



STUART INVESTMENT  
MANAGEMENT LIMITED

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March 2010 was another solidly positive month on almost every front, and the trend is continuing at the time of writing. The TSX closed up 3.51% and the Dow Jones Industrial Average, the S & P 500 and the NASDAQ closed up 5.15%, 5.88% and 7.14% respectively. The Canadian dollar continued strengthening against the US dollar, closing up another 3.61% at \$0.98445 from \$0.95012 in February. At the time of writing, the Canadian dollar just breached par with the US dollar and will probably continue to trade above par for a while.

### CANADIAN REFLECTIONS

The biggest excitement in the Canadian capital markets in March was the Initial Public Offering of **Athabasca Oil Sands Corp.** which was one of the largest IPO's ever in Canada with 75 million shares at \$18.00 per share for a total of \$1.35 billion. The original issue was set at \$750 million but was oversubscribed almost three times, allowing the underwriters to increase the size. Last year, state-owned **PetroChina** bought a 60-per-cent stake in two Athabasca Oil Sands projects for \$1.9 billion. The success of this issue may have emboldened the **Toronto Stock Exchange** to embark on a mission to China to encourage institutional investors there to invest in Canadian stocks!

Further capital markets activity saw the launching of a new 'environmentally-friendly' technology index, the S&P/TSX Clean Technology Index, made up of 21 Canadian companies whose main focus is developing environmentally-friendly technologies. One of SIML's investments, **Agrium Inc.**, was finally forced to abandon a year-long hostile \$5.4 billion takeover of a US rival, **CF Industries**, as Agrium refused to over-pay for the

asset. The City of Toronto took advantage of the Federal Government's matching funds for infrastructure projects, to offer 30-year municipal bonds for the first time since the early 1980's. The bonds are expected to pay a coupon of about 5.1%. The City plans to borrow up to \$700 million in 2010, across various maturities.

A few of SIML's favourite utility companies announced proposed expansions with **TransCanada Corp.** weighing its entry into the US oil transportation business by allowing Montana and North Dakota crude producers access to its proposed 3,190 km. "Keystone XL Pipeline" from Hardisty, Alberta to the Gulf of Mexico. Another of our favourite pipeline companies, **Enbridge Inc.**, is proposing to build a "Marcellus Shale" pipeline from Pennsylvania and West Virginia northwest to Chicago to transport natural gas and liquids to utilize spare capacity at its Aux Sable liquids processing plant. Flying counter to the current sentiment, **EnCana Corp.** of Calgary has increased its 2010 capital budget 20% to \$4.5 billion to double its gas production to over 6 billion cubic feet per day over the next five years, despite current low prices for the fuel. Finally, privately held charter airline **Skyservice Airlines** of Ottawa, was forced into receivership and shut down after 15 years because of high debt levels and the cutback in leisure travel over the past two years.

### THE USA – FALSE EUPHORIA?!

From the breathless media coverage in the USA one would think the most important national issue was Tiger Woods' return from disgrace to defend his US Masters title! He has apologized to all golf enthusiasts in a widely watched press conference.

While attention was being diverted there, the US Treasury Department reported the 17<sup>th</sup> consecutive, and the highest ever, monthly deficit of \$221 billion for February 2010. This number is bigger than the annual GDP of Portugal and the next 153 countries on the CIA World Factbook list. Investors responded by redeeming \$3.7 billion in US stock-focused mutual funds and reinvesting the funds in money-market, taxable, and municipal bond funds in February.

President Obama signed into law another “Jobs Bill” totaling approximately \$18 billion in tax breaks and \$20 billion for highway and transit programs. He also finally managed to squeak his revised health care bill through both houses by seven votes, even without any support from the Republicans. The cost of the Health Care Bill is estimated to be \$940 billion over 10 years. The Vice Chairman of the US Federal Reserve Bank, Donald Kohn, announced plans to retire at the end of his four-year term in July, and Janet Yellen, currently President of the Federal Reserve Bank of San Francisco, is said to be President Obama’s preferred choice to replace him. There would then be three vacancies on the Federal Reserve Board of Governors to be filled by the President.

The gradual dismemberment of **AIG** Insurance continues with the sale of their Asian life insurance business to Britain’s **Prudential PLC** for US\$35.5 billion. Prudential’s CEO said the purchase “represents a unique and strategically compelling opportunity to create the leading insurer in South East Asia”, with its vast population and growth opportunities.

## **THE GREAT GAME IN THE 21<sup>ST</sup> CENTURY**

The Cold War of the 60’s and 70’s faded further with the signing of a third Strategic Arms Limitation Treaty by Russian President Medvedev and President Obama in Prague. Both reiterated their commitment to control Iran’s nuclear aspirations but some disagreement remains on the US’s plans to expand its anti-missile shield in Europe. Russia has experienced its own problems with Muslim extremism with several suicide bombings by Chechen dissidents in provincial capitals and also in the Moscow subway system.

Significantly, one blast was at the Lubyanka station, the site of the former interrogation prison of the KGB!

China has officially overtaken Japan as the World’s Number 2 Economy in manufacturing output, with a market share of 15.6% compared to Japan’s 15.4% and the USA at 19%. India and Brazil moved up to 9<sup>th</sup> and 10<sup>th</sup> respectively. China has finally agreed to end its “One Child Policy”, over 30 years after it was introduced by Mao. This policy had been widely circumvented and was being enforced on less than 36% of China’s 1.5 billion people.

**Google** has shuttered its operations in mainland China and retreated to the relative safety of Hong Kong, after refusing to conform with the Chinese Government’s censorship demands on Google, and the discovery of a seriously organized “hacking attempt” on Google’s main servers which they believe was orchestrated by Chinese security services.

Another growing potential superpower, India, has raised their interest rates for the third time in an attempt to cool their rapidly heating economy. In the same breath, the Greek Government hit a crisis of confidence in their ability to manage their government debt levels, and even after a pseudo-private sector bailout was orchestrated by the German government, yields on Greek bonds are rising rapidly to compensate for the perceived lack of confidence in their creditworthiness. Bond rating agencies are also warning the Portuguese Government of a possible credit downgrade unless they get their fiscal and monetary house in order. At the same time they told the Irish Government that they approve of that Government’s austerity measures, and feel that the Irish debt load is more manageable now!

The price of iron ore has caused some speculation with the Chinese paying significantly higher prices for their current shipments of ore from Australia, Brazil and South Africa. Another SIML favourite, **Labrador Iron Ore Royalty Income Fund**, is set to benefit from these increased prices, volumes and the recent shift away from long-term, fixed rate contracts. Global metallurgical coal producers are also benefiting from the rapid resurgence in Chinese demand for these basic ingredients for steelmaking.