



STUART INVESTMENT MANAGEMENT LIMITED

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VOLUME 21, NUMBER 12

November closed almost flat after a barn-burner in October. The Toronto Stock Exchange had a small loss of 0.39% whereas the Dow Jones Index was up marginally 0.76%, and the S&P 500, the NASDAQ and the Value Line Index were down 0.51%, 2.39%, and 2.07% respectively. The Canadian dollar, however, had a 4.91% drop versus the US dollar to US\$0.98010 at November 30, 2011 from US\$1.0033 a month earlier.

MID FALL RECAP

Canada's economy continued to steam ahead with GDP growth of 3.5% in the third quarter exceeding analysts' expectations. This performance was in contrast to the doom and gloom forecasts from most of the rest of the western world as Europe watched the sovereign debt crisis intensify. Canada posted a trade surplus of \$1.226 billion in September, the first since January 2011 as energy product exports surged 11.3%.

After September's good news on the job front, October saw a drop in employment of 54,000 versus an expected increase of 12,200, and the unemployment rate climbed back to 7.3% from 7.1% the previous month. None of this deterred foreign buyers who added \$7.4 billion of Canadian securities to their investment holdings, while Canadian investors wisely reduced their holdings of foreign bonds by \$469 million.

Canada's monetary policy received a further vote of confidence when the Governor of the Bank of Canada, Mark Carney, was appointed Chairman of the Financial Stability Board, replacing Italy's Mario Draghi, the new President of the European Central Bank.

The **Toronto-Dominion Bank** briefly became Canada's largest public company by market capitalization with a market capitalization of \$65 billion. **The Royal Bank of Canada** subsequently reclaimed its crown later in the

month. The Royal Bank remains Canada's largest bank by assets with \$726 billion under management versus the \$620 billion at TD Bank.

On the subject of banks, Stuart Investment Management

DECEMBER 2011

Limited recently placed five separate issues of publicly traded, Extendible Medium-Term Notes - two issues for **Barclays Bank PLC.**, and three issues for **BAC Canada Finance Company**, unconditionally guaranteed by the **Bank of America Corporation**. These issues paid initial semi-annual coupons from 3.7% to 4.0% (depending on the currency) and are extendible at the option of the issuer for a stepped-up coupon in later years. All five issues are currently listed on either the Toronto Stock Exchange or the CNSX Exchange.

The proposed stock exchange takeover of the Toronto Stock Exchange's **TMX Group** by the **Maple Group** for \$3.8 billion seems to have found some opposition from the Competition Bureau and the smaller investment dealers in Canada who claim the merger will squeeze out the smaller dealers in favour of the large bank-owned dealers. Time will tell if this deal closes, and with what concessions to the Competition Bureau.

AMERICA WALLOWS INTO WINTER

The political 'can-kicking' in the USA has been temporarily overshadowed by the debt crisis in Europe, allowing American politicians to inch closer to the November 2012 Election Campaign without having to make any hard choices! The Congressional "Super Committee" failed to reach an agreement on any substantive budget cuts by the November deadline forcing automatic cuts across the board to US defense and healthcare spending, starting in 2013, effectively dropping the political hot potato into the lap of the next President and the Congress. As President Obama's

popularity shrinks by the day, the Republicans seem totally unable to field a credible candidate to run against him in 2012, as pretender after pretender gets unmasked for their lack of experience, their perceived unelectability, or innuendos of sexual improprieties.

The US economy seems to be picking up slowly with the final quarter of 2011 now projected to grow 3% up from a previous 2.5%, but the third quarter growth rate was revised down from 2.5% to 2%, in spite of strong consumer spending returning on the heels of a gradually improving job market. US household debt also continued to fall by \$60 billion or 0.6% freeing up more cash for consumption spending. Mortgage balances also declined by \$114 billion or 1.3%. The unemployment rate dropped to 9% from 9.1% the previous month as 158,000 jobs were added in September, and new unemployment claims finally dipped below 400,000 per week.

The US budget deficit narrowed to \$98.5 billion for October, which is the first month of the new US fiscal year. A good trend to continue! The budget deficit for the 2011 fiscal year was 8.7% of GDP, the third highest since 1945. A good sign was federal tax and other revenues climbed 11.7% from a year earlier to \$163.1 billion. The Federal Reserve Bank lowered their growth outlook for the US economy to between 2.5% and 2.9% for fiscal 2012 and forecast unemployment dropping to 8.6%. The productivity of US workers also grew at a relatively good 3.1% pace as unit labour costs dropped about 1% and prices for some consumer products declined about 0.1% even as core inflation rose by an equal amount for the second straight month.

The burgeoning European debt crisis and the improvement in confidence in the USA probably encouraged foreign banks' deposits at the US Federal Reserve Bank to double to \$715 billion as these banks 'fly to safety', in spite of the cut of the US's "AAA" rating by Standard & Poors. This allowed the Federal Reserve to drop interest rates on overnight loans to record lows of between zero and 0.25%, and the benchmark 10 year note to fall to 1.89%.

As the S&P 500 Index companies are poised to report their biggest annual sales increase on record, and earnings are holding up across the board, the US Postal Service reported a massive \$5.1 billion loss. The internet has completely changed the dynamics of the traditional mail business and First Class mail has declined 6% from the previous year, with no letup in this decline in sight. The Postal Service remains mired in inflexible union contracts and ossified business practices and should be privatized as they have done successfully in Europe.

The US birthrate declined 3% in 2010, the third straight decline and the fertility rate is currently 1,932 births per 1,000 women, well below the minimum of 2,100 level required to maintain the population levels.

THE WORLD WATCHES & WAITS!

Japan's exports fell for the first time in three months as the stronger yen and the global crisis crimped demand. China's manufacturing output hit a 32 month low as buyers globally cut back on purchases of cheap Chinese goods. In response, the Chinese central bank cut the bank reserve ratio to encourage lending and the M2 money supply increased 12.9%, as its property market cools. The other Asian giant, India, also lowered its growth outlook as the government's 13 inflation fighting interest rate increases started to bite, and growth slipped below 7% for the first time in over two years. A fourth authoritarian Arab leader was toppled in the "Arab Spring" movement as Yemeni President Ali Abdullah Saleh finally agreed to step aside after a ten month long popular uprising to expel him, which left him severely burned after a bomb attack.

Moving east into the Eurozone, the sovereign debt crisis mentioned above pushed Eurozone debt yields to record highs with Italian, Spanish and Greek interest rates reaching unheard of levels, and even German Bund rates climbing as certain observers were predicting the demise of the Euro and that the Euro itself will reach parity again with the US Dollar. The Greek and Italian Prime Ministers were ousted as a result of the crisis and Greece and Italy are now being run by 'transitional' governments in an attempt to get consensus on the pain that inevitably lies ahead. Moody's and Fitch cut Hungary's and Portugal's credit ratings to 'Junk' status, just as S&P 'accidentally' downgraded France's debt, and had to reverse its decision within hours as France unveiled \$9.6 billion in higher taxes and spending cuts to defend its rating.

THE ANNUAL DISCLOSURE

As members of the Investment Dealers Association, we are required to annually disclose our relationship with our carrying broker, NBCN Inc. which is, of course, the abbreviation for the National Bank Correspondent Network. The carrying broker is responsible for a number of administrative tasks including carrying out the execution of all trades for our accounts, their reporting and their settlement. They are also responsible for the custody of cash and securities and the registration and administration of retirement accounts. We retain the responsibility of choosing and determining the suitability of investments purchased for individual accounts. We also ensure that appropriate supervision is provided for

every activity in your account including the collection and disbursement of income.

SEASONS GREETINGS

The staff at Stuart Investment Management Limited and Cornerstone Capital wishes all our friends and clients a very Happy Festive Season with your families and hope that 2012 will be a prosperous and healthy year. We will continue to serve your investment needs in the New Year and thank you for your confidence in us.