



STUART INVESTMENT
MANAGEMENT LIMITED

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AUGUST 2011

VOLUME 21, NUMBER 8

Charles Anthony Lacaud Cooper

June 6, 1959 to August 7, 2011

It is with great sadness that we announce the sudden passing of our good friend and colleague Anthony Cooper, SIML's Chief Compliance Officer on August 7, 2011 at an unseemly young age. Anthony was a great person and a very valuable member of the Stuart and Cornerstone team. His wise counsel, international experience and keen sense of humour will be greatly missed. Our sincere condolences go out to his extended family and in particular to his beloved wife Lisa, his fine sons, Andrew and Alexander, and his father Richard.

FLOUNDERING MARKETS

July continued the downward trend started in June which unfortunately carried into August at the time of writing. Once again, the Toronto Stock Exchange was down the most with a 2.67% loss and the Dow Jones Index and the S&P 500 were not far behind with losses of 2.18% and 2.15% respectively. The NASDAQ backed off 0.62%, and the Canadian dollar had a small 0.94% rise versus the American dollar to US\$1.0466 from US\$1.0368 at June 30, 2011.

DEFENSIVE POSITIONS!

Our clients may have noticed that in June and July we became very defensive and sold off a number of our weaker equity positions in both the US and Canadian markets and initially invested the proceeds in a 10 year Government of Canada 3.25% bond at a price of approximately \$101.89. In July we got more defensive and sold the 10 year bond at \$103.23 for an approximate profit of \$1.34 per bond and shortened the term to a 5

year Government of Canada 2% bond at \$99.76 per bond. After the US Congress debt agreement was signed, we felt that the bond market would be strong for the immediate future and resold the 5 year bond at \$100.85 for another small profit of about \$1.09 per bond, giving a total profit of approximately \$2.43 on the two trades. We then redeployed the proceeds and extended the term into a new 10 year Government of Canada bond at \$99.75 per bond. As the market turmoil of last week hit, we felt that we were well situated with a strong position in high quality Government Bonds to ride out the turbulence and preserve our clients' capital. We sold off half of these bonds this week for most of our clients at \$102.18 for an additional profit of \$2.43 per bond, and reinvested the cash in shares of **Crescent Point Energy Corp.** and **Emera Inc.** which have current dividend yields of 6.54% and 4.33% respectively.

The continuing good news of Canadian economic performance resulted in Moody's renewing the Triple-A credit rating of the Government of Canada just as Standard & Poor's downgraded the US Government's credit rating and left it with "negative" implications. This resulted in foreign investors pouring cash into Canadian security markets with over \$15.4 billion invested in May alone, of which \$11.1 billion was debt. **The Toronto-Dominion Bank** took advantage of this appetite to raise a record \$1.75 billion in deposit notes tying the **Royal Bank of Canada** for the largest domestic debt offering on record! The **Bank of Nova Scotia**, the **Bank of Montreal** and the **CIBC** all raised lesser but significant amounts of notes, with the latter even raising money in Australian dollars! Interesting to note this month that the Royal Bank of Canada briefly became a larger capitalization stock than **Bank of America**. Sums it up, I suppose. In the long run we are all dead or Canadian! (Cheap joke I know... but still a good one.) The Royal Bank also launched a new series of eight Exchange Traded Funds ("ETFs") lending further legitimacy to these investments which are already

being offered by industry leaders **Blackrock, iShares Canada** and Bank of Montreal. The CIBC acquired 41% of Kansas City-based American Century Investments, a high net-worth wealth management firm, for \$848 million. China's **China National Offshore Oil Company** bought bankrupt **Opti Canada Inc.** for \$34 million and assumed \$2 billion in debt to bolster its exposure in the oil sands.

Gold flew through all of its previous high price records over the past few months and briefly traded over US\$1,800 per ounce this month on its longest winning streak since 1920. Silver was not exactly tracking its historic ratio, but it was not lagging either. This movement reflects the world's unease with the current sovereign debt crises in Europe and the US, but is good for Canadian miners like **Barrick Gold**, the largest gold producer in the world.

Generally the economic news in Canada was good relative to the USA and Europe. Inflation was relatively tame in June with the Loonie jumping to a 4 year high of US\$1.0624, and Canada churned out 28,400 new jobs and housing starts and new building permits exceeded expectations. The Canadian Purchasing Managers Index and factory sales showed slower growth but the Canadian trade deficit also shrunk in May to \$814 million from \$857 million in April.

AMERICAN DOWNGRADE

The US Senate and Congress finally managed to hammer out a very shaky agreement to expand the US debt ceiling just before triggering a default on its sovereign obligations, leaving the hard decisions to a "super committee" of Republicans and Democrats to come up with at least \$2.3 trillion in deficit cuts over the next few years. Whether this is achievable in the current polarized political situation in the US is questionable! Standard & Poor's responded by cutting the US debt rating to "AA1" from "AAA" amidst all sorts of political pressure and warned of a further possible downgrade if the "super committee" does not come up with a credible plan. There are now only 16 countries, Canada included, whose debt is rated "AAA" by both Moody's and S&P. Incredibly, it was reported that **Apple Inc.**, the ubiquitous maker of the iPhone, became the largest market capitalization company in the USA, and actually has cash reserves of US\$76.4 billion, compared to the US Government's operating cash balance of US\$73.7 billion!

The US Congressional posturing resulted in some of the wildest trading days since the Great Stock Market Crash of 1987, with the Dow Jones Industrial Index swinging up 550 points one day and down similar amounts the next and the S&P 500 decisively smashing through the

1,200 level before recovering slightly. Markets don't like uncertainty but the politicians appear to be only interested in their chances for re-election!

The space shuttle Atlantis landed for the last time on July 21, ending 30 years of service after 33 launches and orbiting the Earth 4,848 times. It traveled nearly 126 million miles in space or more than 525 times the distance from the Earth to the Moon. Another icon, First Lady Betty Ford, died in California at 93, leaving her legacy Betty Ford Centre for alcohol addiction. Warren Buffet also made the headlines with a further \$1.78 billion to the Bill and Melinda Gates Foundation, making his total charitable donations \$11 billion to date!

THE WORLD STILL TURNS

The UN Food and Agriculture Organization reported that world food prices rose sharply in June mainly because of a 14% rise in the price of sugar. This does not bode well for political stability in Third World countries where food riots can be partially blamed for the instability seen recently in Egypt, Tunisia, and elsewhere in the Middle East.

Chinese inflation hit the highest level in 3 years at 6.4% as its economy shows signs of slowing down and Moody's warned of hidden bad debts by Chinese local governments which could total 8% to 10% of all loans. Greece, Portugal and Ireland all joined the USA in debt rating cuts but, for the former three, their debt was cut to "Junk" status, making further borrowing very difficult and very expensive, just as the European Central Bank raised interest rates to 1.5%.

Finally, the South Korean town of Pyeongchang was selected to host the 2018 Winter Olympics, and Nelson Mandela celebrated his 93rd birthday on July 18, with his family at his ancestral village of Qunu in the Transkei.

MATT



*'We are from planet Earth.
We need to borrow a lot of money'*

Cartoon courtesy of Matt 2011

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