



# MACDOUGALL, MACDOUGALL & MACTIER INC.

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## MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH

JULY 2011

### June 2011 Review

	June 30, 2011	December 31, 2010	% Change
TSX	13,300.9	13,443.2	(1.1)%
S&P 500	1,320.9	1,257.6	5.0%
DJII	12,414.3	11,577.5	7.2%
NASDAQ	2,773.5	2,652.9	4.5%
10 Yr. Cda Bonds	3.11%	3.12%	(1)bp
10 Yr. US Bonds	3.16%	3.29%	(13)bp
90 Day Cda T-Bills	0.90%	0.98%	(8)bp
90 Day US T-Bills	0.02%	0.12%	(10)bp
US\$ vs. Can\$	\$1.037	\$1.002	3.5%

### Mid Cycle, Not End of Cycle

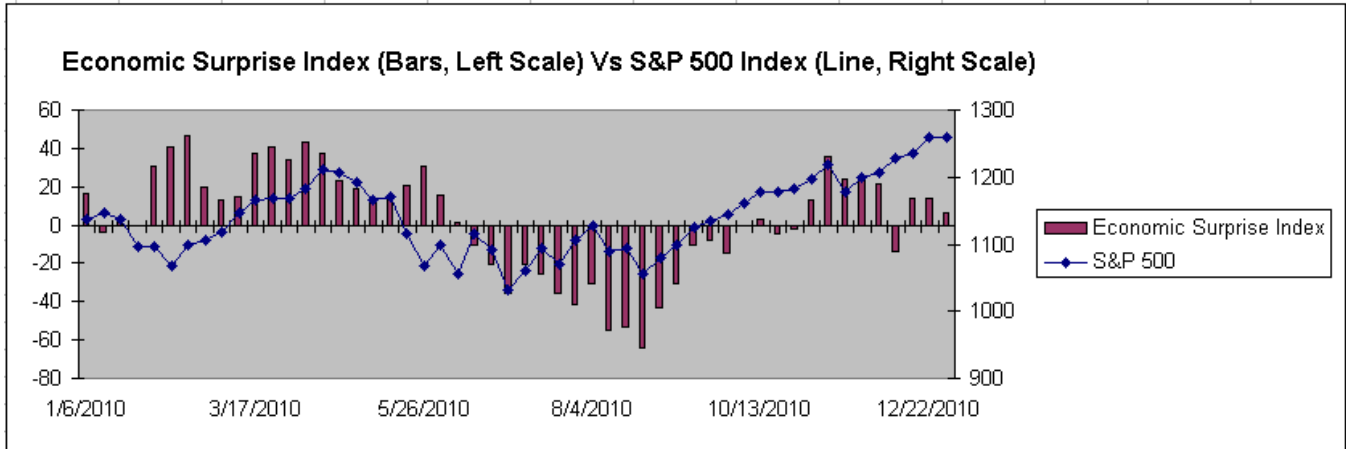
The month of June was particularly harsh for Canadian investors as the TSX was down 3.6% for the month and down for the year at 1.1%. U.S. markets performed considerably better as all three major indices we follow; the S&P 500, the Dow Jones Industrial and NASDAQ recorded gains of 1.8%, 1.2% and 2.2%, respectively and 5.0%, 7.2% and 4.5% year-to-date. After lagging the Canadian market for the seventh consecutive year, the U.S. market appears set to outperform the Canadian market, at least in the short-term. We do note that the Canadian dollar adjusted returns would be weaker as the Canadian/U.S. dollar is up/down 3.5% for the year. Despite negative returns for Canadian investors for the month/year-to-date, investor sentiment turned decidedly positive in the last week of the month as investors appear to embrace early hints that stronger economic growth (more later) and greater stock market returns lie ahead in the second half of the year.

We continue to believe the global economy (Canada included) is transitioning to a slower rate of growth, not a collapsing (recession) economy, despite recent (and likely on-going) threats to the stability from Europe's periphery countries (Greece, Ireland, Portugal, etc.) and the ongoing tensions over raising the U.S. debt ceiling. With a slowing of the global economy, earnings growth will likely slow and equity returns will likely be moderate, generating solid single-digit returns, not the mid teens and higher equity returns we have experienced in the past two years. We continue to believe the "old" highs of the TSX (June 2008 of 15,155)

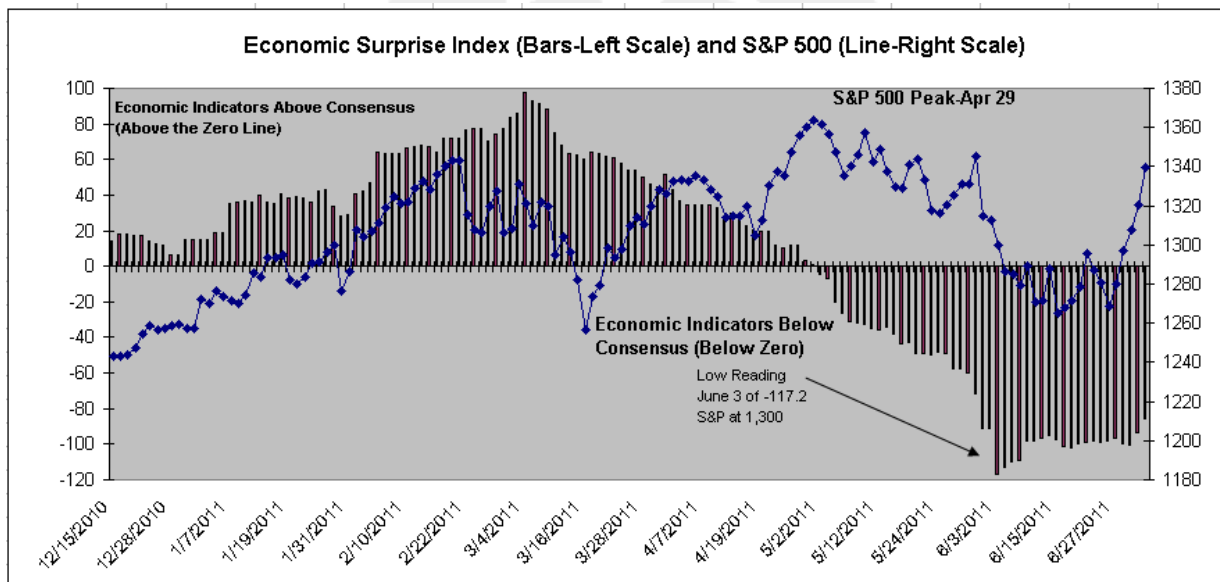
will be surpassed in the next two years and retain our 2011 year-end TSX target, which we feel is conservative, at 14,250 which we established late last year.

**So why has the Stock Market been Weak Lately?**

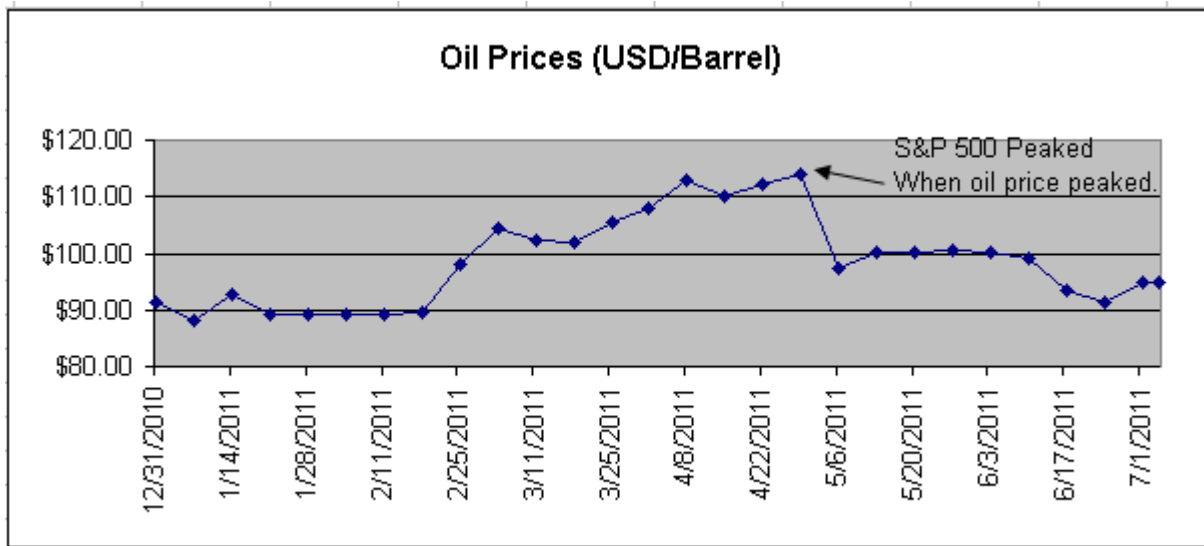
We believe last year's stock market pattern weakness in the spring, followed by a recovery in the late summer/early fall, will be repeated (if not earlier) this year. Below we illustrate last's year's performance.



The dotted line is the performance of the S&P 500 (right scale) plotted against (bars, left scale) the Economic Surprise Index. When these bars are above/below the zero line, economists have underestimated/overestimated the strength of the economy. Last year the Surprise Index was positive but, during late spring and most of the summer, fell into negative territory. The S&P 500 peaked in the spring of 2010 and fell as the Economic Surprise Index fell into negative territory. Both series moved up in the late summer/early fall and the S&P 500 ended the year on a strong note. In 2011 (see below), the Economic Surprise Index turned negative in April that coincided with the recent S&P 500 highs and also the recent high in oil prices. Since then, the Surprise Index has been in negative territory reaching its most negative reading of -117.2 on June 3 and has been slowly trending up.



Interestingly in the last week of June, stock markets have come “alive” and seem to be forecasting this negative trend in economic news will abate. We expect the Surprise Index and TSX index to move into positive territory as the forces that caused a slowdown in the economy (underestimated by economists and us included); a sudden increase in the price of oil due to Middle Eastern politics and the supply disruptions due to the tsunami in Japan fade. Below we highlight the recent trends in these two factors.



**Japanese Purchasing Managers Survey**



Source: JP Morgan Economics-July 1, 2011

The graph above illustrates the Purchasing Manager’s Survey (an early indicator of economic activity) in Japan, which is done on a monthly basis. After the tsunami hit the country, the survey plunged, but has since moved up sharply, indicating a snap back in the Japanese economy.

**Ian Nakamoto**  
**Director of Research**

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**Ticker**

**Disclosures**

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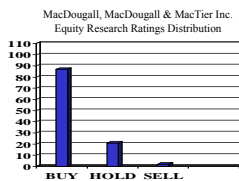
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Glossary of Terms:

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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