



MACDOUGALL, MACDOUGALL & MACTIER INC.

Service to investors since 1849

MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH

AUGUST 2011

July 2011 Review

	July 31, 2011	December 31, 2010	% Change
TSX	12,945.6	13,443.2	(3.7)%
S&P 500	1,292.3	1,257.6	2.8%
DJII	12,143.2	11,577.5	4.9%
NASDAQ	2,773.5	2,652.9	4.5%
10 Yr. Cda Bonds	2.78%	3.12%	(34) bp
10 Yr. US Bonds	2.79%	3.29%	(50) bp
90 Day Cda T-Bills	0.92%	0.98%	(6) bp
90 Day US T-Bills	0.10%	0.12%	(2) bp
US\$ vs. Can\$	\$1.046	\$1.002	4.4%

Fighting Fear

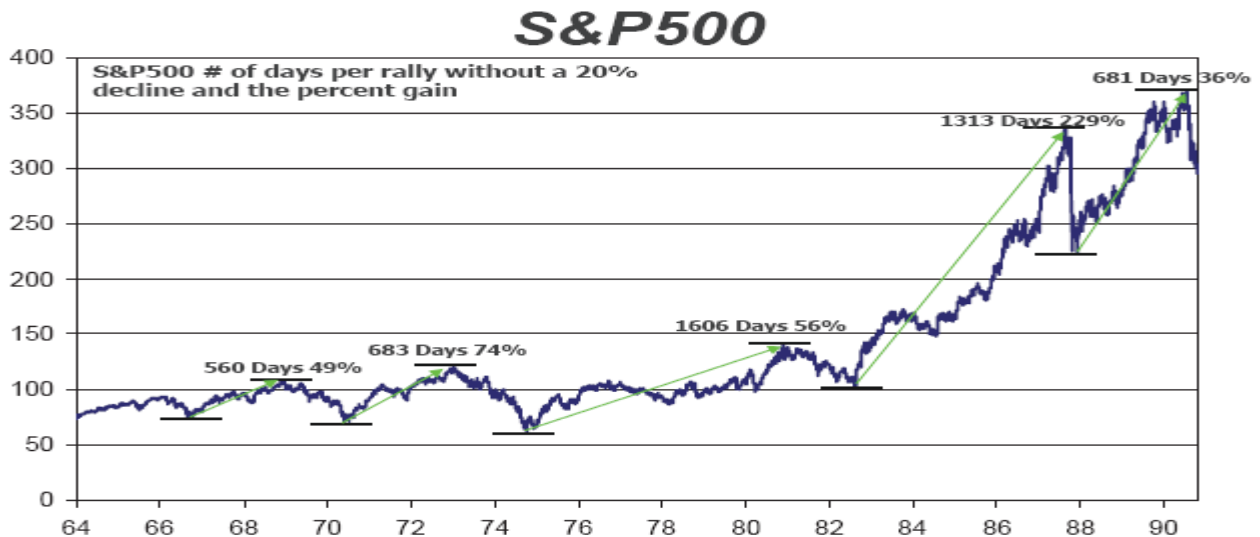
July was a harsh month for equity investors as the Toronto Stock Market fell by 2.7%, while the S&P 500 fell by 2.2%. Near the end of the month investors became concerned about the ability of the US Congress to "routinely" pass legislation to increase the federal government debt ceiling (to allow payment of interest on their debt and entitlement programs). Once the US debt ceiling was passed markets bounced back but quickly (within hours) reversed as disappointing economic news reminded investors that economic growth, though not recessionary, is slowing. With confidence/fear waning/rising on August 4th European debt problems resurfaced putting further pressure on confidence and causing a large one day sell off. The base case forecast for economists is the US and global economy will continue to grow, though at subpar levels. We have noticed the reappearance of the R word (recession) has taken hold in the press which further undermines confidence. By our reading, the economics community has increased their projected probability of a recession in the U.S. and other developed countries (not Canada) to the 30% to 35% range. One of the economists at the U.S. bank J.P. Morgan states "We would put the odds of a recession in the U.S. and U.K at 1/3, compared with a normal risk of 1/6 as recessions have happened on average every six years or so." Fear, unfortunately, can feed upon itself as confidence about the future wanes and a negative feedback loop develops (consumers slow their spending, therefore businesses either let employees go or do not hire and those affected employees slow their spending etc) and confidence/fear further deteriorates/rises. In the past we could look for governments/central banks to restore confidence, but many investors are saying they are

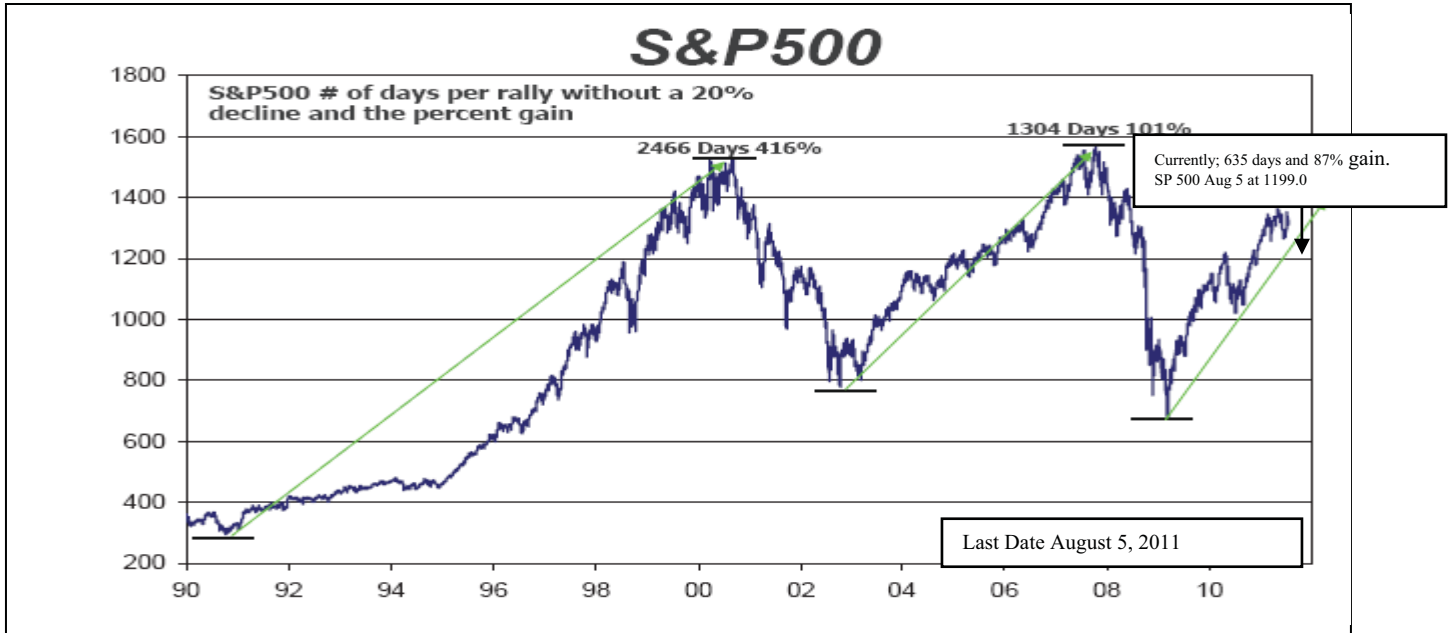
part of the problem (government deficits are too large, their ability to deal with problems on a bipartisan basis is questionable, the loss of confidence in paper currencies are but some examples). Finally, on late Friday August 5, the U.S. credit rating was lowered by one (Standard and Poor's) of the three largest rating agencies one notch to AA+ from AAA. As a side note the U.S. Treasury disputes the calculations behind the Standard and Poor's decision, and the rating agency acknowledges the mistake, but still downgraded their rating. Interestingly there is no mention about the ability or willingness of the U.S. to meet its financial obligations, but rather a comment on the political process in Washington. As they state "Our lowering of the rating was prompted by our view on the rising public debt burden and our perception of greater policymaking uncertainty..."

For our Canadian readers, the financial outlook for Canada remains strong. To quote Standard and Poor's Friday statement they say "Including the U.S., we estimate that these five sovereigns (Canada, France, Germany, and the U.K; all four countries with triple A ratings) will have a net general government debt to GDP ratios this year ranging from 34% (Canada) to 80% (U.K.), with the U.S. debt burden at 74%. By 2015, we project that their net public debt to GDP ratios will range between 30% (lowest, Canada) and 83% (France), with the U.S. debt burden at 79%." We find it strange that other countries will greater debt burdens (U.K. and France) retain their triple A credit rating.

When fear hits the mindset of investors it is difficult to make a short-term forecast on markets as emotion often overtakes reasoning. As an example on August 5 investors "pushed" the one month U.S. Treasury bill interest rate down into a negative reading. In essence investors were willing to pay, rather than being paid, other investors to "take" their money. We find it difficult to find the rationale in this action.

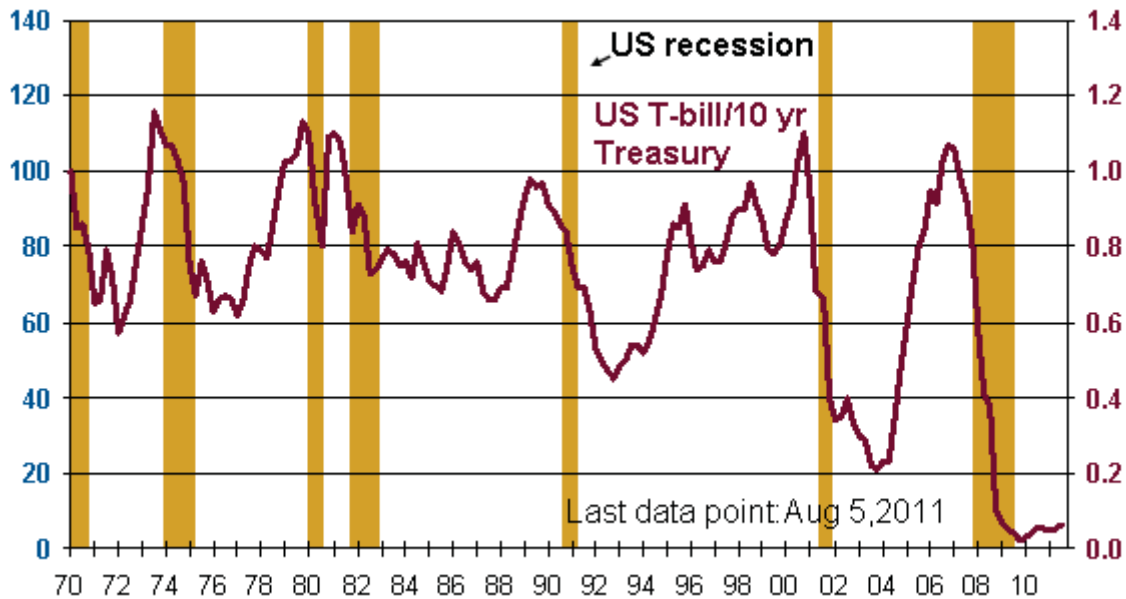
Nevertheless, we do not dismiss the challenges the global economy faces, but talk of a recession, a major European country default, the break-up of the European Union, and the inability of the U.S. to meet its financial obligations are pre-mature and we do not believe any of the these will happen, but we do acknowledge that the probability of some these happening has risen. We remind the reader the problems that are being faced are predominately of those in the developed world. There are billions of people outside the developed world that are enjoying strong (perhaps too strong) economic growth with little debt and deficits. There is no doubt the "centre" of the world is shifting and investors should keep this in mind. Companies that have exposure to those areas of the world will continue to enjoy strong secular profit growth. As for the stock market we continue to believe it will move up. One of the arguments for why we believe the stock market will continue to move up, though in a volatile fashion, is the length and duration of the stock market recovery. Below we highlight the average length of the S&P 500 since 1964. Since that time the average S&P 500 "bull" market (from the bottom) has lasted 1230 days and has increased by 137%. As at August 5 we are in the 635th day (the rally started March 10, 2009) and the increase has been 87%.





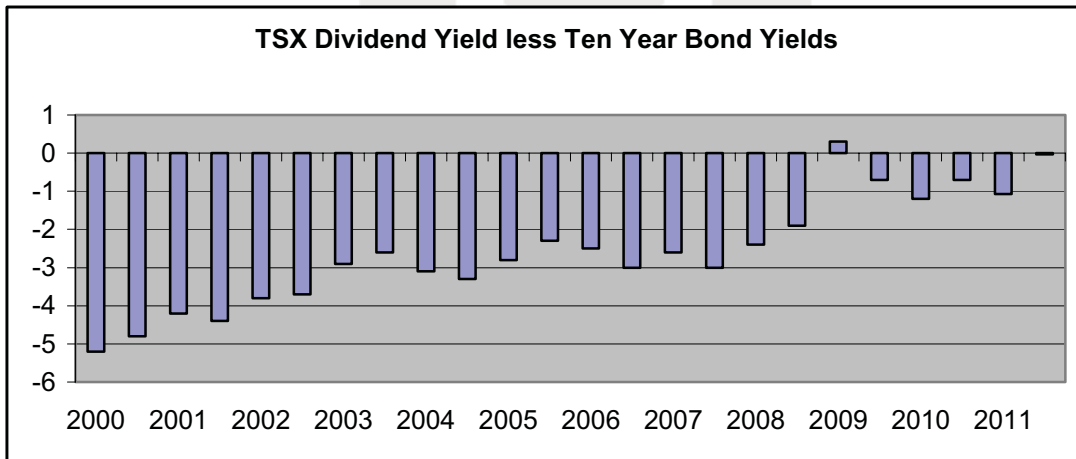
Source: DundeeWealth Economics.

For the TSX since 1962 the average bull market has lasted 1105 days and increased by 116%. As at August 5th we are in the 635th day and have rallied 69%. There are various other reasons we believe the rally in the stock market from the bottom in 2009 is not over. These include very loose monetary policy (low interest rates and ample liquidity being supplied) that has been an excellent indicator of ongoing economic growth. Below is the ratio of short-term interest rates divided by long-term interest rates. The higher/lower the ratio the more/less likely a recession will occur.



We do not believe the challenges today are as severe as during the financial crisis of 2008/2009. The reason we find the situation less severe than in 2008/2009 is because governments and central banks were ill

prepared (the element of surprise) to deal with financial distress. Regulations and processes have been put in place to avoid having any one/several financial institutions jeopardize the financial system. Also financial institutions have raised capital to act as a cushion for adverse/unexpected events. Central banks have forcefully become the lender of last resort and are ready to provide ample liquidity to prevent the “freezing” up of credit. We show below the dividend yield of the TSX less the ten year Government of Canada bond yield. The closer/further this ratio is to zero or slightly above zero the more/less attractive the stock market is. We use these two metrics as investors have two broad financial options; one is to invest in fixed income securities (we use the Government of Canada bond rate) or to invest in the stock market. We point to the year 2000 and the year 2009, two very different economic circumstances and stock market outcomes. In 2000 investors’ mindset was with technology stocks and showed little interest to invest in fixed income securities causing the difference in bond rates and the TSX dividend yield to record lows. In essence investors were confident (in hindsight too confident) about the outlook for the stock market (predominately technology stocks) and ignored the fact fixed income securities offered significantly higher and safer yields than the stock market. Unfortunately this difference in yield did not last long as the stock market declined significantly starting in mid 2000 as investors “re-discovered” fixed income securities. In 2009 investors were gripped with fears over the financial system and pushed dividend yields (sold stocks down) up in excess of bond yields. In hindsight this was an excellent time to buy/hold stocks. Today (August 5) the metrics are similar to 2009 with the dividend yield of the overall stock market close to bond yields. We can think of many high quality stocks (telecom companies, Canadian financials, and utilities) that have dividend yields in excess of bond yields. The reader should be reminded these same “blue” chip companies did not decrease their dividends during the worst financial crisis (2008/2009) in 80 years and have generally increased their dividend payments since that time.



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.

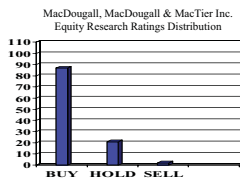
Risk Ratings

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



- Number 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

This research report has been prepared and circulated for general information only. It does not account for the specific investment objectives and financial situation of any person receiving this report. Investors should seek professional advice regarding the appropriateness of investing in any securities discussed or recommended in this report and should recognize that statements regarding future prospects may not be realized. This report is not to be construed as an offer to sell or as a solicitation for an offer to buy any securities.

The information presented in this report has been compiled from sources believed to be reliable but no guarantee is made as to its accuracy, completeness, or correctness. All opinions and estimates contained in this report are provided in good faith and are subject to change without notice.

Montreal 514-394-3000

Quebec 418-656-1212

Toronto 416-597-7900

London 519-645-1110