



STUART INVESTMENT
MANAGEMENT LIMITED

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VOLUME 21, NUMBER 11

After the worst August in a decade, September continued the trend, but October finally turned the corner with healthy rebounds in most markets! The Toronto Stock Exchange had the smallest gain with ONLY a 5.40% gain, whereas the Dow Jones Index, the S & P 500, the NASDAQ and the Value Line Index were steaming along with gains of 9.54%, 10.77%, 11.14% and 13.53% respectively. The Canadian dollar however, had a 4.91% drop versus the US dollar to US\$1.0033 at October 31, 2011 from US\$0.9540 a month earlier.

MID FALL RECAP

The Ontario Liberals squeaked to a third straight term in office with one seat short of a majority, after losing 17 seats to the Conservatives and the NDP in a provincial election in early October. This will be the first minority government in Ontario since the mid 1980's.

Canada added 60,900 new jobs in September, far more than expected, dropping the unemployment rate to 7.1%, compared to the US rate of 9.1%. Canadian home resale prices hit a record high, but consumer confidence fell for the fifth time in six months, highlighting Canada's schizophrenic economy. The Royal Bank's chief economist said, "...while the numbers are a pleasant surprise, Canada's domestic issues have never been the main challenge for policymakers", and "The challenge lies outside our borders and we are still waiting for more proactive policy from the euro zone, near term, and longer term out of the U.S." The Canadian trade deficit crept up slightly to \$622 million from \$539 million as import growth outpaced export growth, but price hikes were the main reason for the gap. The Bank of Canada held the benchmark overnight interest rate steady at 1%, in spite of cuts elsewhere by central banks, as the Bank said it saw "significant risks" with regard to the inflation outlook as Canadian inflation inched up to 3.2% and the core rate to 2.2%.

It seems to be a regular item in the Market Commentary that the **Canada Pension Plan Investment Board** is investing in more real estate. This month is no different

with the CPPIB teaming up with **Oxford Properties** and **OMERS** to build a new 30-storey head office tower for the **Royal Bank** on Queens Quay, in Toronto. The CPPIB

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also bought the 289 stores of US based retail chain "**99 Cents Only Stores**" for \$1.6 billion in partnership with a US merchant bank.

The long-dragged out saga of the stock exchange merger mania seemed a little closer to resolution with the Toronto Stock Exchange's **TMX Group's** board finally supporting the **Maple Group's** \$3.8 billion buyout proposal after a prolonged take-over battle following the failed attempt of the TMX Group to merge with the **London Stock Exchange**. It appears that there were no other serious bidders, so the board was forced to grudgingly accept the only viable offer on the table. Due to the complexity of the regulatory approval process, it is likely to be late January 2012 before this deal closes, if it ever does!

The **Bank of Montreal** and the **Bank of Nova Scotia** were appointed to be two of the 22 primary dealers by the US Federal Reserve Bank. This privilege requires them to place bids at every US Treasury auction and use their own capital to fund inventories of US Government debt. This announcement comes just as the US Treasury Department is expected to borrow \$305 billion this quarter, the second highest quarterly borrowing requirement on record! These appointments could be a two-edged sword! The Bank of Nova Scotia also paid \$1 billion for 51% of **Banco Colpatría** in Colombia, further expanding its presence in the Latin world.

Shaw Communications Inc. and **BCE Inc.** have reached a deal whereby the former will carry 30 channels owned by Bell Media in Western Canada. Canada's **Research In Motion Ltd.**, marketers and designers of the ubiquitous "Blackberry" Smartphones, added to their own woes with a three day service outage of their network in Europe, Asia and Latin America as server failures spread throughout those regions. Their announcement of a new Blackberry

Operating system was overshadowed by questions of their system's reliability.

Finally, Briton Mr. Fauja Singh claimed to be the world's oldest marathon runner at 100 years old, when he completed the Toronto Waterfront Marathon in October, but his claim was rejected by the Guinness Book of Records for lack of documented birth records.

AMERICA WALLOWS INTO WINTER

Early winter swept into the US Northeast at the end of October with heavy winds and a huge snowstorm which snapped trees and caused power outages at over 3.8 million homes, surpassing the outages caused by Hurricane Irene. The third quarter US economy grew at 2.5%, the fastest pace in a year, as industrial production grew and car manufacturing recovered from the Japanese Tsunami disruption. Orders for US goods advanced, beating forecasts and 'Back-to-School' retail sales were higher than expected as the initial jobless claim continued to fall throughout the month, closing just under 400,000 at the beginning of November. The US economy finally surpassed the pre-recession level at \$13.35 trillion, after 15 quarters, taking three times longer than the average of the 10 previous recoveries since World War II, and the US deficit held steady at \$1.29 trillion for the trailing 12 months, the third straight year with a deficit over \$1 trillion! The US Congress surprisingly approved free-trade agreements with South Korea, Colombia and Panama which had been stalemated for years. This could boost American exports by over \$12 billion per year and save 380,000 jobs.

The US dollar turned out to be the best investment of all in September, rising 6% versus most other assets, as the S & P 500 valuations fell below the average recession level since 1957, and the VIX volatility index rose 160% to 42.96 in the third quarter. The percentage of home ownership in the US has had the biggest drop since the Great Depression, dropping from a peak of almost 70% in 2004 to approximately 65.1% in 2010, as sales of new homes jumped because builders cut their prices, and foreign buyers spent \$82 billion buying 8% of US home sales over the past 12 months. Housing starts rose more than forecast due to rising demand for apartment and condos as more Americans become renters after giving up their own homes, however commercial real estate deals declined 15% due to concerns about the European debt crisis.

Wall Street had its worst quarter since the depths of the financial crisis with trading revenues down at **JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc., Morgan Stanley** and, even the ubiquitous **Goldman Sachs**, reported its first loss since 2008. The Bank of America lost its ranking as the largest US lender by assets

to rival JPMorgan Chase & Co. **Google Inc.**'s profits and revenues surged 26% in the third quarter as its rival **Apple Inc.** disappointed investors with sales of its iPhone 4, which customers avoided in expectation of a re-designed iPhone 5 being released. Its earnings were, however, up 85% for the year even as the company mourned the death of one of its founders, Steve Jobs, who died of pancreatic cancer at 56, barely 6 weeks after he resigned as CEO of Apple.

Finally President Obama's teleprompter and lectern were stolen from a Virginia parking lot. One wonders how well his speech was delivered without the benefit of his spin-writers prompting! The US has revived a \$5.50 tax on all Canadian and Mexican travelers entering the US by air or sea. So much for the "Beyond Borders" negotiations!

A DEADBEAT EUROPE?

The Japanese government increased its stimulus package and bought Japanese Government bonds to attempt to keep the currency from strengthening versus other currencies and worsening their export based economy. China cut its huge holdings of US debt to \$1.137 trillion, as other eastern countries followed suit. The Chinese trade surplus shrank for a second straight month and its economy grew at 'only' 9% in the third quarter, the slowest pace in 2 years! Most western countries would be ecstatic with 9% growth!

Russia signed a free-trade deal with seven other former Soviet republics, including the Ukraine, which will cut export and import tariffs on a number of goods. The pact will become effective in 2012. Meanwhile a former soviet vassal, Slovakia caused some concern by initially appearing to refuse to sign on to the European Financial Stability Facility, which required unanimous approval from all EEC members. Slovakia finally signed the pact which will see bankrupt European countries borrowing more money to lend to other bankrupt countries to solve their debt problems! Following along on this theme, in typical fashion Moody's Rating Agency downgraded Italy's credit rating to A2 (lower than Estonia, and on a par with Malta!) and S & P downgraded the ratings on 24 Italian Banks and threatened to downgrade France's AAA rating. (Closing the barn door after the horse has fled?) In the UK, the unemployment rate reached a 17 year high with 2.57 million people or 8.1% of the working population unemployed with the ratio as high as 21.3% amongst the volatile 16 to 24 year old age group!

October finally saw the end of the megalomaniac Libyan dictator Moammar Gadhafi, who was ousted after an eight month uprising by disgruntled Libyans, assisted by NATO air strikes. Gaddafi and several of his supporters were captured after a convoy of his loyalists attempted to break out of a siege of his hometown of Sirte and the dictator was

summarily executed and buried in a secret location in the desert. Two of his sons died in separate incidents in the previous few weeks, and another son was reported to have escaped to Niger with the assistance of a Canadian 'mercenary'. The transitional government in Libya has promised free elections within eight months and the US government immediately freed up \$37 billion in frozen Libyan assets to allow a new government to function in Tripoli.