



STUART INVESTMENT MANAGEMENT LIMITED

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The year 2010 started with Mother Nature making several very unpleasant visits to a number of countries. Haiti was first with a truly disastrous earthquake, and one unfortunate family fled from there to Chile which was then struck with an 8.8 magnitude quake, killing several hundred people. Widespread flooding and mudslides in Madeira and also over continental Europe and the UK caused more loss of life. While Toronto has had a relatively mild winter with little snow, the UK and parts of Europe were blanketed in the heaviest snowfall in over 30 years.

The markets closed out the month of February up on almost every front, and the trend is continuing at the time of writing. The TSX closed up 4.83% and the Dow Jones, the S&P 500 and the NASDAQ closed up 2.56%, 2.85% and 4.23% respectively. The Canadian dollar continued strengthening against the US dollar closing up 1.6% at \$0.95012.

Canada's high expectations for the Winter Olympics were exceeded on almost all counts with the country winning an unprecedented 14 Gold medals, 7 Silver medals and 5 Bronze medals for a grand total of 26 medals. Canada had never before won an Olympic Gold medal on its home soil at any of the three Olympics held in Canada. This medal haul cost hedge fund manager Eric Sprott a princely \$1.4 million as he had agreed to donate \$100,000 per Gold medal won by Canadians to the Canadian Athletes Now Fund! He said he was glad to pay it as a proud Canadian. The most important win to most Canadians was the Men's Ice Hockey final with the underdog Canada playing the powerful USA team which had already beaten them in the quarter-finals. In a cliffhanger, watched by probably the largest television audience in Canadian history, Sidney Crosby shot the winning goal in sudden-death overtime. This only added to the other Gold medal in the women's Ice Hockey game. These wins set off an unprecedented wave of nationalistic jubilation across the country.

The Canadian economy showed that foreign investment managers poured money into Canada during 2009 with purchases of over \$109.4 billion of Canadian securities, of which \$82.5 billion was for Canadian bonds. Canada showed its first annual trade deficit in 34 years of \$4.8 billion, which was attributed to the "calamitous drop in commodity prices at the start of 2009", and its budget deficit rose to \$39.4 billion for the first 9 months of 2010.

Three of SIML's favorite investments reported positive news in the month. **TransCanada Corp.** posted fourth quarter earnings which were up 37.5% to \$0.56 per share allowing a 5.3% increase in its quarterly dividend to \$0.40 per share. **Inmet Mining Corp.** also posted a strong return to profitability in the fourth quarter on stronger copper and zinc prices with earnings of \$1.60 per share, and **BCE Inc.**, reversing a year earlier loss with a profit of \$0.46 per share, announced a 7.4% increase in its quarterly dividend to \$0.435 per share.

A SILVER LINING

There were some positive signs appearing in the US economy with the GDP growth for the fourth quarter of 2009 being revised upwards to 5.9% due to a burst in factory orders as companies began to restock their inventories. An increase in strength in consumer spending is important as it accounts for 70% of economic activity. There was a sharp drop in the US jobless claims in January where the overall jobless rate fell unexpectedly to 9.7%. Corporations are still wary about re-hiring workers and are conserving cash by cutting capital spending as they concentrate on bringing unused capacity back on line and rely on productivity gains to fill new demand. The cash positions of the S&P 500 stock index companies increased to a combined \$1.18 TRILLION! President Obama also announced roughly \$8 billion in federal loan guarantees for the first new nuclear power plant to be built in 30 years. The plant will be built in Burke County, Georgia and will create thousands of construction jobs.

President Obama also projected that the US budget deficit would soar to a fresh record in 2010 at \$1.56 trillion. At the same time the House of Representatives approved the assumption of a further \$1.9 trillion in debt, and the White House released a nearly \$1 trillion health care overhaul bill. All of this blithe sprinkling of previously unimaginable amounts of taxpayers' money comes on the heels of a US trade deficit of \$40.18 billion in December, and the news that individual US states are also facing a shortfall of "at least \$1 trillion" in their funds for employee pensions and retirement benefits, with Illinois in the worst shape with only 54% of its pension obligations funded. The one result of all the new spending is that the Federal payroll in the US is now at its largest level in history with 2.15 million employees, and an estimated 1 million more to be hired this year on a temporary basis to help with the US Census later this year.

The **Toyota Motor Corp.** came under heavy Federal scrutiny and criticism for safety problems with several of its models with sticking accelerators. One wonders how much of the witch hunt had to do with the fact that the US Federal Government is now the largest shareholder in both **General Motors Corp.** and **Chrysler Inc.** and they need all the sales help they can get, in spite of the latter two also being no strangers to safety recalls. The **Ford Motor Company** which avoided government bailout funds posted one of its best sales quarters ever as a new line of vehicles hit a market already spooked by the Toyota fiasco. **AIG** continued hemorrhaging money with an \$8.9 billion quarterly loss as it continued selling off divisions to repay the \$131.9 billion in government bailout funds it received over the past two years.

THE GREAT WORLD OUT THERE

We mentioned the opening with great fanfare in Dubai of the 'Burj Khalifa' tower as the world's tallest tower in our January **Market Commentary**. Last month the observation deck on the 124th floor was suddenly closed because of 'maintenance' issues, and remains closed. To add insult to injury Dubai is being forced to sell off assets to restructure \$22 billion of debts, including the **Queen Elizabeth II**, once the largest passenger ship in the world, originally purchased by Dubai for \$100 million. The Dubai state run Isthithmar World also owns 20% of Montreal's privately owned **Cirque du Soleil**. Some solace is to be found in Dubai's recent announcement of a new oil field in relatively shallow offshore waters. The emirate's existing oil production comes from four offshore fields and an onshore field at Margham produces natural gas and condensate.

The Chinese government has tried to cool its blistering economy by ordering its commercial banks to boost their

reserves by at least 50 basis points, in an attempt to rein in credit growth to prevent speculation in the property and the stock markets. China is also making good on its threat to dump US Treasury securities, by cutting its holdings by \$45 billion over the past five months, but simultaneously quietly buying \$9.6 billion worth of shares in some of the biggest American corporations including **Morgan Stanley, Johnson & Johnson, Coca-Cola and Visa Inc.**

In India, the pace of industrial production rose at 16.8%, the fastest rate in 16 years allowing the government to start to gradually remove the monetary stimulus initiated to counter the market meltdown in 2008. Meanwhile in Europe a major financial crisis was narrowly averted when Greece was given a temporary bailout by a German Government owned bank to allow it time to get its fiscal house in order and lower its inordinately high deficit and borrowing requirements. Fears were that a failure of this rescue would spread the contagion to other shaky European countries such as Spain, Portugal, Ireland and, the largest of all, Italy.

The President of France, Nicolas Sarkozy made a four hour visit to the earthquake-ravaged island of Haiti, the first visit ever by a French president since the bloody slave revolt which expelled the French in 1804. Costa Rica elected its first female president when it elected Laura Chinchilla to succeed Nobel peace laureate, President Oscar Arias in February. She will join two other South American female leaders, Chile's Michelle Bachelet and Argentina's Christina Fernandez.

BEHOLD THE TAXMAN COMETH

The customary annual packages of slips and summaries required for tax reporting have been making their way to clients in the last few weeks. The T5 slip reports any interest, dividend or foreign income received, and any foreign taxes paid. These amounts are also detailed on the Investment Income Summary, in addition to any accrued interest on the purchase or sale of bonds or interest paid on debt account balances. These interest charges, which appear in the "Paid By You" column are not reflected on the T5 and should be claimed separately on Schedule 4 of your tax return.

Payments from registered retirement plans, which are reported on T4RIF slips, have been mailed out separately along with receipts for RRSP contributions and T4RSP slips for RRSP withdrawals.

As usual, the laggards are the T3 slips and Summaries of Trust Income which report income from trust units. Trusts have a late March deadline and some of them do

not report their distribution breakdown until the last minute. These slips will be mailed out later this month.