I-X rocket, which is expected to replace the space shuttle, while the world was transfixed by a hoax where a small boy supposedly was launched into the air in a helium balloon over the Colorado Mountains. The boy was later discovered to be hiding in his publicity-seeking parents' attic!

## **THE ANNUAL DISCLOSURE**

As members of the Investment Dealers Association, we are required to annually disclose our relationship with our carrying broker, NBCN Inc. which is, of course, the abbreviation for the National Bank Correspondent Network. The carrying broker is responsible for a number of administrative tasks including carrying out the execution of all trades for our accounts, their reporting and their settlement. They are also responsible for the custody of cash and securities and the registration and administration of retirement accounts. We retain the responsibility of choosing and determining the suitability of investments purchased for individual accounts. We also ensure that appropriate supervision is provided for every activity in your account including the collection and disbursement of income.