LONDON CAPITAL MANAGEMENT

Monthly investment commentary

May 2009

APRIL'S HIGHLIGHTS

- Global markets continued to rally in April, spurred on by newfound optimism and improving or better-than-feared economic indicators – also known as 'green shoots'.
- Safe-haven trades reversed - moving money away from bonds and gold, into equities and cyclical commodities.
- Oil prices (WTI) finished the month at $51 – an $11 increase so far this year.
- The Canadian dollar has been on a tear, rising over 7% in the month of April.
- Bank of Canada cut its rate to a mere 0.25% and committed to leave it there until June 2010 (contingent on inflation concerns).
- Chrysler failed to get concessions from all debt holders by month's end and was forced to file for Chapter 11 bankruptcy protection.
- World Health Organization announced a level 5 pandemic alert for the H1N1 influenza virus – creating both health and economic concerns worldwide.

SHINY, HAPPY WALL STREET

Rarely has Wall Street (or Bay Street for that matter) been so quick to put a happy face on what would otherwise seem like a rather dour economic scenario. In the midst of auto industry bankruptcy news, historically poor quarterly GDP results, growing numbers of unemployed, and serious fears of a global health pandemic - investors took it all in stride and the equity market rally kept grinding upward.

Since bottoming on March 9, the Canadian index has advanced a remarkable 23% (a bull market rally by conventional definition), and is now up 3.8% year-to-date (see Table 1). The S&P 500 rose an astonishing 18.7% in March and April combined – making it the best two-month performance by the index since 1975! Most world markets had similar impressive rallies.

Financial companies have showed the most gumption of late. Glimmers of economic hope and better-than-feared earnings results south of the border helped financial companies bounce back from largely depressed prices. The U.S. Financial sector was up over 22% in April. In Canada, financial companies were the main driver of the S&P/TSX performance in April, and accounted for about 60% of the price-only return (see Table 2).

Table 1– Summary of major market developments

Market returns*	April	YTD
S&P/TSX	6.9%	3.8%
S&P500 (US$)	9.4%	-3.4%
S&P500 (C$)	3.7%	-5.0%
NASDAQ	12.3%	8.9%
Russell 2000	15.3%	-2.4%
FTSE 100 (U.K.)	8.1%	-4.3%
NIKKEI 225 (Japan)	8.9%	-0.4%
EAFE (C$)	6.3%	-6.4%
EAFE (local currency)	10.9%	-1.1%
Canadian Bond Market**	0.0%	1.5%
World Bond Market (US$)**	-0.5%	-0.8%

*local currency (unless specified); price only
**total return

As 'green shoots' of improved economic data emerged in late March and April, a newfound willingness among investors to take risk also broke through. The reversal of safe-haven trades saw gold prices drop, bringing the Materials sector down with it. Meanwhile oil, copper, zinc and nickel continued the rally they started in the first quarter of 2009. More evidence that Chinese economic stimulus measures are actually working and a weaker U.S. dollar also helped to boost the prices of these cyclical commodities.

With a glance at Table 2, you'll surely note the remarkable gains of the Information Technology sector. Information technology companies generally tend to benefit from the recovery stage of the economic cycle. As companies emerge from the throws of a recession, they seek to grow through greater efficiency and technology provides them with a quick solution. Having said that, this past month it was stock specific news from the likes of Research in Motion, Apple, IBM and Google that contributed most to the rally in the Information Technology sector.

Table 2 - Sector level results for the Canadian market		
S&P/TSX sector returns*	April	YTD
S&P/TSX	6.9%	3.8%
Energy	7.9%	6.6%
Materials	-8.5%	-1.5%
Industrials	10.4%	-1.7%
Consumer discretionary	4.2%	-4.7%
Consumer staples	0.8%	-5.9%
Health care	-0.4%	1.6%
Financials	15.0%	6.2%
Information technology	42.8%	55.3%
Telecom services	-2.4%	-11.0%
Utilities	2.7%	-10.8%
*price only		

BEEN DOWN SO LONG, IT LOOKS LIKE UP TO ME

Economic indicators have pointed straight down for so long, that seeing a slowdown in the pace of the declines provided sufficient relief to turn investor sentiment around. Doom and gloom media reports peppered with emotionally charged words like 'depression' are starting to give way to new terms like 'green shoots' and 'stabilizing'. And it does appear that the pace of economic declines is ebbing:

- U.S. housing prices appear to be putting in a bottom
- commodity prices are recovering
- China appears to be getting back on track to economic growth again, and most importantly
- investor sentiment has improved.

We know that many economic indicators are merely bouncing off extremely depressed levels, but as the song goes "been down so long, it looks like up to me!"

A HITCH IN YOUR GIDDY-UP

The market rally in March and April has certainly helped investors put some spring back in their step, but let's not forget that there could still be a lingering hitch in that giddy-up. As we go through 2009, the risk remains that the U.S. economy could downshift again.

The announced and expected auto industry shutdowns threaten to create big ripple effect on other parts makers, on the raw materials producers that feed the parts factories, and on the myriad of businesses that rely on the spending of autoworkers in and around their communities.

The H1N1 influenza pandemic adds yet another downside risk to the global outlook. Mexico has already begun to feel the economic effects as travel to the popular destination has all but dried up and some countries have imposed restrictions on Mexican exports. The extent of harm to other global economies remains to be seen as we learn more about the size and strength of this virus.

WHAT VOLATILITY?

The recent market rally has been such a welcomed relief for investors that we've barely noticed that extreme market volatility remains. How is it that we can see market moves of +1, 2, or 3 percent/day, only to say 'thank goodness things are getting back to normal', but swings to the same degree to the negative call for cries to 'Fix Wall Street!'? As investors we have an uncanny ability to forget the lessons of the past, and to overlook one day what might have been of utmost importance the day before.

So to avoid longer term regret we've decided to help you out with two very important things to remember during the month of May.

- Volatility is a measure of risk and volatility works both ways (up/down) – make sure your investment plans match your personal risk tolerances.
- And please, don't forget to remember the important mothers in your life on Mother's Day!