



STUART INVESTMENT MANAGEMENT LIMITED

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February saw the bulls still running, but beware the Ides of March! The DJIA advanced another 2.81%, the S&P 500 gained 3.19% and the NASDAQ rose 3.04%! The TSX beat the US markets this month with a solid 4.31% gain. The Canadian dollar popped back over par against the US dollar, to its highest level in three years, closing at US\$1.0294 versus US\$0.9985 at January 31st, 2011.

CANADIAN WINTER

Canada's economic growth rate accelerated more than forecast at a 3.3% annualized rate in the Fourth Quarter, based on higher consumer spending and the biggest jump in exports since 2004. Canada's current account deficit narrowed to \$11 billion from a record \$17 billion shortfall. The trade balance swung to a surplus of \$523 million as exports rose and imports fell in the Fourth Quarter, from a record Third Quarter deficit of \$6.42 billion. The Bank of Canada held its interest rates constant in the First Quarter of 2011 but a rate hike to 1.25% is widely expected at its May 31st rate setting. The Central Bank is seeing warning signs that inflation is returning, as commodity and food prices rise, and oil prices jump in response to the instability in the Middle East and North Africa. This results in a delicate balancing act, as a rise in Canadian rates versus US rates will further strengthen the Canadian Dollar making our manufactured goods more expensive in global markets and hurting our exports once again.

The Vanier Institute of the Family reports that the average Canadian families' aggregate debt, including mortgage debt, is now over \$100,000 per family for the first time, and is on average 150% of the average after tax family income, while their savings rate was only 4.2% of income or \$2,500 per year in 2010. Thus, any rise in Canadian interest rates will hurt all families, even though Canada has already recovered all of the job losses from the 2008 – 2009 meltdown.

Canadian banks are not expected to be adversely affected by the new Basel III rules for global banking standards which will be phased in starting in 2013. With copper, gold, zinc and certain agricultural commodities hitting new highs, and oil above \$100 per barrel again, SIML company favourites such as **Suncor Energy Inc.** and **Canadian National Railway** are boosting investment in Canada and **Rio Tinto Group**, the world's third-largest mining company, approved a \$277 million expansion at its **Iron Ore Co. of Canada** facilities on Quebec's North Shore. Regulators approved **TransCanada Corp.**'s plan to build a pipeline from northeastern B.C. to the south. For the 11th consecutive year, the company also increased its dividend by 5% to 42 cents after posting strong Fourth Quarter earnings. Another SIML favourite, **Agrium Inc.**, North America's third largest fertilizer producer, posted strong earnings growth to \$1.00 per share from \$0.19 a year earlier. The stock has gained 48% in the past 12 months. **PetroChina**, the state-controlled energy firm, made another \$5.4 billion investment in Canada when it bought a 50% stake in a shale gas project from **Encana Corporation**. We took the opportunity of the market euphoria over this Chinese deal to exit our positions in **Encana** as we are not as enthusiastic about shale gas as the Chinese!

The major excitement of the month was the agreement of the **TMX Group**, owners of the Toronto and Montreal Stock Exchanges, to a 'merger of equals' with the **London Stock Exchange** which would result in 6,700 companies with a market capitalization of \$5.8 trillion being listed on the combined exchanges. While the deal would be great for Canadian natural resource listed companies, we feel that this deal has many political undertones and its chance of succeeding is still subject to question.

AMERICAN WINTER

Almost simultaneously with the **TMX/LSE** announcement above, the **New York Stock Exchange** announced a merger agreement with the **Deutsche Bourse** in an attempt to consolidate two of the world's largest stock exchanges, gain cost efficiencies and diversify their income streams. This proposed deal is even more fraught with political undertones and its successful conclusion is even less likely than the TMX/LSE deal.

The US Federal Reserve Bank has boosted its view of the US GDP growth from 3.4% to 3.9% for 2011 and now questions whether it should scale back its \$600 billion bond purchase plan as part of its Quantitative Easing II program. The Treasury Department claimed that it was within \$2 billion of turning a 'profit' on the original \$245 billion in Troubled Asset Relief Program bank loans. It estimates that with interest it will make a total profit of close to \$20 billion on these bank loans. Including loans to the auto industry and **AIG**, the taxpayers have laid out a total of \$410 billion, not all of which is expected to be recovered, with an estimated final cost of the program of \$28 billion!

US manufacturing activity expanded in January at its fastest pace in seven years, but this caused producer prices to rise, hinting at future inflation pressures, as consumer confidence rose to 70.4 in February and first time jobless claims fell to 391,000. As a result of increasing food and fuel prices, consumer spending rose less than forecast in January and new housing starts rebounded 14.56% to a seasonally adjusted 596,000 - still down from the 'healthy replacement rate' of 1 million units. In spite of this, home prices dropped 4.1% to 2009 lows and may still fall 15% to 25% more according to Case-Shiller, with 18 of the 20 largest US cities recording losses. While the US House of Representatives was attempting passage of a \$61 billion Budget cutting plan, the government announced it would spend \$53 billion on high speed rail networks over the next 6 years!

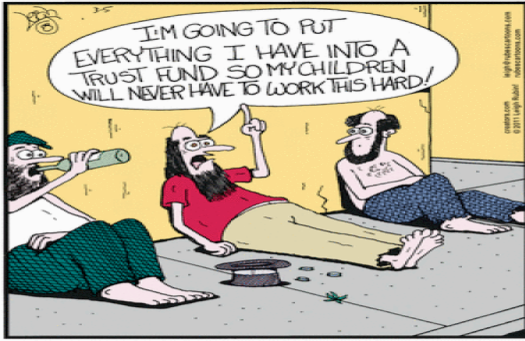
A SIML favourite, **Progress Energy** has agreed to be bought by **Duke Energy** in a \$13.7 billion deal, as it unveiled steady Fourth Quarter earnings that beat Wall Street expectations and solid increases in customer acquisitions in US southern states. Jamie Dimon, the CEO of **JP Morgan Chase** was awarded a \$17 million payday after that bank's earnings jumped 48% to \$17.4 billion. **Google Inc.** announced that it would add 6,000 employees this year to its existing 24,400 workers and received over 75,000 resumes worldwide! The oldest of the three US space shuttles Discovery, completed its 39th and final trip to the Space Station and will be decommissioned and sent to a museum. The US

government froze \$30 billion of Libyan government assets, the largest amount ever under a US Sanctions program, as the violence against its own people continued in that sorry country. The European Union and the Swiss government also froze Libyan assets and announced sanctions.

A COPYCAT WORLD!

Not to be outdone by the Western World, the Shanghai Stock Exchange announced an agreement to link up with Brazil's BM&F Bovespa Exchange which would allow for cross-listings on both exchanges! Meanwhile China has officially taken over from Japan as the world's second largest economy with a \$5.88 trillion GDP after its blistering growth in manufacturing. Japan's GDP, stuck in stagnation and deflation for 20 years, was \$5.47 trillion; however Japan's GDP per capita was \$40,000 versus China's \$4,500 per capita. China hiked its bank reserve rates for the fifth time since October in an attempt to stamp out inflation which is affecting food prices and other commodities. Robert Zoellick, Head of the World Bank said that food prices have risen to "dangerous levels", and warned that higher prices would complicate fragile political and social conditions in the Middle East and Central Asia. India is also battling to ease an inflation rate of 9.4% and unveiled a budget to narrow its budget deficit to 4.6% of GDP from its current 5.1%, while lowering taxes on lower income people and selling off state-owned assets. The budget also sought to attract foreign investors as they retreated in light of a highly publicized government corruption scandal in the awarding of wireless communication licenses.

An earthquake in New Zealand's third largest city Christchurch, killed several hundred people and leveled several large buildings in the downtown core while shearing over 30 million tons of ice off the Tasman Glacier into Tasman Lake, 200 km west of the city. The Ivory Coast government has defaulted on \$2.3 billion in Eurobonds as a result of a political stalemate after its recent elections. The country is the world's largest producer of cocoa beans which are currently trading at all-time record highs as global shortages loom. The Eurozone finance ministers have agreed to set up a permanent bail-out fund of €500 billion to come to the aid of any other Eurozone countries facing the trials that Greece, Ireland and Portugal have faced so far. In Germany, the largest of the Eurozone partners, unemployment has dropped to its lowest level in 18 years since the fall of the Berlin Wall, supported by booming exports of cars and other high value items.



Even the other megalomaniacs were awestruck at Leonard's legendary delusions.
Cartoon courtesy of Rubes by Leigh Rubin