



STUART INVESTMENT
MANAGEMENT LIMITED

- **TRAGEDIES & STRATEGIES**
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VOLUME 20, NUMBER 2
FEBRUARY 2010

January started the year with incredibly powerful forces being unleashed against mankind! Firstly, Mother Nature visited Haiti with a truly disastrous earthquake killing, at last count, over 125,000 thousand and leading to calls for spending upwards of \$5 billion in humanitarian aid. Secondly, human nature, in the form of self-preservation, took over for U.S. Democrats fearing getting killed in the November election after the citizens of Massachusetts overwhelmingly elected a Republican to the Senate. They may possibly be saving over \$1 trillion dollars of spending by stopping President Obama's health care reform.

President Obama quickly ordered the U.S. military, working along with Canadian and other forces, to bring maximum humanitarian aid to the people of Haiti. Obama then turned his attention to U.S. voters trying to gain their support by calling for a tax on bank profits, bonuses and business lines. His State of the Union speech was a further opportunity to bash the "just say no" Republicans.

Governor Mark Carney added the Bank of Canada opinion to a global view of a fragile economic pick-up. He strongly urged the markets not to expect a pick-up in economic activity before summer. Thus we cannot expect a rise in Canadian interest rates.

The markets closed down on almost every front in January, and the trend is continuing into February at the time of writing. The TSX closed down 5.55% and the Dow Jones Industrial Average, the S & P 500 and the NASDAQ closed down 3.46%, 3.70% and 5.37% respectively over the month of January.

Now is a time, we believe, to execute a very conservative investment strategy. We continue to manage your money to a "value and income" model stressing large companies in defensive market

sectors paying secure dividends. We executed a number of trades in December/January to reposition your investments with an attractive running yield.

LET THE GAMES BEGIN

Canada has been brought into a sense of high expectation by the Trans-Canada Olympic Torch Relay which will culminate in the lighting of the Olympic Flame at the Cauldron at the Olympic Stadium in Vancouver, B.C. on February 12th.

The Relay has not been without incidents as fringe groups attempt to cash in on the surrounding publicity to highlight their causes, however frivolous. The Winter Olympics will run to February 28th, where the final event will be the Men's Gold Medal Ice-Hockey match, with the hopeful assumption that Canada will be the winner. The closing ceremony will be broadcast live at 17:30 p.m. on February 28th.

The Olympic Games will be shortly followed by the Winter Paralympic Games from March 12th to March 21st and are expected to provide a final boost to the economy of B.C and Vancouver in particular.

Elsewhere in Canada, the much delayed, multi-billion dollar MacKenzie Gas Pipeline received a

critical approval by the Joint Review Panel after a five year study! This pipeline will run south from Inuvik, N.W.T. 1,196 km to Northwestern Alberta where the gas could be used to feed the oil sands projects or to feed into the distribution system. When, or whether, this pipeline actually gets built depends on a significantly higher price for natural gas in North America, which is currently hovering around US\$5.51 per MMBtu. New technologies for drilling and fracturing wells have just freed up a purported 100-year supply of natural gas from the extensive shale deposits all over North America.

The rally in the markets and the drop in interest rates in Canada contributed to the improved health of many Canadian pension funds over the latter half of 2009. A recent study by Mercer Consultants reported a 15% increase in the “pension fund health index” but still estimated that “more than half of pension plans in Canada remain less than 80% funded on a solvency basis at the end of 2009.” This will require businesses to increase pension plan contributions and citizens to attempt to supplement their pensions with investment income.

Canada posted a surprise trade deficit in November 2009 due to a stronger loonie resulting in stronger imports and slowing exports. The Federal Government also returned to the foreign markets to sell 10-year Canada Government bonds denominated in Euros for a total of almost C\$3 billion.

MORE PAIN – SOME GAIN!

The good news is that the US Economy grew at 5.7%, its fastest pace in over 6 years in the final quarter of 2009. It was, however, rebounding from the biggest contraction since 1946 when the USA was still cooling off from World War II. The US Federal Reserve banks made US\$52 billion in profit in 2009 as a result of the income they earned on government securities they bought to stabilize the system. Could it be a reward for this performance that Federal Reserve Chairman Bernanke was re-appointed for a second four year term?

President Obama announced \$2.3 billion in tax credits for the ‘clean energy manufacturing sector’ in an attempt to create 17,000 jobs and to ‘Green’ the economy. Any clients of SIML who own

property in the USA should be aware that the dreaded US Estate Tax has been eliminated for 2010 only. Another \$33 billion in tax breaks were announced targeted at smaller businesses who hire new workers in 2010. The Senate voted to raise the US national debt limit to an incomprehensible \$14.3 TRILLION, while the total US Savings Rate was the lowest in recorded history!

Warren Buffet’s **Berkshire Hathaway Inc.** bought the U.S. life insurance business from **Swiss Reinsurance Co.** for \$1.27 billion, allowing Swiss Re. to free up capital. **GMAC Financial Services**, one of the largest auto loan lenders in the USA predicted a US\$5 billion loss for the fourth-quarter as it wrote down or sold risky mortgage assets.

The Obama administration announced a very controversial \$6 billion arms sale consisting of **United Technologies** Black Hawk helicopters, **Raytheon’s** Patriot anti-aircraft missiles and other defense communications equipment to Taiwan which is bound to raise the ire of China, one of the US’s largest trade partners, and a decision by President Obama to formally meet the Dalai Lama later this month, will rub salt on the wound. Finally, the legendary and reclusive J.D. Salinger, author of “The Catcher in the Rye” died of natural causes at the age of 91 in Cornish, N.H.

While the USA was tweaking China’s nose, the Australians signed a \$3 billion purchase agreement for **Felix Resources**, a large coal producer by China’s **Yanzhou Coal Mining**. The Chinese central bank surprised the markets with a rate hike on its three-month bills and a bank cash reserve requirement increase in an attempt to curb bank loan growth which had hit 600 billion yuan (US\$87.8 billion) in the first week of 2010!

Consumer prices in Japan fell at a record pace in December bringing back the spectre of deflation which haunted the Japanese economy for years in the late 80’s. **Japan Airlines Corp.** finally filed for bankruptcy after being bailed out by the government three times in the past 10 years. The other 70’s industrial titan, Germany, recorded a 5% contraction in its economy in 2009.

One of SIML’s current investments **Vale SA**, the world’s largest producer of iron ore, and purchaser

of Canada's **Inco**, has purchased all of **Bunge Limited's** fertilizer assets in Brazil for \$3.8 billion.

Finally, a summary of heads raised and heads rolling. A new finance minister was named in Japan to deal with the aforementioned troubles in its economy. The pro-Western President Viktor Yushchenko of the Ukraine was evicted by voters and Prime Minister Yulia Tymoshenko was forced into a runoff vote against a pro-Russian, Viktor Yanukovich.