



STUART INVESTMENT
MANAGEMENT LIMITED

- **IT'S TFSA TIME AGAIN!**
- **THE WORLD IN REVIEW**
- **SIML IS ON THE MOVE**

VOLUME 22, NUMBER 1

Charles Dickens' quote, "It was the best of times (S&P up 8.4% April 30th), it was the worst of times (S&P down 19% October 3rd"); is sadly incomplete in answering how the market ended in 2011 (S&P up 0.6%!!). Stock swing volatility was double the five decade average while the S&P finished (up 0.6%) with its smallest move since 1970!

2011 was very humbling for the so-called investment experts. The Hedge Fund Index ended down 4.9%, only its third down year in the last thirty. Commodities-heavy country stock indices ended down on disappointing global growth (up 1.6%). The Toronto Stock Exchange, down 11.07%, was solidly in the middle as globally stock indices ranged from NASDAQ down 1.79% to Brazil, Russia, India and China, i.e. the so-called BRICs, respectively down 23%, 18%, 24% and 22%.

Now we must turn to investing in 2012 given the continuing unsettled global economic and political landscape. We believe North America is the best place to invest period! Europe is continuing in a serious recession which will further erode the value of the Euro currency and undermine any chance for enhanced Europe-wide GDP growth. The BRICs (Brazil, Russia,

India and China) are too risky at this time and we (SIML) have no investing edge there.

At this point, we must quote our good friend Dennis Gartman on how he is recommending to invest in 2012. "It is clear that if we are to be a

JANUARY 2012

buyer of equities we are to be a buyer of US equities rather than equities anywhere else, for this is the only market that has shown even a modicum of strength. All others remain firmly entrenched in bear markets, and that is made quite clear when we note that the TSX Index in Canada, which was at a 700 point premium to the Dow Industrials only five months ago, is now trading at a +400 point discount."

American equities are cheap in valuation terms, for as we have noted, the cash-on-hand on America's balance sheets is enormous, and the relative yield on dividends compared to that of the 10-year US Treasury Bond is at its highest levels since March of '09, again in the summer of '82 and in the late summer, early autumn of '74.

While the USA, God knows, has huge political and social debates to work through via an election in 2012, it represents the best risk/reward investment returns available

globally. This happens to be very beneficial for Canada as well. SIML's view was well articulated by Otto Von Bismarck who stated in 1890 that "God protected the blind, drunks and the United States of America."

Some of you "doubting Thomases" urged SIML to sell US stocks in your portfolios. We will follow our departed partner, Jim's, sage advice, "Keep calm and carry on!" SIML will invest in solid North American companies with good earnings, paying out solid dividends.

IT'S TFSA TIME AGAIN!

Now that 2012 is upon us it is time to top up your Tax Free Savings Account with another \$5,000 contribution as early as possible to get the advantage of tax free interest, dividends and capital gains on these accounts. We at SIML believe that the TFSA is by far the best tax vehicle readily available to Canadians, and every Canadian over the age of 18 should have one. This is the fourth year of the TFSA program and investors are now allowed to have contributed \$5,000 per year for the first four years of the TFSA program so your contributions to date can now total \$20,000. We would recommend that all our clients top up their TFSAs with the allowable contribution for 2012 as soon as possible. We can transfer cash from any of your existing taxable accounts into your TFSA for you upon receipt of written instructions from you by e-mail or letter. If you do not have a TFSA account, or you have not maximized past contributions to your TFSA, we would be glad to set one up for you. Please call us if you have any questions.

THE WORLD IN REVIEW

The year 2011 was a year of great change in the established world order. The great sovereign debt meltdown in Europe brought changes in several European governments including Spain, Italy, Portugal, Ireland and Greece. As we write

this, the chances of Greece being ejected from the Eurozone as a 'sacrificial lamb' appear to be high, and the hope is that this will support the gradual lowering of sovereign interest rates in the remainder of the Eurozone, preventing similar collapses in some of the other Eurozone economies. The sudden and unexpected surge in the Arab Spring saw several dictators unceremoniously toppled, with Tunisia, Egypt, Libya, and Yemen ousting and/or killing off their dictatorial leaders of many years. Syria is still going through internal revolt which will hopefully rid them of the megalomaniacal

Assad family once and for all, without further bloodshed. North Korea's nutbar dictator and global golf champion died of cancer but with little relief to the long-suffering North Korean people as his 24 year old son and princeling was appointed in his stead to be the third generation of the Kim family to be inflicted on the starving, secretive and paranoid nation. The mullahs in Iran are attempting to take their populace's attention off the miserable state of their economy by the classic strategy of sabre-rattling and trumpeting their apparent ascent to the nuclear nations club and threatening to close of the Strait of Hormuz. This latter threat, if enacted, will cause a huge jump in global oil prices and should positively affect the value of the **Nordic American Tanker** shares we hold in SIML accounts, as tanker daily charter rates are recovering from the nadir in 2011. The stock still carries a very healthy dividend and very low debt levels which should enable it to prosper from any increase in tanker demand.

Finally, 2012 is the bi-centennial of the War of 1812, a conflict that forged two great nations. My historical readings have surprised me to understand that Canada, in the 1790's, was originally set up and seen as a country of low taxes, cheap land, and minimal government involvement in its citizens' lives. May we all reinforce Lord Simcoe's sound beliefs in how government should operate. Happy New Year!

SIML IS ON THE MOVE

We would like to take this opportunity to notify you that after 25 years, SIML is moving its offices this weekend just across the hall to a bigger space on the same floor in the same building. The only thing that will change is our physical presence, as our mailing address, suite number, telephone numbers and e-mail addresses will remain the same. We hope to show off our new space to our friends and clients over the next few months.