



## STUART INVESTMENT MANAGEMENT LIMITED

- **REMEMBER NOVEMBER**
- **OH! CANADA**
- **NO PAIN, NO GAIN**

### VOLUME 19, NUMBER 12

### DECEMBER 2009

The markets were all positive in November over those of October, with the Dow Jones Index rising 6.51% and the TSX rising 4.92% over the month, closing just below the 11,500 mark after peaking at 15,154 in early 2008. The S&P 500, the NASDAQ Index, and the Value Line Index recorded gains of 5.74%, 4.87% and 3.13% respectively while the Canadian Dollar rose 2.4% versus the US Dollar from US\$0.9243 on October 31<sup>st</sup> to close at US\$0.9473.

Last month we remarked on the sudden, surprising, run-up in the price of gold which could reflect a vote of no confidence in 'fiat currencies', as people sought the shelter of traditional 'hard' and liquefiable assets. The run on gold continued through November and at the date of writing, the gold price had traded at an all-time high of US\$1,226 per ounce, up 63% from a low of US\$754.30 a year earlier. (It should be pointed out though, that the inflation adjusted previous peak price of US\$674 reached in 1980 would still be higher than the current price.) Rumours abounded about other countries besides India adding to their gold reserves, but Ms. Hu Xiaolian, Vice Governor of the People's Bank of China, said "Gold prices are currently high and markets should be careful of a potential asset bubble forming..."

November marked the 20<sup>th</sup> Anniversary of the fall of the Berlin Wall, and the relatively rapid and painless absorption of the old communist East Germany into the modern, capitalist West Germany. The Emirate of Dubai shocked the financial world

in late November by seeking a 'temporary moratorium' on payments on the massive US\$80 billion debt assumed by the quasi-government real estate developer and investment company, Dubai World. It is anticipated that the other Trucial States will come to Dubai's aid eventually, but the political cost for the very liberal Arab Emirate will be steep, as its very conservative neighbours may seek changes to the permissive culture in Dubai.

Also in Germany, the much trumpeted deal by **Magna International Inc.**'s Frank Stronach to buy the Opel division of the newly recapitalized and nationalized **General Motors** fell apart at the last minute, as the directors of GM apparently over-rode the recommendation of its CEO, "Fritz" Henderson, who was subsequently ousted. The directors decided that GM should retain and 'fix' Opel as they would need the small car and the diesel car technology developed by Opel in Europe. The sale of GM's "Hummer" brand to a Chinese manufacturer is still apparently on track and GM also sold 50% of its Indian operation and gave up control of some of its Chinese operations to Shanghai Automotive Industry Corporation.

India's central bank is considering withdrawing some of its stimulus measures by year-end as Q3 growth topped 7.9% and renewed concerns about the return of inflation. For the same reason, the Bank of Israel also raised rates for the second time. Russia, contrary as always, cut rates to 6.25% to slow down appreciation of the Ruble. The French proposed raising US\$50 billion in bonds to promote growth industries, amidst international concern of the potential harm to its long-term fiscal future, and Chinese banks are under government pressure to shore up their balance sheets which could raise as much as US\$44 billion over the next few years.

November saw President Hamid Karzai sworn in for a second term as Afghanistan's President, after a very controversial election which left few satisfied.

An estimated 2.5 million Muslims made the annual “Hajj Pilgrimage” to Mecca this year amidst unfounded fears of spreading the invidious H1N1 “Swine Flu”. In Brazil, electrical problems at one of the world’s largest hydroelectric dams caused widespread power outages in Rio, Sao Paulo and several other cities and knocked out ALL of neighbouring Paraguay’s power. Brazil’s image as the future host of the 2016 Olympics has been questioned as a result.

### OH! CANADA

November was a relatively quiet month in the Canadian markets apart from the ‘gold flurry’ mentioned above. The major excitement early in the month was the visit of Prince Charles and his wife Camilla, which coincided with the opening of the Royal Winter Fair and other cross-country events. A further source of Canadian pride was the Bloomberg report that Russia was considering adding Canadian Dollars to the basket of currencies and gold which consist of Russia’s official reserves. Whether this is a reflection of the Canadian Dollar now being perceived as a ‘hard’ currency, or merely a vote of ‘no-confidence’ in the US Dollar remains to be seen.

On the economic front, Canada lost 43,000 jobs in October, but November showed signs of a bottoming of the job losses, while retail sales rose more than expected. Lower interest rates were given the credit for the increase in spending and, to some extent, the increase in home prices. The recovery in exports is, however, proving to be very sluggish.

**EnCana Corp.**, Canada’s number two independent petroleum producer, split itself into two separate companies; one named “**Cenovus Energy Inc.**”, will develop the old EnCana’s oil sands properties and the remaining natural gas production business will continue under the “**EnCana Corp.**” name.

At SIML we have become a little nervous about the market and have decided to sell off most of the Canadian bank common shares we own to protect the profits we have made since the market bottom last March. We do, however, still believe in the banks longer term so we have switched from the common into the preferred shares which in all cases gives us a slightly higher dividend yield. This will

also provide some protection on the downside if there is any sort of a market pullback in the next few months. We will revisit this decision early in the new year.

### NO PAIN, NO GAIN

While the headline unemployment rate in the USA broke through the 10% barrier to a high of 10.6%, the rate of job losses appears to be finally slowing, and there has been a noticeable pickup in manufacturing hours and overtime worked as factories strived to fill orders. The total job losses attributable to the recession to date have totaled 7.3 million, but it will be a while before business owners feel confident enough to cut overtime and start to hire permanent workers again! The first month of the 2010 US Fiscal Year racked up a worse than expected deficit of \$176.4 billion with the 2010 projected deficit of \$1.5 trillion, higher still than the horrific 2009 deficit of \$1.42 trillion!

To help pay off a tiny part of this deficit, over 14,700 US taxpayers ‘voluntarily’ came forward to disclose billions hidden in offshore bank accounts before an amnesty program expired on October 15<sup>th</sup>. IRS Commissioner, Doug Shulman, claimed that these taxpayers would be assessed “billions of dollars” in taxes, interest and penalties, but would avoid criminal prosecution and possible jail time. The government will need all the help they can get, as a study of the Congressional Budget Office estimated that over \$4.8 trillion would be required just to pay the interest on the debt that Uncle Sam will build up over the next decade.

The biggest deal of the month was Warren Buffet’s bid to acquire **Burlington Northern Sante Fe Corp.** railroad for \$34 billion, in what he described as “an all-in wager on the US Economy.” We have learned over the years not to second guess Mr. Buffett! Mr. Buffet, and senior luminaries of Goldman Sachs and Harvard Business School professor Michael Porter, have launched a \$500 million initiative called “10,000 Small Businesses” aimed at unlocking the job creation and economic growth potential of America’s small companies.

Finally, the New York Yankees, after a nine year wait, managed to oust the Philadelphia Phillies 7-3

in game six of the World Series to win their record  
27<sup>th</sup> title in their brand-new \$1.5 billion ballpark.