MACDOUGALL, MACDOUGALL & MACTIER INC.
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MONTHLY MARKET COMMENTARY

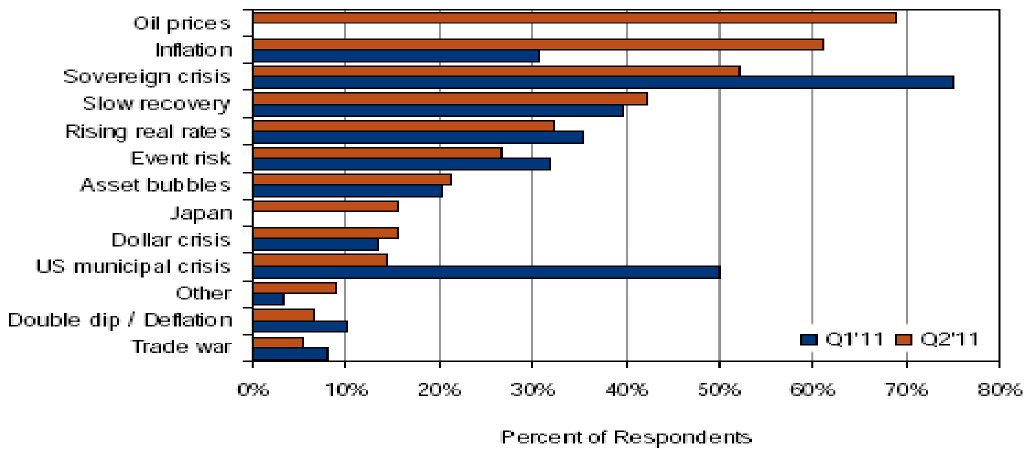
INVESTMENT RESEARCH | MAY 2011

April 2011 Review

	April 30, 2011	December 31, 2010	% Change
TSX	13,944.8	13,443.2	3.7%
S&P 500	1,363.6	1,257.6	8.4%
DJII	12,810.5	11,577.5	10.6%
NASDAQ	2,873.5	2,652.9	8.3%
10 Yr. Cda Bonds	3.20%	3.12%	8bp
10 Yr. US Bonds	3.28%	3.29%	(1)bp
90 Day Cda T-Bills	0.99%	0.98%	1 bp
90 Day US T-Bills	0.05%	0.12%	(7) bp
US$ vs. Can$	$1.057	$1.002	5.5%

Can Equities Keep Moving Up?

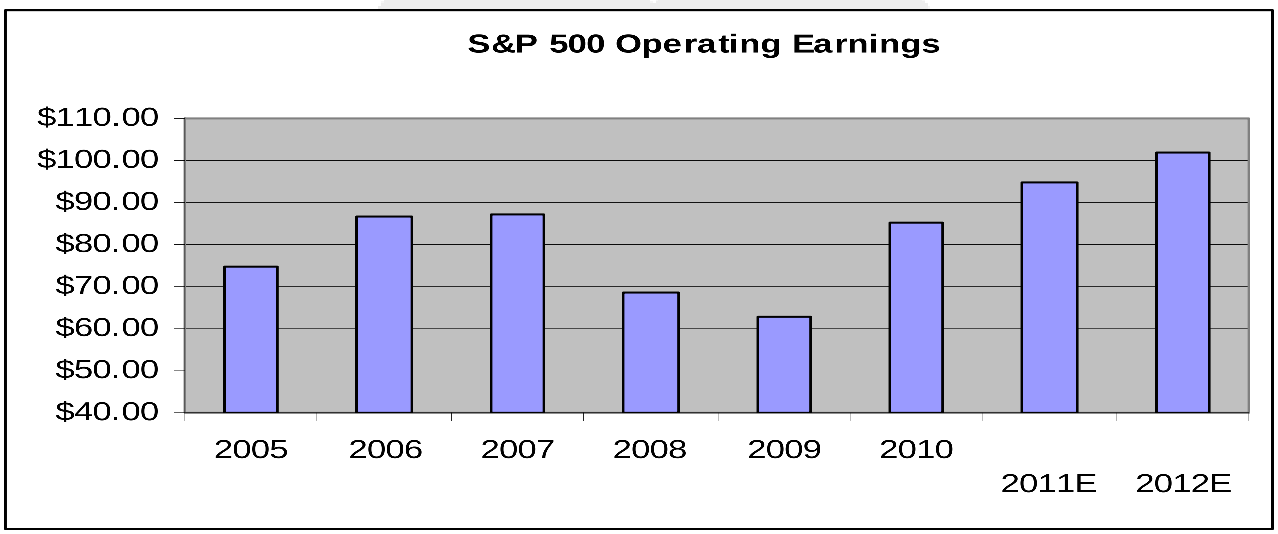
The month of April saw U.S. stock markets (S&P 500 and DJII) hit new cycle highs, while the TSX was down slightly (1.2%) for the month. Shortly after the month-end, stock markets sold off over various concerns, none of which appeared to be new to us, but nevertheless markets reacted. The numerous concerns have recently been tabulated by the U.S. firm *Merrill Lynch*. To obtain and rank these concerns, the company has started to send out a quarterly questionnaire to institutional investors (mutual funds, hedge funds, pension funds). The graph on the following page illustrates their findings.



Source: Bloomberg, BofA Merrill Lynch Global Research

The "new" concern in the quarter was the high price of oil. Other concerns that are high on the list, though not new, are inflation and sovereign (country) debt levels. We suspect one concern that would have been high on the list one year ago would have been the possibility of a double dip/deflation environment. Today, it barely registers as a concern, with less than 10% of respondents citing it. Despite these "rotating" concerns, markets continue to move up and we believe this upward trend will continue. It does appear the stock market may be in for a pause for the next two to three months, as the global economy shows signs of transitioning to a slower growth rate.

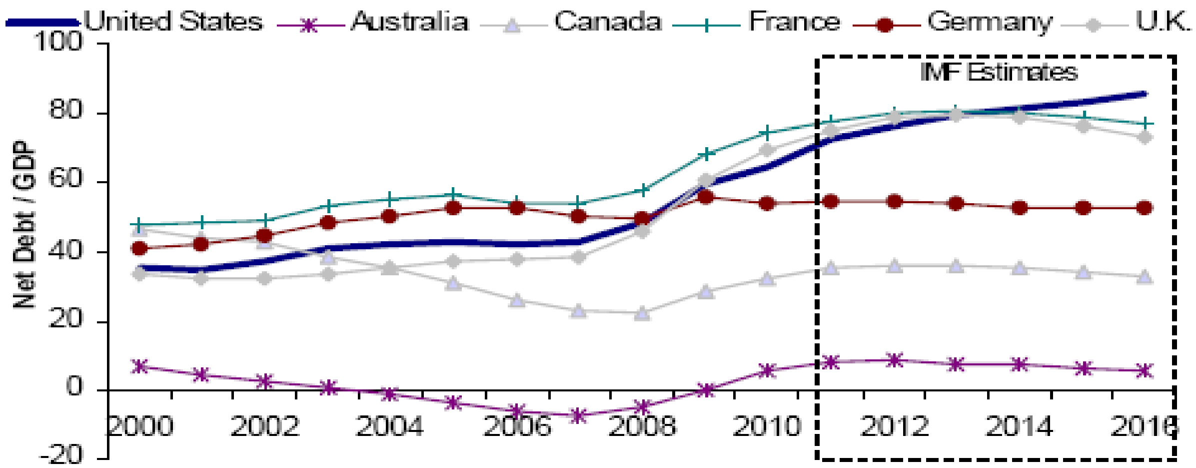
We continue to feel equity markets are attractively valued for purchase, as the alternative to equities is near zero returns on fixed income securities and cash. Typically, the other variable (in addition to the level of interest rates) that determines the performance of the stock market is profit growth. We see no sign that increasing profits are about to end. First quarter earnings continue to be strong and have met or surpassed analysts' expectations. Analysts are revising their profit forecasts for 2011 and 2012 to an upward trend. Below is a graph of the consensus view for profits for the S&P 500. 2011 is forecast to surpass the profit levels of the past peak in 2007. With the S&P closing the month at 1,364, the P/E is 14.5X based on 2011 earnings and 13.2X for 2012. An alternative way to view these numbers is to take the inverse of these numbers, which translates into a 6.9% and 7.5% "yield" on the S&P 500 based on 2011 and 2012 profit estimates. The current yields on bonds in Canada and the U.S. is 3.2% and 3.3% (please refer to the table on the first page), respectively. Yields on equities are twice those on fixed income securities.



Is There One Concern that is Unlikely to be Transitory?

The one issue that is likely to remain high on the list is the indebtedness of countries (sovereign debt). The financial problems of Greece, Ireland and Portugal have been well publicized and have temporarily been resolved, but not fixed. This past month, the outlook for the United States long-term creditworthiness was called into question. On April 18th Standard & Poor's affirmed its 'AAA/A-1+' rating on the United States but revised its long-term rating to negative from stable. This warning reminded us the Achilles heel of global growth is how governments will address their debt/deficits and financial obligations and how long and at what price (interest rate) will investors continue to fund government debt. We do not view this revised rating as an imminent threat to the global economy but governments will have to act in the next several years or investors will become very wary about buying government debt instruments. As the economists at the U.S. bank *Citigroup* states "The lessons to be learned are clear...there is no such thing as a totally safe sovereign issuer, and even the biggest traditional benchmark issuers are not immune to scrutiny and rising risk premia if there is reason to doubt the will or the ability of the government to turn a debt problem around." One high profile and respected bond manager*, Bill Gross of PIMCO*, announced he has sold all of his U.S. treasury holdings. While we feel this is an extreme action, he has become wary of the resolve of the U.S. to deal with its fiscal situation.

Below is an estimate of six countries that carry an "AAA" rating and their financial positions. Australia followed by Canada rank as having the lowest level of net government debt to GDP. Japan was on this list at one time, but inaction over several years prompted the rating agencies to downgrade its creditworthiness. The loss in the AAA rating is far from being an academic exercise. It affects a country's cost and ability to fund its needs (education, healthcare, infrastructure spending etc).



Sources: IMF and Citi Investment Research and Analysis

Finally, we like to end on a less serious note. One is likely aware how well Canada is thought of, not only as a politically safe and sound financial place to invest/live but also another important attribute stands out. The global bank *HSBC* asked expatriates in over 100 countries to rate their host country in various categories. One of the categories was a ranking of the "friendliness" of the various countries they have lived in. Below is a list of the friendliest countries.

1) Canada	4) U.S.A	7) France	10) Germany
2) Bermuda	5) Australia	8) U.K.	
3) South Africa	6) Spain	9) Malaysia	

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Company	Ticker	Disclosures

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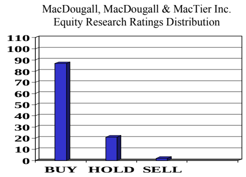

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Glossary of Terms:

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

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