



STUART INVESTMENT MANAGEMENT LIMITED

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VOLUME 21, NUMBER 1 JANUARY 2011

A portfolio consisting of stocks, bonds, commodities and cash needs timely asset allocation as a key driver of good performance. We are writing you to provide Stuart Investment Management Limited's overview for 2011 and how we propose investing your money and seeking attractive returns without incurring heightened risk and/or volatility. Here are some of our predictions for 2011 and how we will structure your portfolios accordingly:

- a) Europe will continue to be very volatile with the Euro currency trading down from 1.38 towards 1.20.
- b) The U.S. Congress will fight like cats and dogs up to March 4th when the debt ceiling will be voted higher.
- c) World Gross Domestic Product growth will be around 5% with North America surprising on the upside (north of 4%).
- d) Commodities are going to continue to rise! Oil, food, base metals, and coal will all rally higher.
- e) Mother Nature is going to be brutal, causing poor food crops, bitterly cold weather in the Northern Hemisphere, flooding in the temperate zones, and other active geological events.

In absolute return-oriented portfolios, where opportunities now are much skewed toward stocks over bonds, we are allocating 50% to large cap Canadian equities. The other 50% will be allocated to the U.S. and Japan to capture diversified returns in equity sectors that are not available in Canada. These include world class manufacturers, tech, bio-pharma and transportation. At present, large cap,

high quality Canadian and U.S. companies are the best value available globally. Further, Japan deserves an allocation as its equities are trading very cheaply on an asset basis. Their companies are world class leaders, oriented towards tech and manufacturing. Japan is the least correlated equity market with Canada which is very important for our Canadian clients' returns. We will hedge the Yen which we believe will fall relative to the dollar.

Our allocations are as follows:

Canadian large cap equities	50%
U.S. large cap equities	30%
Japan equity	10%
Cash	0-10%
	100%

Stuart Investment Management is very excited by the challenges 2011 presents. We believe we are properly prepared and staffed to capture the very volatile returns that we believe will be episodically available. We look forward to talking and seeing you all in the New Year to discuss and update directions concerning your investment portfolios.

SUMMING IT UP

December 2010 ended the year with a bang with the DJIA rising 5.19%, the S&P 500 gaining 6.53%, the NASDAQ closing up 6.19% and the Value Line Index advancing a whopping 7.38%! The TSX was the relative laggard, increasing ONLY 3.79%! (We will take that consistently for any month!) The Canadian dollar also increased 3.22% against the US dollar, closing the year above par at US\$0.9946 versus US\$1.0266 at the end of November.

The year 2010 was a rebound year after the disastrous markets of July 2008 through April 2009. The markets all closed up, with the TSX closing up 14.45% year-over-year, the DJIA up 11.02%, the S&P 500 up 12.78% and the NASDAQ and Value Line Index up 16.91% and 20.47% respectively. The Canadian dollar also rose through the year from a level of \$1.051 to the US dollar and rallied above par briefly in April settling back below par for the balance of the year before staging a strong rally in the fourth quarter and closing above par at yearend at US\$0.9946 for a 5.67% gain for the year.

CANADA ROUNDUP

The Canadian dollar hit a 2 ½ year high in the last trading session of 2010 at C\$0.9925 to the US dollar in very thin trading, a level last seen in May 2008. So far this trend has continued into January 2011. Gold also bounced back to within \$10 of its all-time high at \$1,418.85/oz and silver surged 83% on the year to peak of \$30.92 per ounce. This, combined with the jump in oil prices, helped the rally in the Canadian dollar, and helped shrink the Canadian trade deficit to \$1.71 billion in October, down from \$2.31 billion the previous month. Foreign investors continue to look favourably on Canadian securities, purchasing a further \$9.51 billion in the month of October. A PriceWaterhouseCoopers study estimated the Vancouver Winter Olympics provided an economic boost of about \$2 to \$2.5 billion to the Vancouver area.

The **Toronto-Dominion Bank** agreed to buy Chrysler Financial, the vehicle financing arm of **Chrysler Corp.** for \$6.3 billion, which included \$5.9 billion of current vehicle loans. This deal will purportedly add \$100 million to TD's earnings in 2012, giving an effective payback of less than one year! The **Bank of Montreal** also took advantage of the US financial turmoil acquiring Wisconsin lender, **Marshall & Ilsley Corp.** for \$4.1 billion in shares which will double the BMO's Chicago-based Harris Bank. SIML believes that this is a transformative deal for BMO and we recently acquired shares at an attractive price and yield for most of our clients. Another SIML favourite **BCE Inc.** boosted its annual dividend again by 7.7%, its third increase since January 2008. On December 21st, 2010 Canada had its first full lunar eclipse on

the Winter Solstice in 456 years! The next such event will be long after we are all gone. Finally on a sad note, the Canadian Senate urged the government to remove the 22 billion Canadian pennies from circulation, as it costs 1.5 cents to produce a one cent coin which ends up under peoples' couches or in drawers!

USA –THE RECOVERING GIANT

In a cliffhanger, the “Lame Duck” Congress managed to rally enough support to pass the extension of the Bush Tax Cuts which was partially responsible for the last minute rally in the US markets. The new US jobless claims dropped below 400,000 per month for the first time since July 2008, as U.S. consumer spending and capital investment increased for the fifth straight month, and third quarter growth was revised upward to 2.6% from 2.5%. Consumer spending was negatively affected in the last week of the important Christmas shopping season as the US Northeast was slammed by some of the worst winter weather in decades. Thanksgiving's “Cyber Monday” shoppers pushed total online shopping to over \$1 billion per day for the first time, with **PayPal Corp.** recording their biggest day ever.

The negative for the year was that the US trade gap grew to \$127.2 billion, a 3.3 % increase in the third quarter, and Federal Government liabilities rose over \$2 trillion in the fiscal year 2010, while the battered states face a collective budget gap of \$41 billion at the start of fiscal 2012. The year was also the worst for US bank failures since 1992 with 157 bank failures, and another 860 listed as “problem banks”. The FDIC however sees the bank failure rate abating, and claims sufficient reserves to preserve depositors' funds through 2014. The US Government received a repayment of \$2.1 billion from **General Motors Co.** for preferred shares it bought to bail out GM in 2008 and still owns about 500 million shares of GM worth approximately \$17 billion at current market prices. **General Electric Co.** raised its quarterly dividend by 17% after slashing it 68% in 2008, and SIML took the opportunity of the stock's rally to sell our positions in this company and redeploy the funds elsewhere.

On a much more expensive note than Canada's problem with its pennies, the US Treasury has had to stockpile \$110 billion in new US\$100 bills, or one tenth of all US currency in circulation, due to a printing error which would necessitate destroying a significant portion of the new 'high-security' notes. They will be officially burning new money!!