



STUART INVESTMENT MANAGEMENT LIMITED

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April was a mixed market with the DJIA, the S&P 500 and the NASDAQ all up strongly at 3.98%, 2.85% and 3.32% respectively while the TSX pulled back 1.21%, partially retracing its stellar 5.01% first quarter gain. The Canadian dollar closed up another 2.45% at US\$1.0567 versus US\$1.0314 at March 31st, 2011.

A FRESH START IN CANADA(?)

Early in May, the Canadian election, which was orchestrated by the Liberals and the NDP over the Conservative Budget, proved to be an unmitigated disaster for the Liberals and their recently-departed leader. It was a totally unexpected triumph for the NDP and a solid win for the Conservative Party, which finally allows Stephen Harper to govern with a majority government after seven years of having to compromise in a minority position. Another positive result was the total repudiation of the Bloc Québécois in Quebec, and the loss of all, except four seats, of their previous 44-seat provincial dominance, for a party whose stated goal was the splitting up of the Canadian Confederation. The BQ no longer qualifies as an official political party and hence no longer qualifies for Federal funding to pursue their anti-Canadian goals which will be a relief to the long-suffering Canadian taxpayers who were forced to pay for the BQ over the past 18 years!

Mr. Harper is now expected to implement most of the provisions of the defeated budget which precipitated the election, including the previously scheduled corporate tax cuts and a possible doubling of the allowable annual Tax Free Savings Account contributions. We at SIML feel that every Canadian over the age of 18 should have a TFSA and maximize their contributions to it whenever possible, as it is currently the best tax-sheltering tool

available to Canadian savers, and we can help you achieve your goals for this vehicle.

The new Government inherits a strengthening economy with historically high commodity prices, even though gold, silver, copper, oil and a few other commodities have retreated slightly from their previous highs. Finance Minister Flaherty can be expected to reign in the

Canadian deficit at a slightly faster pace than anticipated and higher corporate taxes from improved profitability will help to narrow the deficit if the current expansion in North America continues apace.

In corporate news, we previously reported on the **Inmet, Lundin Mining, China Minmetals and Equinox Minerals** takeover dance. This was thrown a further curve when **Barrick Gold** stepped into the fray with a \$7.3 billion offer for Equinox causing China Minmetals to drop their bid. The **Ontario Teacher's Pension Plan** posted a very solid 14.3% rate of return on their investments for 2010, adding to its 13% gain in 2009 and helping to erase the awful returns of 2008. It reported net assets of \$107.5 billion at the end of 2010 but is still reporting a \$17.2 billion funding shortfall on its pension obligations due to low real interest rates and member longevity causing retirement periods that exceed working years! Canadian merger and acquisition activity surged in the first quarter with average deal value up 31% so far this year at \$136 million, the largest deal being **Valeant Pharmaceuticals'** \$5.7 billion bid for **Cephalon Inc.** which was subsequently topped by a \$7 billion offer from **Teva Pharmaceutical Industry Ltd.** of Israel. In spite of all this activity the TMX Group, operator of the Toronto and Montreal Stock Exchanges, continued to lose market share to the other five alternate exchanges with a slide from 72% in Q4 to 67.3% in Q1 2011.

In April, SIML sold a number of Canadian bank common shares in its client portfolios and replaced most of these positions with the **BMO Covered Call Canadian Banks ETF** as we believe this instrument gives our clients exposure to all six of the big Canadian banks and limits the downside due to any single, stock-specific risk while providing clients a superior 9.6% dividend yield.

Finally Britain's Prince William, second in line to the throne married the first commoner in 350 years, Kate Middleton, in a "sumptuous show of British pageantry" at Westminster Abbey. The event significantly boosted the Royal Family's ratings in the UK and no doubt gave the tourist industry a much-needed boost. The Canadian Mint unveiled multi-coloured \$20 and \$0.25 collector coins to commemorate the event.

CONTINUED AMERICAN BRINKMANSHIP

In the face of a US\$188 billion budget deficit in March, a 16% higher cumulative deficit to date than last year at US\$829 billion, and a slowing economy, the US Congress agreed to a last minute budget cut of \$38 billion for the year ended Sept 30th, 2011 to allow a stop-gap spending bill to pass. Longer term serious cuts will still have to be made to cut \$6.2 trillion over the next 10 years! This bill has yet to pass the Senate. The US deficit shortfall will reach 10.8% of Gross Domestic Product this year, the highest percentage of all major economies and requires debt funding of 29% of its GDP this year. This resulted in a warning of a possible credit rating cut of its "AA" rating by Standard & Poor's.

The US economic growth slowed in the first quarter due to higher food and gasoline prices causing higher inflation of 2.7% in March. While manufacturing growth continued for the 21st straight month, it did so at a slower pace but consumers felt more confident in April as their concerns about jobs and inflation somewhat eased. US consumer spending rose 0.6% as employment grew solidly in March and the jobless rate declined to 8.8%.

JP Morgan Chase & Co. posted a huge 67% increase in Q1 earnings as it was able to lower loan loss provisions and also received Federal Reserve permission to resume paying a \$0.25 dividend which had been suspended after the 2008 market meltdown. **Ford Motor Co.** also recorded its best Q1 profit in 13 years after emerging from its near-death experience. Those improvements were generally matched by **General Motors Corp.** and **Chrysler Corp.** as the market for vehicles improved and the effects of their debt restructurings took hold. **NYSE Euronext** rejected the sweetened take-over offer from **NASDAQ OMX** and **Intercontinental Exchange**, in spite of NASDAQ reporting record eps. of \$0.61/share.

Finally, President Barack Obama released a purported signed copy of his "Long Form Birth Certificate" issued by the State of Hawaii in 1961, to remove any doubt as to his eligibility to hold office and to support his announced 2012 re-election bid. The US Postal Service was embarrassed by the issue of a stamp with a photo of the replica Statue of Liberty in Las Vegas, rather than the New York Harbour original.

THE WORLD ONGOING!

The World Trade Organization said that global exports jumped 14.5% in 2010, the largest rise in 61 years as economies rebounded from the global downturn, and cross-border trade is expected to grow another 6.5% this year. WTO Chief, Pascal Lamy, warned that rich countries are still experiencing hangovers from the slump and high unemployment which may fuel protectionist measures, hence the chances of any Doha Round Agreements now appear slim. The IMF warned that the world's banks are still in rough shape and "...many banks have too many risky loans and too little capital on their balance sheets...". These banks face a wall of maturing debt with \$3.6 trillion maturing in the next two years and funding will be "scarce" to refinance these requirements. The IMF said "Canada faces some risk because household debt remains high, though the country's government balance sheets are among the best in the industrialized world and the mortgage default rate remains low"! Japan has the highest financing requirements this year for its deficit and maturing debt at 56% of GDP, with Greece, Italy, Belgium, Portugal and France all above 20% of GDP!

As a result of the IMF outlook and the devastation of the earthquake and tsunami, S&P cut Japan's sovereign debt rating as the country initially earmarked \$50 billion for the post quake rebuild, of an estimated \$300 billion required. The top three Japanese banks took a combined \$1.9 billion loss on their stakes in Tokyo Electric Power Company whose two nuclear power plants were crippled in the quake, and leaked radioactive cooling water into the sea. Significantly, the Chernobyl power plant is still leaking radiation 25 years after the world's worst nuclear accident there.

China saw its first quarterly trade deficit in seven years due to increased domestic demand as its economy grew more than the forecast 9.7% and inflation accelerated to 5.4%. India's inflation rate accelerated to 8.9% in March despite eight increases in its key lending rate to 6.75% with more increases expected. The Eurozone raised interest rates by 1.25% to fend off inflation, after holding them at a record low of 1% for over two years.

Finally, Italy's Prime Minister, Silvio Berlusconi, announced he will "complete his plan to amend Italy's judicial system and to change the country's constitution" before leaving at the end of his current term which expires in 2013. No doubt he will change the judicial system to throw out all cases against him now and in the future, leaving him free to concentrate on more 'bunga-bunga parties'!

And, April 15th marked the 99th Anniversary of the sinking of RMS Titanic off the coast of Newfoundland on her maiden voyage with the loss of 1,517 lives. Many of the dead were buried in Halifax, and there will no doubt be a Centennial memorial service held there one year hence.