MACDOUGALL, MACDOUGALL & MACTIER INC.
Service to investors since 1849

MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH JULY 2010

June 2010 Review

	June 30, 2010	December 31, 2009	% Change
TSX	11,294.4	11,746.1	-3.8%
S&P 500	1,030.7	1,115.1	-7.6%
DJII	9,774.0	10,428.0	-6.3%
NASDAQ	2,109.2	2,269.1	-7.0%
10 Yr. Cda Bonds	3.08%	3.61%	-53bp
10 Yr. US Bonds	2.93%	3.84%	-91bp
90 Day Cda T-Bills	0.50%	0.24%	26bp
90 Day US T-Bills	0.15%	0.05%	10bp
US$ vs. Can$	$0.9396	$0.9515	-1.2%

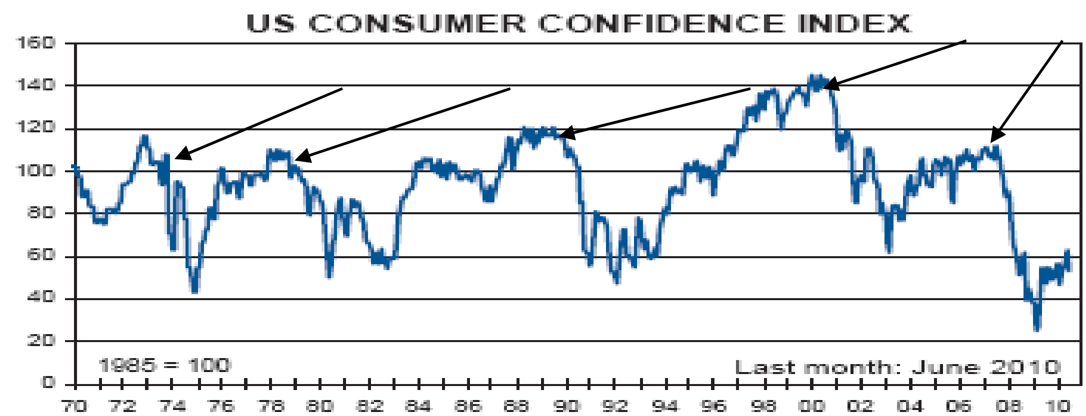
Global Economy: Growing, but not Accelerating

June was a poor month for equity investors. All major stock markets were down for the month including the TSX, which was down 4.0% for the month but up 8.9% year-over-year. The reason for the downturn in global markets is concern over the direction of the global economy. A series of economic numbers are pointing to a slower growth rate for the second half of 2010 and 2011. Most economists forecasted the economy would rebound strongly from very depressed levels of 2008/2009, which occurred, then gradually slow to a more sustainable growth rate. Unfortunately, this deceleration has occurred more rapidly than predicted. This slowing has caused investors to question if this is but a precursor to a general contraction in the economy (recession). While we cannot completely dismiss this, it is not our baseline forecast as the “excesses” that typically occur prior to a recession are absent (more later). We continue to feel the economic expansion is still young and admittedly fragile. Policy makers will continue to nurture the economy (keep interest rates low), but barring a shock to the system, our baseline case continues to be that the global economy has seen its lows and an economic expansion continues, albeit at a slower growth rate.

As mentioned, recessions typically are associated with excesses. For individuals, this excess shows up in high consumer confidence readings. A high level of optimism causes individuals to borrow and spend beyond their current means. For financial institutions, excesses tend to show up in aggressive lending standards (a deviation from their normal standards for extending credit) in the belief the risk of a loan default is low. As for businesses, excesses tend to show up in the amount of inventory they carry (not wanting to miss future sales) versus their current underlying sales. Today, none of these excesses are evident. There is still a very cautious tone by individuals, financial institutions and businesses. We admit the economy is fragile, but fragility is a sign of an early state of an economic recovery. We state our case below and also highlight where we can be wrong.

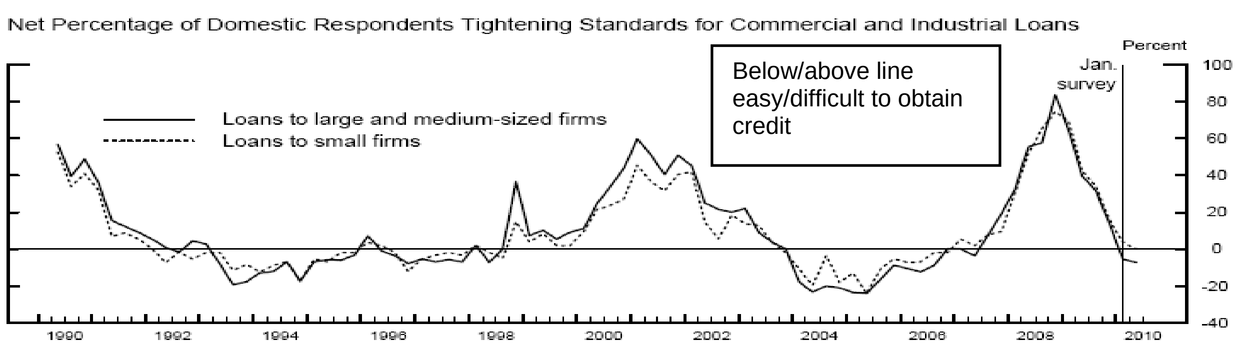
As stated above, recessions tend to occur when there is a high degree of optimism by consumers. It is this high degree of optimism that leads to spending and borrowing patterns beyond one's current needs, in the belief the good times will continue. We illustrate the latest U.S. Consumer Confidence reading below. The reading is up from the bottom of 2009, but it is still low. Prior to the onset of past recessions (2008, 2000, late 1980s early, 1990s, early/late 1970s), confidence readings were high (above 100). The consumer was ill prepared for any sort of "shock' to the overall economy. In each time period, the shock to the system was slightly different, leading to a fall in confidence, spending and a recession.

The shock which occurred in 2008 was the credit crisis (financial instability), in 2000 it was the end of the technology boom, in the early 1990s it was the collapse of the commercial real estate sector, in the late 1970s it was the second energy crisis followed by a dramatic rise in interest rates and in the early 1970s the first energy crisis as oil prices rose dramatically. Current readings are much more indicative of an early (1992, 1980, 1974) economic recovery.



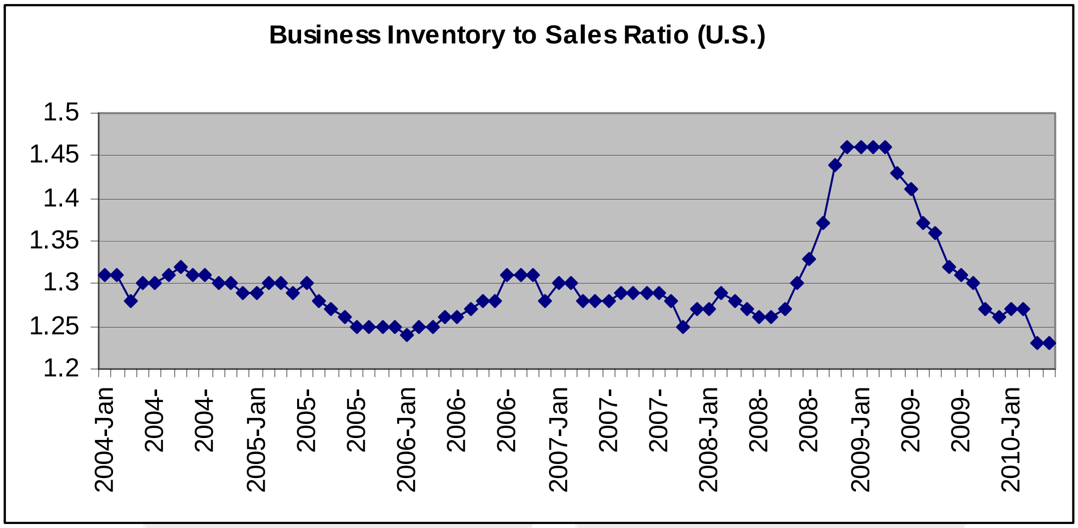
Arrows are readings just prior to a recession.

Another sign of optimism is the behaviour of financial institutions. A reliable indicator of optimism is their lending standards. In good times, commercial, industrial and consumer credit is relatively easy to obtain and asset growth by institutions strong. The graph below illustrates the latest U.S. survey the Federal Reserve publishes. The question that is posed to senior lending officers is if obtaining credit is easier or more difficult to obtain. In the past two recessions (2008 and 2000), the precursor to a recession was the relative ease in obtaining credit for several years. In retrospect, the easy credit was the cause of the housing bubble of 2008 and the technology bubble of 2000. Today, the trend to easier credit is still in its infancy. If anything, we hear credit is still difficult to obtain for smaller businesses.



Source: Federal Reserve Board April 2010 Survey of Domestic Financial Institutions

Finally, we look at the accumulation of inventories relative to the underlying sales to gauge sentiment by businesses. In good economic times this ratio (inventory to sales) tends to be relatively high, as businesses decide to carry more inventory relative to current sales on the belief the good times will continue The mindset is sales are strong, so let's have the goods available to meet the future strong demand. The most recent data is low indicating sales trends are stronger than inventory accumulation. In this instance, businesses are still cautious about the future and although sales are building (from a very low base), businesses do not believe this level of demand will continue. We note the big spike up in late 2008 had less to do with carrying too much inventory but more to do with a collapse in demand. We will continue to monitor this series to see if this line starts to trend up, either due to excess inventory accumulation or a contraction in demand, but at this point in time we do not see a collapse in demand, but a modest rise.



Source: Bloomberg

Where could we be wrong? As we argue above, we feel global growth will continue and we are in a "typical" business cycle (we recognize the events that led us into the recession were anything but typical) with the global economy shifting from an initial V shape recovery (inventory accumulation and a modest pick up in demand) to a lower level of growth, but not a contraction in the economy.

Events that could prove us to be wrong are if the credit crisis currently being experienced in Europe spreads. Recent European government actions seem to have contained this credit crisis from spreading as the large European countries have provided ample support to the financial system. As we have learned in the past two years, access to credit for individuals and businesses is essential for an economy to function.

Confidence is the most important element for an economy to function. The belief by individuals and businesses that the future will be better than the past will prompt them to purchase and expand. It matters little what causes confidence to be lost, the end result will be a contraction in the economy. One should remember, any contraction (not our base case) in the economy should be relatively mild as the excesses are not present in the current environment so the impact on the company's earnings will be much milder than in 2008. We do not want to leave the reader with a sense there are no great challenges to the economy, but at the present time the only excess we find is pessimism.

Ian Nakamoto
Director of Research

Important Disclosures

Company	Ticker	Disclosures

The research analyst (s) who authored this report certify that the views expressed therein accurately reflect their personal views and that no part of the analyst's compensation will be related to those views.

Conflict of Interest Policy for Analysts

1. Refers to share ownership of the company in question by the Analyst. In the disclaimer section of a report, the number 1 will indicate that the analyst or a member of the analyst's family has any position (equity, derivative or other) in the shares in question.
2. Refers to share ownership of the company in question by the Director of Research or Supervisory Analyst. In the disclaimer section of a report, the number 2 will appear if the Director of Research or Supervisory Analyst has a position (equity, derivative or other) in the shares in question.
3. Refers to any relationship the Analyst, a member of the family thereof, or firm has with the company in question. A relationship includes anything except the simple trading of stock for the company. In the disclaimer section of a report, the number 3 will appear if the analyst, a family member thereof or the firm has a relationship with the company in question.
4. Refers to whether Analysts have visited facilities and/or key operations of the company.
5. Refers to whether the company in question defrayed any of the costs of traveling to see the company in question's facilities. In the disclaimer section of the report, the number 5 will appear if the company has paid any portion of the analyst's travel expenses related to viewing facilities.
6. Refers to MacDougall, MacDougall & MacTier Inc. having undertaken any underwriting business from the company in question. If, in the previous 18 months, MacDougall, MacDougall & MacTier Inc. has acted as an underwriter to the company in question, it will be included in the disclaimer section of a report with footnote number 6.
7. Collective ownership by 3Macs and its affiliates of 1% or more of any class of the issuer's equity shares for a period of 60 days preceding the issuance of the report.

Definition of Equity Research Ratings & Risk Ratings

Equity Research Ratings

The rating system for recommendations on research reports published by MacDougall, MacDougall & MacTier Inc. will be as follows:

BUY - will represent opportunities that potentially offer in excess of a 20% return on investment within a 12-18 month period.

HOLD - will represent opportunities that offer between 5% and 20% potential return on investment within a 12-18 month period.

SELL- will represent opportunities that offer less than 5% return on investment within a 12-18 month period.

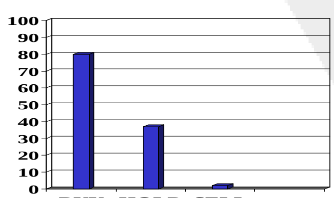
Risk Ratings

MacDougall, MacDougall & MacTier Inc. employs two risk ratings with its research reports; Above Market Risk and Market Risk.

Above Market Risk denotes a company, which operates in an inherently speculative industry, or one that is more volatile than the market as measured by its beta. Above Market Risk may also indicate weakness in the company's balance sheet, low debt ratings, and the lack of a dividend, low liquidity or other deficiencies.

Market Risk denotes a company, which is expected to present, on average, the volatility present with the overall market, measured by its beta. Market Risk companies will generally have sound balance sheets, will be established, large cap companies in industries generally regarded as stable and for the most part will pay a dividend.

MacDougall, MacDougall & MacTier Inc. Equity Research Ratings Distribution



- Percentage of companies covered by MacDougall, MacDougall & MacTier Inc. Equity Research within each rating category.

Glossary of Terms:

EPS	Earnings per Share
P/E	Price to Earnings Ratio
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
Market Cap	Total Shares Outstanding multiplied by Shares Price
Enterprise Value	Fully Diluted Shares Outstanding
PEG	P/E Multiple Divided by Growth Rate
ADR	American Depository Receipt
WACC	Weighted Average Cost of Capital
Risk Free Rate	10 Year Treasury bond
Yield	Dividend divided by Share Price
ASP	Average Price
DSOs	Days Sales Outstanding
Capex	Capital Expenditures
CPU	Cost per Unit
EVA	Economic value Added
EV / EBITDA	Enterprise Value / Earnings before Interest, Taxes, Depreciation and Amortization
DCF	Discounted Cash Flow
Holts DCF	Holts Discounted Cash Flow
DYT	Dividend Yield Target
Yield	Yield
BSOPM	Black Scholes Options Pricing Model
BETA	Quantitative measure of the volatility of a stock, mutual fund, or portfolio, relative to the overall market
MF	Mutual Fund

Montreal 514-394-3000 Quebec 418-656-1212 Toronto 416-597-7900 London 519-645-1110