



STUART INVESTMENT MANAGEMENT LIMITED

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The markets were again all positive in December over those of November with the Dow Jones Index rising 0.81%. The TSX gained 2.61% over the month, closing just below the 11,750 mark after peaking at 15,154 in early 2008. The S&P 500, the NASDAQ Index, and the Value Line Index recorded gains of 1.78%, 5.81% and 6.56% respectively and the aggressive Canadian Dollar rose 2.4% versus the US Dollar from US\$0.9473 on November 30, 2009 to close out the decade at US\$0.9514.

Last month we noted that the gold price had traded at an all-time high of US\$1226 per ounce, up 63% from a low of US\$754.30 a year earlier. This price has retreated a little in December to close the year at US\$1087.50 per ounce, a year-over-year increase of 25% from the US\$869.75 level on December 31, 2008.

In last month's Market Commentary we also speculated that one or more of the other Gulf Trucal States would come to a bankrupt Dubai's aid, but the political cost would be very high. In an acknowledgement of this, the newly opened "Burj Dubai", now the world's tallest man-made structure at 828 m (2,717 ft) was renamed the "Burj Khalifa", after Sheikh Khalifa bin Zayed bin Sultan Al Nahyan, the Emir of neighbouring Abu Dhabi. Other political concessions may become obvious in the future, after Abu Dhabi "ponied-up" a total of \$10 billion to help solve Dubai's impending cash crunch in 2009.

OUT WITH THE OLD...

December ended with most of North America held in winter's icy grip and Florida's citrus and strawberry farmers worried about their crops freezing. The icy conditions allowed an early start to winter drilling in the oil patch and the Canadian drilling companies shares are starting to rebound from the moribund depths of 2008 and 2009. The cold spell has been blamed on a long period with virtually no sunspot activity, but the rabid "climate change" lobbyists will claim it is a direct result of "Global Warming" no doubt!

The Canada Pension Plan Investment Board bought the second largest shopping mall in Scotland, the Silverburn Mall in Glasgow, for US\$479 million. A number of the Canadian commercial banks reported increased earnings for the quarter and the year ended October 31, 2009.

The Ontario legislature passed the HST Bill, switching the province from Federal and Provincial Sales Taxes to a Harmonized Sales Tax of 13% which will take effect on July 1, 2010. This will raise the cost of virtually everything purchased in Ontario from previously exempt food and services to bank service charges and investment management fees. A Royal Bank of Canada study found that the 35% participation rate by Canadians in RRSP savings was the lowest recorded since 1996. A portion of this drop was attributed to the success of the new Tax Free Savings Account which was introduced on January 1, 2009 and has rapidly reached acceptance rates that took RRSP's decades to achieve. At Stuart Investment Management we believe that every Canadian over 18 should have one of these tax advantaged accounts, as well as an RRSP, RRIF or RESP.

On a sad note, Dack's Shoes which had been in business in Ontario since 1834 has gone into bankruptcy, and is liquidating its entire inventory from its remaining six stores.

IN WITH THE NEW!

The US Senate finally managed to gerrymander enough votes to narrowly pass their Health Care Bill. This must now be sent to Committee to be integrated with a similar Bill previously passed by the House of Representatives, before being given final approval and signed into law by the President. This is unlikely to occur before late March and the US Democrats are in danger of losing the Democratic Senate seat in Massachusetts, previously held by Ted Kennedy in a vote in late January. Two other long-time Democratic Senators have already announced they will not be running for re-election as they deem their chances of winning are slim. This turn of events may yet doom the Health Care Bill.

A new airline security scare was triggered just before Christmas when an Islamic militant unsuccessfully attempted to explode plastic explosives sewn into his underwear on an American airlines flight. This has prompted some airports to propose installing full body scanners for all passengers. Airline stocks immediately plummeted on the news, but the few corporations providing airport security equipment rallied. The brand new **Boeing 787 "Dreamliner"** had its maiden flight after a two year delay due to problems with the new composite technology used. **Boeing Co.** had 840 orders in hand for this US\$120 million aircraft by year-end!

In corporate news, **General Electric Co.** decided to spin off its **NBC Entertainment** division it had held for over 23 years, and **General Motors Corp.** announced the apparent failure to sell off its **Saab** division, first to **Koningsegg** of Sweden and then to **Spyker Cars** of Holland. At the time of writing, this division had not been sold and "discussions are continuing!"

After Japan announced another US\$81 billion economic stimulus plan, its government debt approached 200% of GDP. The economy of Greece has been in such bad shape that Standard & Poor's

downgraded Greek debt from A- to BBB+ and also downgraded the debt of two of Greece's largest banks. The Hungarian Central Bank cut its central bank rate to 6.25% from 6.5%, and the Italian government announced its largest ever anonymous tax amnesty which resulted in over €80 billion in repatriated funds, primarily from Swiss Banks! In a shortsighted move, the UK government imposed an onerous 50% tax on all bankers' bonuses which will further encourage the highly mobile, highly paid, international bankers to move to more tax friendly regimes, hollowing out London's financial core, with the consequent loss of the high paying jobs in the London financial sector.

Italy was also the location of a couple of more bizarre incidents, when a 42 year old man attacked 73 year old Prime Minister Silvio Berlusconi with a statuette and broke his nose and two teeth, and a woman tackled Pope Benedict XVI and dragged him to the ground on Christmas Eve. The Pope was shaken but unhurt, but 87 year old Cardinal Roger Etchegaray's leg was broken in the incident and he was taken to the hospital.

In the Philippines, the Mayon volcano started oozing lava, resulting in over 20,000 people being evacuated. There were bombing incidents in Iraq and Pakistan targeting Shiite pilgrims and a devastating bombing in a gymnasium in a US forward base in Afghanistan which left eight CIA operatives dead and a similar number injured.

The year ended with the President of Iceland unexpectedly vetoing a parliamentary resolution to make over \$5 billion in payments to UK and Dutch investors in defaulted Icelandic bank deposits, at the expense of the Icelandic taxpayers. He decided to put the issue to a national referendum to be held in the next 60 days which is expected to uphold the moratorium on the payments.

The new decade will bring more change, more news, innovations and more opportunities, and we look forward to aggressively analyzing these developments as they occur, in order that we make the best investment decisions for our clients. In the meantime we have increased our exposure to high-yielding stocks and have taken steps to reduce the ground lost in 2009 when the market suffered a terrible loss in the opening weeks. The trend of

prices at year-end added substantially to our expectations.

HAPPY NEW YEAR AND A HAPPY NEW DECADE!