



STUART INVESTMENT MANAGEMENT LIMITED

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March saw the close of the markets change only marginally from February, but the First Quarter of 2011 was certainly a great quarter. Over the quarter the DJIA rose a total of 6.41%, the S&P 500 gained 5.42% and the NASDAQ advanced 4.83%! The TSX posted a solid 5.01% quarterly gain and the Canadian dollar closed up 2.51% at US\$1.0314 versus US\$1.0054 at December 31st, 2010.

SPRING IN CANADA

The main item in the Canadian news for the month was the fall of the minority Harper Government engineered by the Liberals and the NDP over the Flaherty Budget for 2011 which included a number of spending measures proposed by both of those two parties. The new election will be held in early May and initial polls indicate a Conservative majority government could result provided there are no major gaffes during the election campaign.

The Conservatives are going into an election with the Canadian economy in better shape than the US economy with factory sales leaping 4.5% since yearend, defying a 1% prediction. Factory prices also increased 0.7% in February, led by petroleum, coal and primary metal products. Year-on-year industrial product prices were up 3.4% while raw material costs rose 11%. In addition to the above products, Canadian gold producers benefited from the highest ever gold prices with gold currently at US\$1,475.20 at time of writing, and silver also at a 31 year high of US\$41.06. These record prices were attributed to strong industrial demand and concerns over inflation and political unrest in the Middle East. Canada managed to eke out a smaller than expected trade surplus of \$120 million in January, considerably less than the expected \$2.6 billion forecast. The higher value of the Canadian Dollar discouraged exports and made imports of expensive cars, capital goods etc. much cheaper.

Statistics Canada reported that wealth in Canada continues to rebound from the crash of 2008-2009 with overall household net worth rising 2.2% in Q4 to \$6.2 trillion after a 3% climb in Q3 2010. This works out to \$181,700 per capita with equity holdings increasing \$129 billion in 2010. Unfortunately mortgage and credit card debt also rose at 1.8% to a ratio of 146.8% of personal income and the national net worth rose only 0.3% to \$6.3 trillion. Perhaps it is fitting that the Bank of Canada will introduce new plastic \$100 bank notes in November with a \$50 plastic note to follow in March 2012!

In corporate news, a SIML favourite **BCE Inc.** finally received the CRTC conditional approval for its \$1.3 billion purchase of the **CTV Network**, after a lengthy approval process. The **Ontario Teacher's Pension Plan** hired Morgan Stanley to find a buyer for its 66% stake in **Maple Leaf Sports and Entertainment**, owner of the controlling stake in the Toronto Maple Leafs and the Toronto Raptors sports teams, for an anticipated \$1.3 billion. **Rogers Communications Inc.** would be a logical buyer as the controlling shareholder of the Toronto Blue Jays baseball team, but says it is planning no "imminent change" to its relationship with Maple Leaf Sports. Another SIML favourite **Inmet Mining Corp.** terminated an agreement to a 'merger of equals' with **Lundin Mining Corp.** in the face of a hostile counter-bid from **Equinox Minerals Ltd.** Shortly thereafter, Equinox was itself subject to a hostile \$6.3 billion takeover attempt by the Chinese Government controlled **China Minmetals Inc.**, the prize being Equinox's lucrative copper properties in the Congo. Lundin and Inmet also have copper properties in this belt, so expect further consolidation in the future. Finally **Canadian Natural Resources Ltd.** reported a Fourth Quarter loss of \$416 million (\$0.38 per share) due to large after-tax impairment charges for forex fluctuations and operations in Gabon West Africa. Revenues for

2010 increased to \$1.7 billion from \$1.6 billion with earnings of \$618 million (\$0.57 per share), and the company increased its dividend by 20% to \$0.09/share.

AMERICAN BRINKMANSHIP

Last month we reported on the **New York Stock Exchange's** proposed merger agreement with the **Deutsche Bourse**, among a series of consolidations of stock exchanges around the world. We reported that the Americans would probably find this merger unpalatable and predicted a difficult passage. A takeover of the NYSE now appears more likely as the **NASDAQ OMX** and the **IntercontinentalExchange** have jointly proposed an \$11.3 billion counter-bid for the NYSE. This combination should be more politically palatable to the American investors and their regulators.

The US economy grew at a faster pace than previously thought in Q4 2010 at 3.1% versus the expectation of 2.8% GDP growth. At the same time, as US jobless claims declined below the 400,000 level for the third straight week, inflation rose at the fastest pace in 18 months, driven by food and energy prices. ADP reported that US private sector employers added 201,000 jobs in March after adding 208,000 in February. US Housing starts have yet to turn, showing the largest decline in 27 years to an annual rate of 479,000, well below the normalized replacement level of approximately 1 million homes, and building permits fell to a record low of 517,000 units.

The US Government posted a record \$222.5 billion monthly budget deficit in February with the year's budget projected to reach an unheard of \$1.5 trillion, while Members of Congress appear to be more interested in party posturing than solving the long-term deficit problem. The individual State Deficits were equally daunting which probably partially explained why the Municipal Bond Market in the US was at an 11 year low with only \$32.5 billion issued to date versus \$61.1 billion over the same period last year. The US trade deficit widened 15% to \$46.3 billion as a surge in imports was led by costlier crude oil, and imports were the highest since March 1993. The good news was that US manufacturing increased at the fastest pace since 2004, allowing companies to raise profit forecasts as the global economy expands again. A hiring increase should logically be the next result following from this news. US household wealth also increased \$2.1 trillion in the Fourth Quarter, mainly from investment increases which more than offset the real estate losses, and businesses were holding \$1.9 trillion in liquid assets.

The S&P 500 posted its best First Quarter gain in 13 years, in spite of a pullback on the last day of the quarter. Warren Buffet's **Berkshire Hathaway Inc.** was in the news several times, firstly when the **Goldman Sachs Group Inc.** bought back \$5 billion of its preferred shares which Buffet had purchased at the height of the banking crisis in 2008 to help them out in a crisis of confidence. These preferred shares were costing Goldman \$500 million per year, or \$15 per second, so they offered Buffet a 10% premium, accrued and unpaid dividends, a special one-time dividend of \$1.64 per share and a further 43.5 million warrants to purchase Goldman shares at \$115 per share for 2 years. A very profitable investment for him! Buffet's second exposure was not so healthy when he announced the \$9 billion purchase of **Lubrizol Corp.** and promptly had one of Buffet's 'heirs apparent' forced out of Berkshire Hathaway for apparently 'front running' this purchase for his personal account!

During the month, we decided that our **Dupont** stock had gotten to a point where the running yield on the dividend was not as attractive as other alternatives as it had dropped to about 2.9% from an earlier 5%+ and with the recent jump in petroleum prices, their feedstock would be much more expensive with little opportunity to pass on the price increases to their customers. Virtually all of our clients had nice profits in their positions so we decided to harvest these profits and will probably redeploy the proceeds into **AT & T Inc.** shares which have a solid 5.6% dividend yield and have just announced a deal to acquire **T-Mobile USA** from **Deutsche Telecom** which would result in the third largest mobile phone company in the USA with the latest '4G LTE' technology, if approved by regulators.

Finally, the epitome of the Hollywood star system, Elizabeth Taylor, the British born actress and wife of many famous and infamous men, and friend of the late, weird Michael Jackson, died of congestive heart failure at the age of 79 after an illness of several months.

A DISTURBED WORLD!

You heard it here first! The wacko President of Venezuela, Hugo Chavez has declared that capitalism and imperialism may be to blame for ending life on Mars! He also blamed a large portion of the Middle East's current problems on the West's greed for water and oil resources. We are surprised he did not blame the recent earthquake, tsunami and nuclear accident in Japan on the capitalists as well! World food prices hit record prices for the third consecutive month which may have been a catalyst for some of the unrest in the poorer North African and Middle Eastern countries. Based on higher

commodity prices and demand, the Australian dollar hit a 29 year high against the US Dollar.

The Japanese earthquake and tsunami wiped out \$287 billion in market capitalization from the Tokyo Stock Exchange, but foreigners took the opportunity to buy \$11 billion in cheap Japanese stocks in the week after the quake. The economic damage to the country is estimated to be up to \$200 billion, and up to 20% of Japanese electricity supplies may have been put permanently out of action by the quake.