



STUART INVESTMENT MANAGEMENT LIMITED

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October continued the rally which started in September, with the DJIA logging its best October since 2006, rising 3.06%. The TSX advanced 2.49%, the S&P 500 gained 3.68% and the NASDAQ closed up a strong, 5.86%! The Canadian dollar increased 0.86% against the US dollar, closing at US\$0.9802 versus US\$0.9718 at the end of September.

CANADA'S THANKSGIVING

The rally in Canada's export commodity prices reported last month has continued, and at the time of writing, gold is at an all-time record high of US\$1,401.80 per ounce, silver is at US\$ 27.38765 per ounce and copper is at \$3.9587 per lb.

In spite of increased export revenues from commodities, Canada's budget deficit increased to \$5.8 billion, up from the previous year's figure of \$5.3 billion in August, giving a five month, year-to-date deficit of \$13.5 billion, of which over \$7 billion can be attributed to stimulus related spending. At the same time the Canadian inflation rate rose to 1.9% which is still below the 2% target rate, but the underlying core inflation rate slowed to 1.5%. This should preclude any increases in the bank rate in the near future.

Canadian consumer confidence rose in October for the first time in five months due to increasing optimism about current personal finances, and foreign purchasers doubled Canadian bond purchases from \$5.51 billion in July to \$11.09 billion in August. As a result, yields on Canadian corporate debt have hit the lowest level since 1992, as investors search for high yields after record low yields were being earned on government bonds.

Canada Pension Plan Investment Board continued its real estate buying spree, buying two historic buildings in Washington D.C with a combined value of US\$565 million, after buying two Manhattan office towers earlier

in the year for US\$663 million. It also increased its stake in the 407 Toll Road by buying an additional 10% of the Toll Road for \$894 million from **Ferrovial**, a Spanish construction company. At the same time, **Whistler Blackcomb Holdings Inc.**, the host resort for the 2010 Winter Olympics, announced it is going public by way of an IPO.

Finally, on October 1st, Canada installed its 28th Governor General, David Johnston - a career academic with a long record of public service. Canada's largest city, Toronto, swung firmly to the right by electing Rob Ford as its new Mayor in the largest ever direct electoral mandate in Canada's history, reflecting taxpayer anger at the apparent uncontrolled spending in City Hall backed by tax increases which outpace the rate of inflation in the face of continually declining municipal service levels.

USA SHIFTS TO THE RIGHT

The anger of the US taxpayers with the Democrats became palpable with the US Mid-Term elections which saw the Democrats trounced soundly. The Republicans returned to control the House and fell only one vote short of controlling the US Senate as well. The markets rallied on the news on the assumption that, between now and the yearend, the Lame Duck Congress will extend the Bush Tax Cuts which are otherwise due to expire on December 31st, 2010. The US economic expansion is still fragile enough that the jump in taxes which the failure to extend these cuts would impose, could send the US economy spinning back into a "Double-Dip Recession".

The third quarter of 2010 showed weak economic growth at 2% annualized, too weak to make any dent in the almost 10% unemployment rate in the US. Economists are expecting only slightly better growth at 2.5% in the fourth quarter, and projecting overall growth of only 2.8% for 2011. The average growth rate during

US economic expansions over the past 30 years has been 3.6%. The US Government posted its second straight annual budget deficit in excess of \$1 trillion with a deficit of \$1.294 trillion for the fiscal year ended September 30th versus \$1.416 trillion in Fiscal 2009, as lingering unemployment has constrained tax revenues. The national debt now exceeds \$13 trillion, greater than the size of the economy. In an attempt to constrain the 2011 deficit, there will be no Social Security benefit increases in 2011 for the second year in a row, which affects the incomes of 58 million retirees and disabled Americans.

Last month we reported that the US Treasury made net 'profits' of \$2.2 billion on the sale of **Citigroup** bailout trust preferred securities ("TruPS"), and they are now claiming a 36% return on buying toxic mortgages from the banks in the past year! The government has received \$215 million in interest, dividends and other payments as well as \$1.5 billion in unrealized gains. In addition, it claims to have earned \$25.2 billion or an 8.2% return on its investment of \$309 billion in the Troubled Asset Relief Program ("TARP") over the past two years. The US Trade Gap widened again on a 6.1% increase in Chinese imports, versus essentially unchanged exports to China. With the new 'Tea Partiers' in the House this will, no doubt, give rise to new calls for trade protectionism in the New Year.

A US Securities Exchange Commission report has reported that the May 6th, 2010 "Flash Crash" was caused by one large fundamental trader selling 75,000 shares worth \$4.1 billion very rapidly using an algorithmic trading program to offset the risks of existing share holdings. The **Ford Motor Company** reported a sharp rise in earnings to \$1.7 billion for the third quarter, its sixth straight quarterly profit. The profit jump was attributed to the introduction of successful new car lines and aggressive cost-cutting. **General Electric Co.** meanwhile has announced that they will order "tens of thousands" of electric cars within weeks, the largest order of its kind in history. Chairman Jeffrey Immelt did not specify which brands they would purchase, but did say that "half of GE's sales force will eventually drive electric vehicles"! J.D. Power Associates estimates that just 7.3% of passenger vehicles sold globally over the next decade will be hybrids or plug-in electric vehicles.

Supreme Court Justice Elena Kagan finally took her seat on the Bench, bringing the number of women to three on the highest court in the land, all of whom are likely to serve for decades, barring ill-health or other unforeseen circumstances.

ET AL!

Five new member countries Germany, India, South Africa, Columbia and Portugal were voted onto the United Nations Security Council for a two-year term. Canada lost out in the vote to Portugal! China, Britain, France, Russia and the USA are the five permanent members of the 15 member Council. Globally, the Group of 20 countries met to attempt to strengthen undervalued currencies and to prevent 'competitive devaluations' and trade protectionism between trading partners globally.

Australia would probably like a competitive devaluation, as its currency finally broke through par with the US Dollar for the first time since it became freely traded in 1983. The Australian economy appears to have recovered rapidly from the 2008 shock and its Central bank has been fairly aggressive in raising interest rates to tamp down potential inflation. The Australian state of Queensland has returned over 185,325 acres of the Mungkan Kadju National Park in the far northeast Cape York Peninsula to the aboriginal people. At the opposite end of the interest rate scale, the Japanese Central Bank has reverted to virtually zero interest rates in an attempt to breathe some life into a stagnant economy and prevent deflation.

China raised interest rates by 0.255 for the first time since the 2008 crisis to 5.56% for a one year loan. Shares in **Coal India**, the world's largest coal miner were sold in a record \$3.5 billion IPO, lowering the government's ownership by about 10%, as part of its efforts to sell stakes in about 60 state controlled companies. India's **Tata Group** made the largest donation in history to the Harvard Business School with a \$50 million donation to Executive Education programmes. Russia appears to have received the imprimatur of the US government to join the World Trade Organization 'within twelve months', a spokesman for President Obama has said.

A toxic red sludge from a burst dam at a Hungarian Alumina plant has reached the Danube River in spite of extensive efforts to contain the caustic liquid. Swiss engineers have completed the world's longest rail tunnel at 57 km (35 miles) under the St. Gotthard Pass. It has taken 14 years to build and will not open before 2016. Trains will be able to travel through the \$10.3 billion tunnel at speeds of up to 250 km/h! Germany celebrated 20 years as a reunified nation on October 3rd, as it enjoys one of the better economic recoveries in Europe, and also made its final payment on debt stemming from the First World War reparations almost 92 years ago! The **Warsaw Stock Exchange** went public in a \$415 million IPO, the first stock exchange in emerging Europe to do

so. Europe's healthiest economy Norway, announced its state pension fund had grown to over half a trillion dollars since its inception in 1996, fuelled by North Sea oil revenues, allowing it to spend up to \$103,000 in pension costs for every Norwegian! At the same time the other erstwhile North Sea oil giant, the United Kingdom, has slashed government spending, raised the retirement age, and reduced the tax relief available for pension contributions to try to balance its budget. The Queen has even scrapped the annual Christmas Party for her 600 staff as a £50,000 austerity measure!