



## STUART INVESTMENT MANAGEMENT LIMITED

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### **VOLUME 20, NUMBER 12 DECEMBER 2010**

November was a mixed month after the positive runs in September and October. The DJIA lagged a bit with a small drop of 1.01%, as did the S&P 500 and the NASDAQ with small retreats of 0.23% and 0.37% respectively. The TSX however, continued its advance with another 2.18% gain! The Canadian dollar briefly rallied through par against the US dollar, but closed the month down slightly at US\$0.9741 versus US\$0.9802 at the end of October.

#### **CANADA'S PROGRESS**

Canada's economic recovery slowed to 1% in the third quarter after growing at 2.3% in the second quarter, even though business spending surged 4.6% in the quarter, most of it for productivity improving machinery and equipment. While an 8.7% year over year increase in machinery and equipment purchases is good for future productivity, it alone could not drag the rest of the economy along. Canadian mortgage debt topped \$1 trillion dollars for the first time this year with 5.65 million mortgage holders. Higher prices forced many to borrow heavily and low interest rates encouraged others to refinance their debts. In spite of residential mortgages expanding 194% over 15 years, Canadians are handling their mortgage debt well and are able to pay more in lump-sum pre-payments. Unfortunately Canadian commercial property taxes are apparently the world's most expensive at a "massive 53% of total income" according to tax advisory firm Taxand.

The Canada Pension Plan Investment Board reported a 6.6% investment gain in their portfolio as

global markets surged and the US market in particular, posted its best results in 70 years. The value of Canada Pension's assets currently stands at \$138.6 billion. Thankfully, the Canadian Senate finally killed the crackpot motion to cut 'greenhouse gases' by 25% from 1990, as it was based on totally questionable science, and had incalculable costs to all Canadians.

The major controversial news was the Canadian government blocking the Australian mining giant **BHP Billiton's** hostile takeover bid for **Potash Corporation**, briefly Canada's largest company, as it was "not presenting a likely net benefit to Canada"! At the same time the other controversial buyer of Canadian assets and purchaser of **Inco**, Brazil's **Vale SA**, announced they will pump over \$10 billion in investments into their Canadian assets! Canadian miner, **Inmet Mining Corp.**, announced they would spend \$552 million to acquire 100% control of the Spanish **Cobre Las Cruces** copper mine, and another SIML favourite **Teck Resources** announced a 50% dividend increase after having to cut its dividend during the 2008 downturn.

Finally, the Montreal Alouettes won their second straight Grey Cup title, beating the Saskatchewan Roughriders 21-18.

#### **USA SHUFFLES ALONG**

As we surmised in last month's Market Comment, the Lame Duck Congress is limping towards extending the Bush Tax Cuts which are otherwise due to expire on December 31<sup>st</sup>. At the time of

writing both Congress and the Senate are horse-trading on a final compromise solution which may include extending unemployment benefits for two million Americans.

year maturity range. There are 31 states in the US that have to start paying an estimated \$1.4 billion in annual interest payments to the federal government to cover \$41 billion borrowed to pay unemployment benefits to state residents. Most states are already facing hefty budget deficits without these additional payments. The good news was that the initial unemployment claims filed in November were the lowest since July 2008, but were still at a level of 407,000, down from 441,000 the previous week. There were two more high-profile departures from President Obama's economic team when Assistant Secretary Michael Barr and National Economic Committee Deputy Director Diana Farrell resigned to return to the private sector.

**General Motors Co.** reported a strong \$1.9 billion profit for the second quarter of 2010 aided by profits from newly introduced models and from most overseas markets except Europe. On the heels of these numbers, General Motors launched the world's largest IPO with a \$23.1 billion offering at \$33 per share. A large portion of the proceeds was used to repay some of the \$50 billion in bailout funds provided to GM by the US and Canadian governments in 2008-2009. A cold US Thanksgiving weekend apparently helped boost 'Black Friday' sales of physical and online retailers by 6.4%, boding well for their yearend results on January 31<sup>st</sup>, 2011.

Harvard University managed to borrow \$1.04 billion in taxable and tax-exempt bonds for up to a 30 year term to pay for capital projects! The debt issue is supported by the "huge philanthropic flow of revenues that comes every year from supporters and donors"!

The venerable **MGM Studio** filed for bankruptcy yet again under the weight of \$4 billion in debt and a series of dud films which disappointed at the box office. Finally the San Francisco Giants won their first eponymous 'World Series' in a 4-1 victory over the Texas Rangers, and the legendary baseball manager George 'Sparky' Anderson, winner of

In a move that sniffs of desperation, the Federal Reserve Bank launched Quantitative Easing II ("QEII") with a \$600 billion program to purchase more government bonds, primarily in the 2 ½ to 10

three 'World Series' titles, died in Thousand Oaks, California at 76.

### **THE WORLD AT LARGE!**

While western economies are frantically trying to stimulate their economies with low interest rates, the Asian and Australian economies are not haunted by the debt levels of their western counterparts and are more focused on preventing inflation. India and Australia have already made several interest rate hikes and China, Taiwan, South Korea and Malaysia in the east and Brazil in South America have all started to increase borrowing costs. Japan went the opposite direction with yet another \$61 billion stimulus package after Japanese consumer prices fell for the 20<sup>th</sup> consecutive month in October. China raised its bank reserve requirements again by a half percent to control the flow of new money, curb inflation and head off a possible real estate bubble. Simultaneously, the country was elevated to the number three voting position in the International Monetary Fund after the United States and Japan. (Can India stay far behind for long?) Forbes magazine rated China's leader as the most powerful man in the world. A local Chinese rating agency has downgraded its rating on the United States to A-plus from double-A!

India continued to grow at 8.9% p.a. in the third quarter but prices are rising 9.7% hence their focus on containing inflation. Russia's Prime Minister Putin reported that "there are no uncoordinated issues left" to prevent them from joining the World Trade Organization in 2011. Israel's ex-Prime Minister Ariel Sharon was taken home to the family ranch in the Negev desert after five years in a secure hospital ward. He is still in a coma which resulted in his relinquishing of Israel's top job.

The Eurozone's unemployment rate hit a 12-year high at 10.1% with an unbelievable 23.2 million people unemployed in the 27 state European Union, while inflation, not surprisingly, remained unchanged at 1.9%, which was still below the 2% target zone deemed optimal! The European

Parliament approved EU-wide regulation for hedge funds to make them more transparent and reduce investor risk, but lack the details of exactly how the rules will work. Austria has threatened to block the next installment of funds to Greece unless the Greek government gets back on track with its deficit cutting plan agreed to six months ago.

Finally, we would like to take this opportunity to wish all of you a Happy Holiday Season and a very Prosperous New Year!