



## STUART INVESTMENT MANAGEMENT LIMITED

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### VOLUME 20, NUMBER 8

### AUGUST 2010

July was a great month in the markets which all closed up. The TSX gained 3.71%, a reversal from the previous month. The Dow Jones Industrial Average, the S&P 500 and the NASDAQ all reversed themselves from June and advanced 7.08%, 6.88% and 6.90% respectively. The Canadian dollar also strengthened against the US dollar, closing up 3.53%.

#### CANADIAN CHARIVARI

Canada continued its steady growth out of the recession with a surprise addition of 93,000 jobs in the month of June, which was over four times the expected number. As a result, the jobless rate dropped to a surprise 7.9% and Canada has now officially recovered almost all the jobs lost since 2008! The more interesting statistic is that since July 2009, most of the employment gains have been in full-time work at 355,000 jobs or a 26% increase versus part-time.

Unfortunately one of Canada's favourite utilities, **Enbridge**, was hit with a minor version of **BP's** problem, when a small spur oil pipeline in Michigan ruptured in the middle of some swampy ground and spilled several thousand litres of crude oil into the waterways near Battle Creek. This could not have occurred at a more inopportune time for Enbridge or **TransCanada Corp.**, as the latter was attempting to get key approvals for its major new multi-billion dollar Keystone Pipeline it wants to construct to deliver synthetic crude from Alberta's Oilsands to the US Gulf Coast refineries. This leak gave the NIMBY's more than adequate ammunition to use against Enbridge, oil pipelines in general and the Canadian Oilsands, which are the new 'Bogey-Men' of the Sierra Club set.

It was not good news in Windsor, with **General Motors Corp.** finally closing its last remaining

manufacturing plant there, ending a 90 year investment in the city, and putting 500 employees out of work. At one stage, GM employed over 7,000 workers in Windsor. On the heels of this bad news, GM's main competitor, **Ford Motor Co.** announced it would close one shift at its engine plant in Windsor, cutting almost 400 workers effective November 1<sup>st</sup>. Ford is, however, adding another shift at a second engine plant in Windsor, so some of the workers may be rehired there.

Canada's Nobility Review finds her most famous Lord, Conrad Black, partially successful in his appeal of his fraud conviction. He was released from jail on \$2 million bail to his mansion in West Palm Beach after serving 2 ½ years of a 6 ½ year sentence. His 'Obstruction of Justice' conviction was not overturned, but he may be able to renegotiate the sentence to time served if he successfully overturns the fraud charges. And, lastly, Queen Elizabeth is about to add the title "Great-Grandmother" to her numerous honorifics, and that to a half Canadian great-grandchild! Her first great grandchild will be born in December to Peter Phillips, son of Princess Anne, and his wife, Montreal-born Autumn (nee. Kelly).

#### USA FIXED? – NOT!

In early July, both the US House of Representatives and the Senate passed sweeping financial reform bills. As predicted in the last Monthly Commentary, the death of Senator Byrd delayed the Bill in the Senate as the Democrats and the 2,300 page Bill passed the Senate with exactly the minimum 60 votes needed! The resulting compromise Bill limits banks' risky trading and investing activities, imposes tighter regulation on financial firms, and increases the costs for virtually all players in the financial world. Significantly, the Bill ducks the question of how to tackle the crippled mortgage giants, **Fannie Mae** and **Freddie Mac**, and

cynically postpones the solution for them until after November's mid-term elections.

In the first nine months of Fiscal 2010, the Congressional Budget Office recorded a \$1 trillion deficit, which is hard to believe is good news, as it was \$1.1 trillion at the same time in 2009! This included the largest-ever one day jump in the US National debt of \$166 billion in one day, or \$1,500 for every single US

household, or ten times the household's median daily income. This one day jump was bigger than the entire annual deficit in 2007! To add to the deficit, the House voted to extend the deadline to file for jobless benefits through November, which will add \$33.3 billion to the deficit. No the US Economy is NOT fixed!

Following last month's comments, applications for home loans in the US dropped to their lowest level in 13 years after the expiration of the homebuyer tax credit in April. The new NYSE 'Circuit Breakers' got their first test when **Cisco Systems Inc.** popped 10% on very low volume.

**General Electric Co.** pleasantly surprised the market with a 16% quarterly earnings increase as its General Electric Capital finance arm showed signs of stabilization, allowing the company to raise its dividend 20% and resume its share buy-back program. **BP Plc's** shares rebounded 10% after the leaking Macondo well was finally plugged even though it announced that the cleanup costs had already exceeded \$3 billion and its CEO was forced out. By contrast **Goldman Sachs Group Inc.**'s earnings took a tumble after the company announced a settlement with the SEC of \$550 million on charges of defrauding investors on sales of subprime mortgages. The settlement represents only 4% of the \$13.4 billion Goldman earned in 2009! (Compare this to the \$20 billion BP Plc. was forced to deposit with the US Government to fund 'cleanup costs'!)

Warren Buffet announced that he was handing over 10 million shares of Berkshire Hathaway Inc. worth approximately \$37 billion as a charitable donation to the Bill and Melinda Gates Foundation invested alongside Bill Gates' original donation of \$29.1 billion! George Steinbrenner, the volatile and controversial owner of the New York Yankees baseball team died suddenly in Tampa, Florida of a heart attack at 80. His team, now worth billions, won seven World Series Titles and eleven American League Pennants since he bought it for \$10 million in 1973.

## CHINA ASCENDANT!

After growing at 11.1% in the first half of 2010, China officially overtook Japan as the world's second largest economy after three decades of growth averaging 9.5% p.a., that has lifted hundreds of millions out of poverty. The World Bank projects China will overtake the USA by 2025! The Chinese per-capita income of only \$3,800 per year is only a fraction of the US or Japanese figures however. China has also passed the US as the top energy consumer in the world, with a consumption of 2,252 million tones of 'oil equivalent' energy. Only 10 years ago its consumption was half of that of the USA with a population of 5 times the size! China's electricity demand is forecast to increase by 1,000 gigawatts over the next 15 years, mainly from coal powered generators. This projected increase alone is equivalent to the entire US electricity output. China had already passed the USA as the world's largest polluter several years ago. The Agricultural Bank of China's Initial Public Offering in early July was the largest in the world with expected proceeds of \$30 billion. This bank has 24,000 branches and over 320 million customers! Another Chinese bank, the Industrial and Commercial Bank of China, has purchased a small network of six branches in Canada and expects to offer its services here shortly.

India raised its interest rates for the second time in a month in an attempt to curb inflation particularly in its food costs and manufactured goods. It also adopted a new universal symbol for its newly ascendant Rupee similar to the Euro, Yen and Dollar symbols. Pakistan's Central Bank also increased discount rates from 12.5% to 13% for similar reasons. Russia is being forced to sell off stakes in some of its biggest nationalized companies to replenish its public coffers. It will still maintain tight control on them however!

The European Union wants the retirement age for Europeans to move up from the current 60 to 70 by 2060 to support the anticipated level of retirees. Needless to say, the French are resisting this concept fiercely! Portugal and Ireland both had their credit ratings downgraded by Moody's to Aa2 due to their deteriorating financial conditions, while Greece was successful in raising €3.6 billion in an oversubscribed six month debt issue at 4.65%.

Spain, however serious its financial position and unemployment rate is, reveled in a fantastic month for the nation, with the soccer World Cup win in Johannesburg, the Formula 1 Grand Prix win by Fernando Alonso at Hockenheim in Germany, the Wimbledon Mens Final win by Rafael Nadal, and the Tour De France bicycle race win by Alberto Contador.

Finally, a Swiss designed solar-powered aircraft completed the first ever successful 24 hour test flight, proving the aircraft could collect enough solar energy to keep it aloft all night, setting the stage for a round-the-world attempt in the future. An auction in the UK raised a surprising £15,200 for a set of Sir Winston Churchill's dentures. Apparently, the British Wartime Leader suffered from terrible teeth and had gum problems and required these dentures. They were also designed to correct his natural lisp. His most famous speeches may not have had the impact they did, if delivered with a lisp!