MACDOUGALL, MACDOUGALL & MACTIER INC.
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MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH — OCTOBER 2011

September 2011 Review

	September 30, 2011	December 31, 2010	% Change
TSX	11,623.8	13,443.2	(13.5%)
S&P 500	1,134.8	1,257.6	(9.8%)
DJII	10,913.3	11,577.5	(5.7%)
NASDAQ	2,415.4	2,652.9	(8.9%)
10 Yr. Cda Bonds	2.15%	3.12%	(97) bp
10 Yr. US Bonds	1.91%	3.29%	(138) bp
90 Day Cda T-Bills	0.82%	0.98%	(16) bp
90 Day US T-Bills	0.02%	0.12%	(10) bp
US$ vs. Can$	$0.955	$1.002	(4.7%)

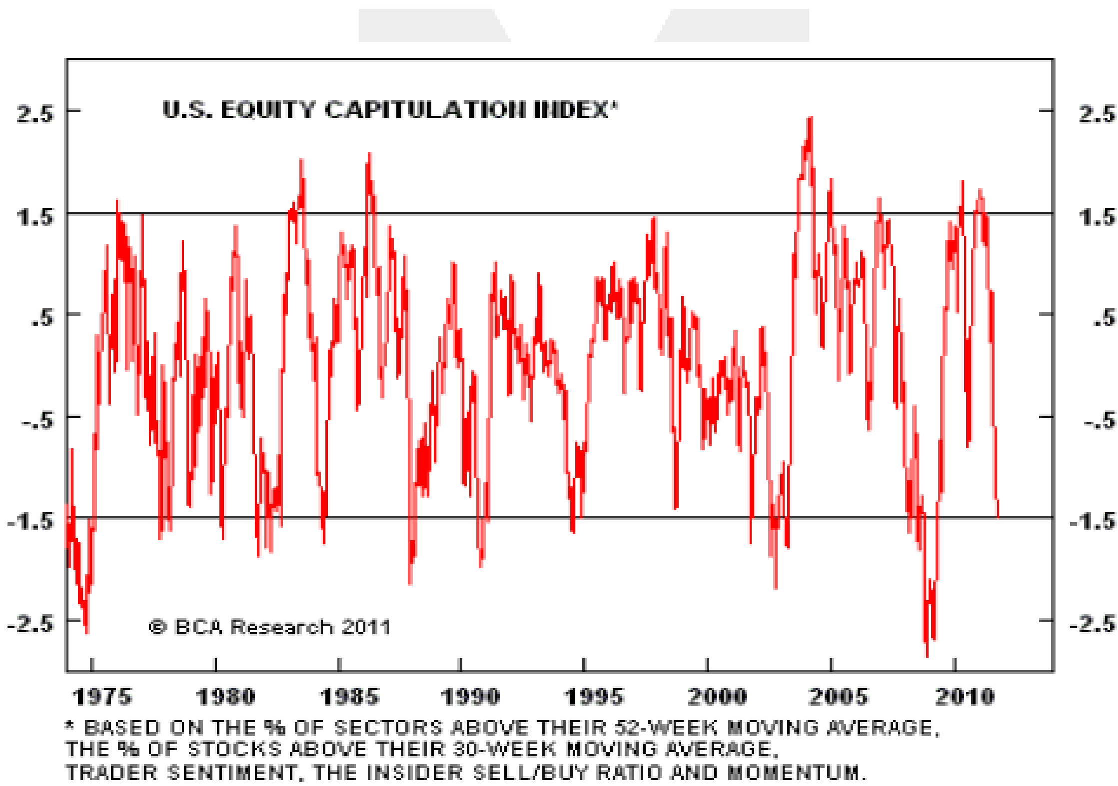
Waiting on Europe

September was a poor month for equity investors as all major stock indices fell. The sell off in equity markets resulted from two broad concerns/fears: The first is the current economic slowdown underway. Investors have recognized the global economy is slowing, but the length and severity of the slowdown/downturn is unknown. There are several respected economists who argue both the U.S. and Europe are in a recession. The second concern and the more worrisome is the financial health of the peripheral countries in Europe. The term peripheral is used as they are relatively small countries in relation to their economic contribution to Europe. These countries include Greece, Ireland, Portugal and Spain. They each have large debt and deficits as a percentage of their Gross Domestic Product and need to re-finance some of their debt. The most worrisome country is Greece. It is very likely to default on its debt and is basically “shut out” of the capital markets. A disorderly default by Greece could cause a banking crisis impacting some of the largest European banks. If Greece is left to default in a disorderly way, a contagion could arise. We use the word contagion as investors will be very reluctant to fund other countries with high debt and deficits. Should these larger countries be unable to “tap” the bond market, more defaults could occur affecting more financial institutions. A banking crisis/contagion would certainly affect all of Europe and could easily spread globally. To many investors the events of the past few months seem eerily similar to what happened leading up to the 2008 financial crisis; with equity/commodity markets selling off, volatility rising and safe haven assets (U.S. dollar/ U.S. treasury bonds) becoming the prime investment vehicles.

Our view is the slowdown could well turn into a U.S and European recession, but a large scale contagion is unlikely, as European policy makers are currently working on a framework that provides countries with access to reasonable financing rates while fiscal solutions are implemented to restore investor confidence. European policy makers recognize the consequences of failure are unacceptable and are likely to do whatever it takes to avoid another full-blown financial crisis. As German Chancellor Angela Merkel states:

“The top priority is to avoid an uncontrolled insolvency, because that wouldn’t just hit Greece...the danger that it hits everyone, or at least a number of other countries, is very big...I have made my position very clear: that everything must be done to keep the euro area together politically, because we would very quickly face a domino effect.”- Source: Bloomberg, September 13, 2011

A European framework to assist these countries in need of funds will be done and ailing banks will either be recapitalized or nationalized. However, investor patience and confidence is waning. We do feel we are close to a capitulation level in the stock market as investor sentiment is very poor. We illustrate this below.



The Capitulation Index (as at September 30, 2011) is one-and-a-half sigma below the norm so a rally is a real possibility but the catalyst for a sustainable uptrend depends on a clear solution to Europe and the performance of the global economy and earnings.

Ian Nakamoto
Director of Research

Important Disclosures

Company	**Ticker**	**Disclosures**

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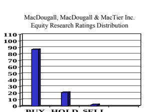
MacDougall, MacDougall & MacTier Inc. Equity Research Ratings Distribution



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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 Share Price
Enterprise Value	Market Cap plus Net Debt
FD Shares	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
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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