



STUART INVESTMENT MANAGEMENT LIMITED

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September was a great month in the markets after people returned from their summer activities. The TSX advanced 3.82%, the Dow Jones Industrial Average and the S&P 500 gained 7.72% and 8.76% respectively and the NASDAQ closed up a spectacular 12.41%! The Canadian dollar rounded out the rally by closing 3.64% higher against the US dollar at US\$0.9718 versus US\$0.9376 at the end of August 2010.

CANADA GLIDES INTO FALL

The record prices for three of Canada's biggest export commodities - gold, silver and wheat, set the tone for a good month in Canada. Gold climbed to an all-time (non-inflation adjusted) high of US\$1,353.82 per oz, silver reached \$21.41 per oz and wheat reached a two-year high of US\$839.87 per 100 bushels, mainly as a result of a drought in Russia brought on by the heat wave mentioned in previous Market Commentaries. This has caused world food prices to rise, with meat prices in particular at 20-year highs. Canada's currency strengthened as a result of the perceived strength of its commodities and the recent resurgence in oil prices, and while world currency trading increased 20% year-over-year, the Canadian and Australian dollars have become increasingly popular as places to shelter excess cash.

Because of the lagged effect of the commodity price rises, Canada's trade deficit hit an all-time high of \$2.7 billion in August due to the rapid 2.2% drop off in exports to the suffering USA. Canada's budget deficit for July, however, shrank to \$500 million giving a four month current fiscal year deficit of \$7.7 billion, down significantly from \$18.3 billion over the same period in

2009. This was due to increased economic growth and hence increased tax revenues and lower program spending since the expiration of the 2008-2009 support package for the auto industry. Of the current deficit number of \$7.7 billion, approximately \$5 billion is directly related to the Federal stimulus spending and the "Economic Action Plan".

Canada's banks emerged from the meltdown in relatively good shape, but **Moody's** estimated the downturn cost the banks \$21.5 billion in write-offs and lost profits. The **Canadian Imperial Bank of Commerce** took the largest hit at \$10.5 billion and the **Toronto Dominion Bank** took the smallest hit at \$727 million! The Office of the Superintendent of Financial Institutions removed the two year freeze on the Canadian banks' capital and they are now free to pursue acquisitions, and possibly increase dividends and share buybacks which they had been prohibited from doing during the freeze.

BCE Inc., one of SIML's current picks, has acquired 100% control of the giant **CTV** broadcast network from the Woodbridge Company, **Torstar Corp.** and the Ontario Teachers' Pension Plan for \$1.3 billion. Another SIML pick, **Vale S.A.**, owner of Canada's **Inco** nickel giant, has successfully sold a total of \$1.75 billion in debt in New York at 6.875% for up to 20 years.

Enbridge Inc., seems determined to continue its stream of bad luck with a third pipeline leak in the US in 3 months, but claimed this shut-down was precautionary and the leak had been cleaned up 'with an absorbent pad'!

USA SLINKS TO MIDTERMS

While the US equity markets had their best September since 1939 when the Dow Jones Industrial Average produced a 13.5% return, the US economy appears to be teetering on the brink of a pull-back from its rather anemic recovery so far and, according to the World Economic Forum's competitiveness survey, the US has been overtaken by Switzerland, Sweden and Singapore (can Swaziland be far behind?!). The US National Bureau of Economic Research officially declared the "Great Recession" over in June of 2009, and this officially ruled out the possibility of a "double-dip" recession, as it would then have to be declared a brand new recession! According to the NBER, it was the longest recession since WWII at 18 months!

While this tenuous good news was being trumpeted, it was announced that business inventories posted their largest rise in 2 years, in an encouraging sign that possibly consumer demand is starting to return in the face of continuing job uncertainty and the prospect of further layoffs in state and local workers in the US. It is hoped that sales will continue rising to work off these business inventories. The Senate finally passed a long-stalled \$30 billion lending bill to assist small businesses and encourage expansion and new hiring. The US Treasury announced a sale of \$2.2 billion in **Citigroup** bailout trust preferred securities ("Trups") which were issued to the Treasury as compensation for guaranteeing Citicorp's assets in the height of the financial crisis and all proceeds would be net 'profits' to the Government and it's long suffering taxpayers. At the same time the US poverty rate has hit a 15-year high with 43.6 million or 14.3% of Americans officially labeled as "poor" which is approximately 1.3 times the entire population of Canada!

FROM THE ANTIPODES HOME

New Zealand suffered major damage in its second largest city of Christchurch after a 7.0 Richter scale earthquake on the South Island. But no major casualties were reported. Australia finally resolved its 17-day political deadlock after a snap election left the balance of power with two independent parliamentarians, and new Prime Minister Julia Gillard's Labour Government was able to cobble together a coalition government. Her predecessor Kevin Rudd was dumped by his own party in disgust over his unilateral imposition of an aggressive tax on the mining industry which is one of the country's largest employers. Ms. Gillard will be left to deal with the fallout and watering down of that tax and the soaring Australian Dollar as outlined above. North Korea appears to be transferring power from one crackpot dictator to another with Kim Jong-il appointing his

youngest son Kim Jong-un (26) a four star general and confirmed him as his heir in a recent shuffle of top leaders!

Japan has been struggling with its own sluggish economy which is also being hurt by a soaring Yen in spite of government intervention vainly trying to slow down its rise, as its government announces yet another \$10.9 billion stimulus package. China reported a surprise surge in imports which rose 35.2% from a year ago, but its trade surplus in August was its third consecutive monthly surplus in excess of US\$20 billion, giving China \$2.45 trillion in foreign exchange reserves, 65% of which are in US Dollars and 26% in Euros.

India is hosting the Commonwealth Games in New Delhi amidst reports of incomplete filthy buildings, a collapsed footbridge and a possible outbreak of dengue fever. Security was particularly tight as there were threats from Muslim extremists over the disputed ownership of a religious site in Ayodha. Greece was reported to be seeking more international aid as it deals with its austerity budget and the fallout therefrom, and Ireland managed to successfully sell \$2 billion in Eurobonds, but had to pay higher-than-expected interest rates to achieve it. Spain had its first general strike in a decade as workers were protesting the government spending cuts and weakened job security to try to cut Europe's highest unemployment rate! Spain also had a black eye, when its three-time Tour de France winner, Alberto Contador was suspended for failing a doping test! Spain's other favourite son, Rafael Nadal, however, sealed his place amongst the tennis greats by winning the US Open and completing his set of Grand Slam Titles. Paris was placed on full alert after several bomb threats emptied the Eiffel Tower and railway stations.

Cuba announced mass layoffs of over 500,000 state workers in an attempt to get the private sector working in this Stalinist country which has seen no development in over 60 years, where over 85% of workers work for the state in one form or other. Finally, another SIML favourite **Petrobras**, Brazil's national oil company completed the largest public offering in the world, raising US\$67 billion in a secondary offering of its shares to fund the development of several new large offshore oil fields in the Atlantic Ocean.

Last month we mentioned a massive rescue effort was underway to rescue 33 Chilean miners who have been trapped 2,300 feet underground for over 2 months after a rockfall. At the time of writing, the first 20 miners have been laboriously extracted individually by a crane up a 22-inch wide borehole from the surface. By the time this

reaches you, we would hope that they have all been returned safely to their families.

THE ANNUAL DISCLOSURE

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