Monthly investment commentary

March 2010

FEBRUARY HIGHLIGHTS

- North American equity markets had strong gains in February, boosted by improving economic data, rising commodity prices (e.g. oil, base metals, gold), and positive fourth quarter corporate earnings results.
- Canada and the U.S. showed very strong economic momentum in the fourth quarter of 2009.
    - Canada's GDP was up 5% (q/q, annualized)
    - U.S. GDP was up 5.9% (q/q, annualized)
- The U.S. dollar gained strength over a basket of major currencies, including the Euro. However, the Canadian 'Petro-dollar', on the back of stronger oil prices, rose higher in value relative to the U.S. dollar in February.
- Central banks and governments around the world are beginning to outline and/or cautiously implement their stimulus 'exit' strategies.

TRUE PATRIOT LOVE

Unabashed national pride swelled in February, and rightly so. Whether on the ice, the snow or in the air, Canadian Olympic athletes soared in Vancouver and made us proud (and by golly, they were really nice people too, eh!). Canadian fans and volunteers welcomed the world with a spirit and enthusiasm that could not be dampened, regardless of the weather. And to boot, our Canadian stock market topped the podium in February too! (see Table 1). From coast to coast to coast, from athlete to spectator to investor - it was pretty darn good to be a Canadian in February!

Table 1– Summary of major market developments

Market returns*	February	YTD
S&P/TSX Composite	4.8%	-1.0%
S&P500	2.9%	-1.0%
- in C$	*1.7%*	*-0.1%*
MSCI EAFE	0.3%	-3.2%
- in C$	*-2.6%*	*-5.5%*
MSCI Emerging Markets	-0.3%	-4.7%
DEX Bond Universe**	0.2%	2.0%
BBB Corporate Index**	0.3%	3.4%

*local currency (unless specified); price only
**total return, Canadian bonds
Source: Bloomberg, MSCI Barra, NB Financial, PC Bond, RBC Capital Markets

The Canadian S&P/TSX was a leader among world markets in February with a 4.8% rise last month – all but erasing January's poor start to the year (see Table 2). The Financials sector (representing 31% of the S&P/TSX market capitalization) boosted the index this month with strong results from the banks in particular. The Materials sector (19% of the S&P/TSX market capitalization) also had a strong month as both gold and diversified metal companies saw their stock prices rise strongly in conjunction with commodity prices. However, it was the Information Technology sector that, on an absolute basis, was the star performer of the S&P/TSX in February. Research in Motion (the largest and most dominant stock in the Canadian Information Technology sector) generated excitement over an upcoming new browser and features for small businesses, and this helped the stock rise strongly over the month.

Table 2 - Sector level results for the Canadian market

S&P/TSX sector returns	February	YTD
S&P/TSX	4.8%	-1.0%
Energy	1.6%	-4.7%
Materials	8.9%	-0.2%
Industrials	4.0%	-1.5%
Consumer discretionary	2.7%	2.3%
Consumer staples	2.4%	-0.5%
Health care	2.8%	0.7%
Financials	5.6%	0.4%
Information technology	10.0%	5.4%
Telecom services	4.1%	1.5%
Utilities	1.2%	-2.3%

*price only
Source: National Bank

In February there was very little movement in the Canadian bond market. Government of Canada bonds were slightly negative for the month as demand slowed, while credit products, such as provincial and corporate bonds, which offer a higher yield over federal bonds, returned a mere 0.25% and 0.26% respectively, for the month.

GLOBAL ICEBERGS

In the U.S., strong corporate earnings results helped to drive stocks higher on the S&P500 (up a solid 3%). The U.S. earnings reporting season also let us take a look at the cash stock piles that the S&P500 companies are amassing. In fact the S&P500 companies' (ex-financials) cash holdings increased to $790Billion (U.S. dollars), or 8% of the S&P500 market capitalization (source: Scotia Capital, February 22, 2010). Rather than sit on the cash (earning miniscule interest) you can expect companies to begin deploying these large cash holdings towards more lucrative ventures like merger and acquisition activity, dividend increases and share buybacks – anyone of which could provide positive support for the stock market. Perhaps with the rejuvenation of corporate earnings, strength in capital markets, and improvement in corporate America's confidence about the future, companies will start hiring again and provide some much needed relief from the ongoing economic headwind of significant unemployment in the U.S.

Further abroad in the Eurozone, sovereign debt concerns (particularly in Greece) continued in February. While the Greek economy is small potatoes on the grand scheme of things, many worry that it represents only the tip of the iceberg, in which problems from bigger and more globally significant economies lie just beneath the surface. The uncertainty weighed on equity markets and the Euro currency alike in February. To the east, we also saw nervousness surrounding the Chinese market. The Chinese government (for the second month in a row) tapped on the stimulus brakes by increasing their bank reserve requirements. While no one is slamming on the stimulus brakes yet, the shift away from ultra-accommodative economic strategy was enough to create stock market volatility.

TAPPING THE BRAKES

Economic stimulus and economic restraint is akin to the gas and brake pedals in your car. You press on the gas to pump fuel into the engine (accommodative economic policy) and get the car moving faster, or you take your foot off the gas and press on the brakes (defensive economic policy) to slow your car down. For the past several months, countries around the world have been putting the gas pedal to the metal with economic stimulus packages and virtually zero per cent interest rates. Now, as the economic picture continues to improve, we are seeing governments begin to shift gears and tap, or at the very least hover over, the brake pedal. Current examples include China as mentioned earlier, and the U.S. where they raised the discount rate by 0.25%. The shift away from the gas pedal creates anxiety as many worry that the fast ride (extremely accommodative monetary policy) is ending, creating a bit of a downer for those just getting used to the wind in their hair. Having said that, no one likes to see drivers who are not prepared to step on the brakes when necessary. The shift in economic and monetary policy is a necessary eventuality as global economies continue to improve – but expect some market volatility to go along with it, particularly in the near term as we just begin to shift gears.

LEAVE NO DOUBT

According to the media 'Leave no doubt!' was the motto of the gold medal winning men's Canadian hockey team at the Vancouver 2010 Olympics. The entire inspirational message consists of several distinct lines that outline everything that the team will do and believe in, so that come game day, they will 'leave no doubt' about what spot on the podium they deserve. Inspired by this (after all, it worked!), here's our take on the "Leave no doubt" motto.

Leave no doubt…that you can benefit from all market cycles. No one can time the market with certainty. Today's star performers (be they stocks, asset classes, or funds) may be tomorrow's dogs. Diversifying your assets will allow you to benefit from the 'stars' when they are hot, and mitigate you from the downside of the 'dogs' when they are not.

Leave no doubt…that you have an investment plan that is right for you. Is it within your risk tolerance? Does it jive with your time horizon? Do your savings targets match your target investment goals? Revisit and personalize your investment plan.

Leave no doubt…that you can meet your long-term goals. Expect and plan for short-term volatility, media hype, and market cycles. Few of us stumble upon meeting our goals by happenstance, so build a realistic and effective investment plan so that you can stay focused on achieving your long-term goals.

Leave no doubt. Inspirational, and surprisingly comforting too.