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MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH

DECEMBER 2011

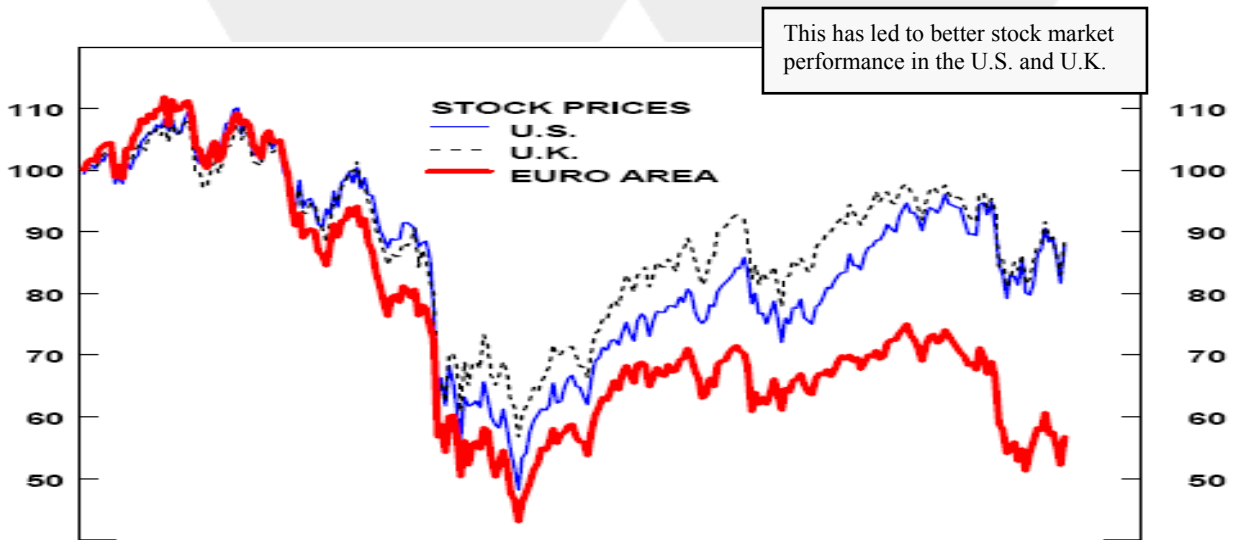
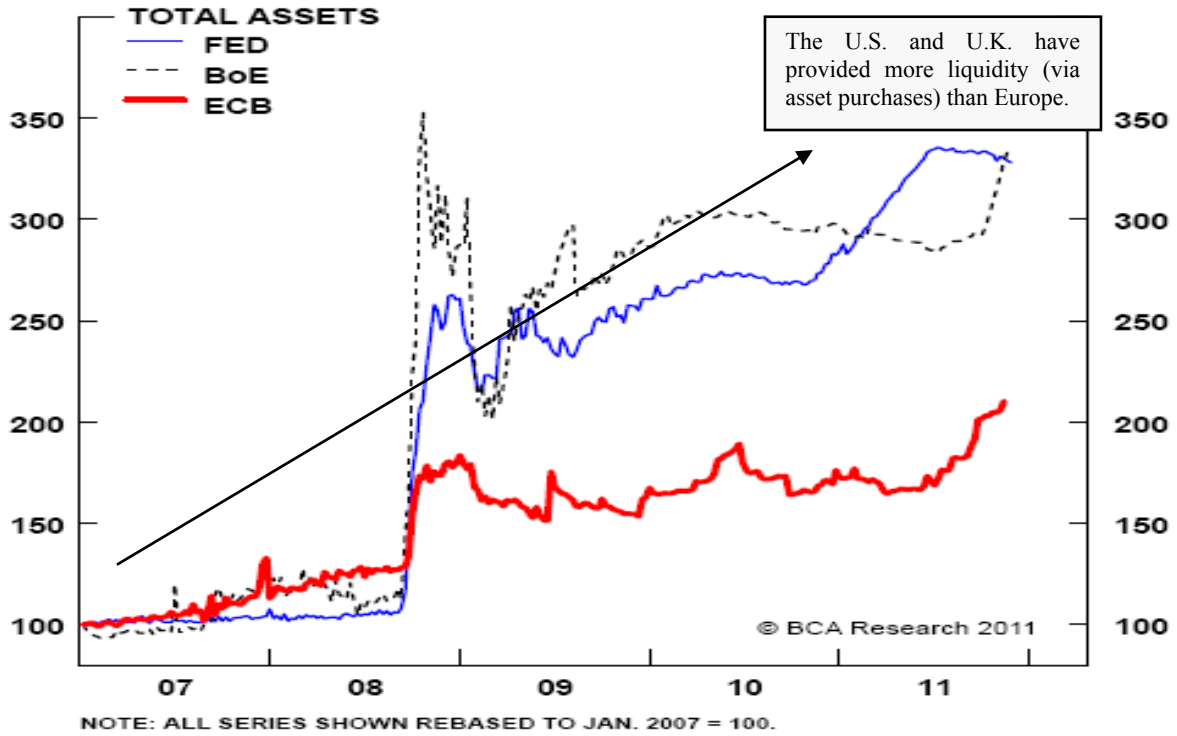
November 2011 Review

	November 30, 2011	December 31, 2010	% Change
TSX	12,204.1	13,443.2	(9.2)%
S&P 500	1,247.0	1,257.6	(0.8)%
DJII	12,045.7	11,577.5	4.0%
NASDAQ	2,620.3	2,652.9	(1.2)%
10 Yr. Cda Bonds	2.14%	3.12%	(98) bp
10 Yr. US Bonds	2.08%	3.29%	(121) bp
90 Day Cda T-Bills	0.80%	0.98%	(18) bp
90 Day US T-Bills	0.02%	0.12%	(10) bp
US\$ vs. Can\$	\$0.9810	\$1.002	(2.1)%

In Need of Credible Policies

The month of November produced mixed results for North American stock markets. The Dow Jones Index was up marginally at 0.7%, NASDAQ down 2.4% and the TSX and S&P 500 down marginally at 0.4% and 0.5%, respectively. The markets were heading for a downturn for the month until the last day when global central bankers announced a coordinated effort to provide U.S. dollars (liquidity) to financial institutions (likely European banks) that were having difficulty raising funds. With this announcement, stock markets soared and ended the day 4.0% higher, having erased much of the month's losses.

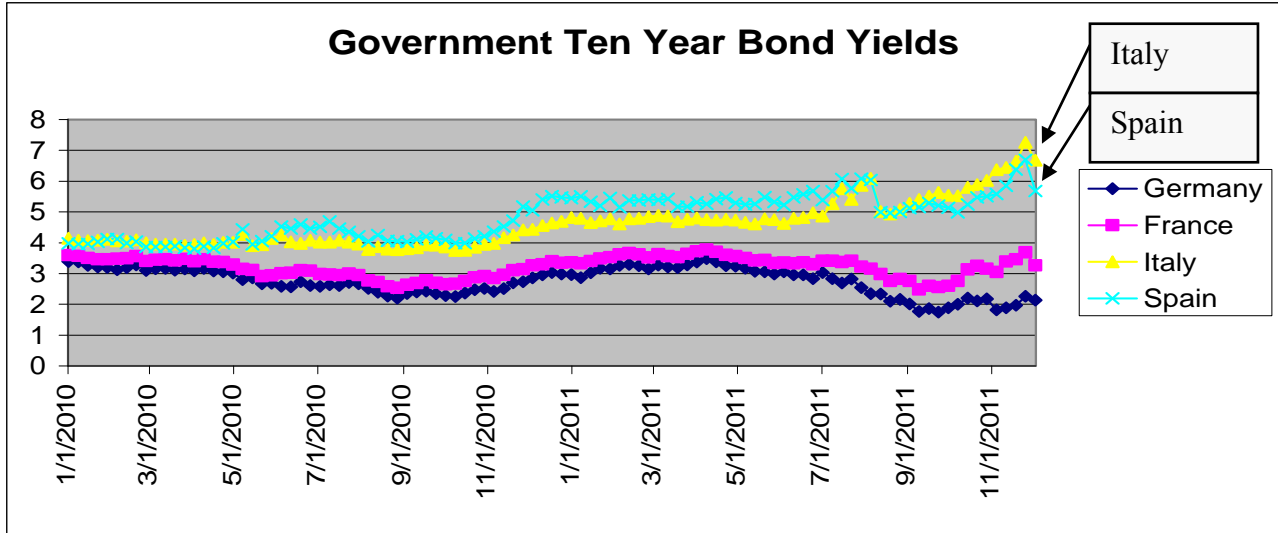
Liquidity has been a powerful force for stock price movements since the financial crisis of 2008. Below we highlight the relationship between liquidity growth (purchasing of assets with U.S. dollars) and stock market movements by geographic location. The U.S. Federal Reserve and the Bank of England (BoE) have provided significantly more liquidity than the European Central Bank (ECB). The result is these markets have performed noticeably better.



Source: BCA December 2011

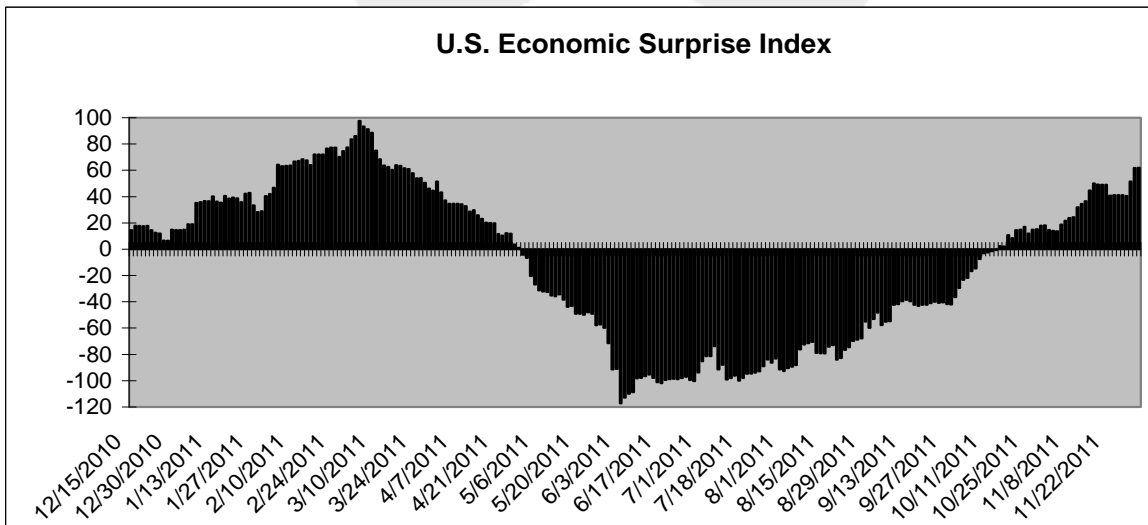
In many ways the troubles in Europe resemble those of the U.S. in 2007 to 2009. The U.S. problem in 2007 was related to a weak housing market caused by easy credit conditions that impacted the banking sector and financial markets. Today, in Europe, the problem is related to weak government finances (again caused by easy credit conditions) impacting the European banking sector leading to tighter financial conditions (less lending by financial institutions) and a weaker economy. We believe there are many lessons Europe can take from the U.S. experience.

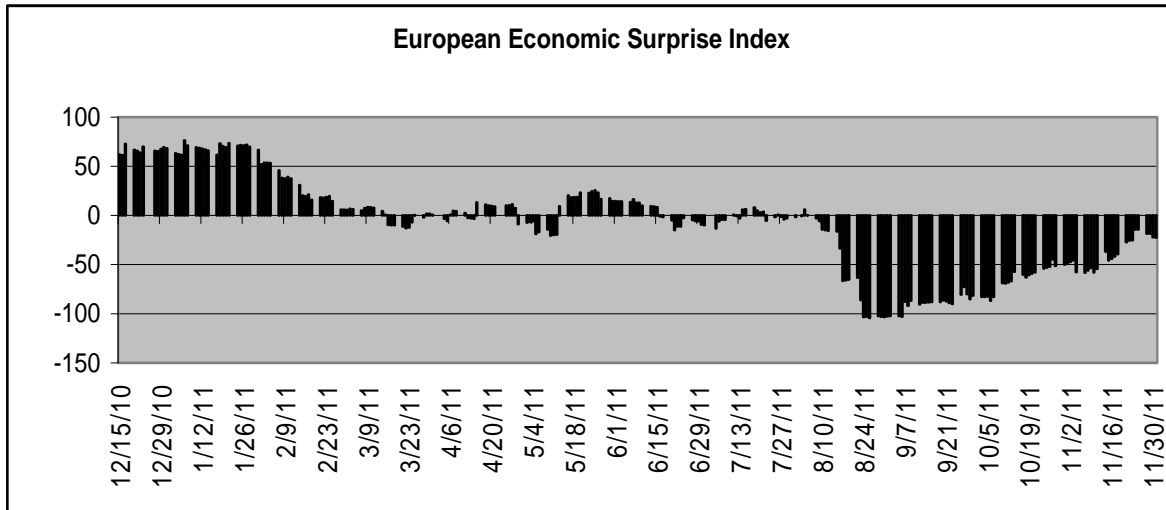
It takes a concerted effort by policy makers to regain confidence in the financial system and government finances. The governments of Europe will be meeting in December to try to overhaul their fiscal arrangements and to put in place mechanisms that will prevent/penalize Euro zone members from again running large deficits/debts. If these plans are viewed as credible by investors, they will be rewarded with lower borrowing costs. Italy and Spain (see below) have lost confidence among investors and are being penalized by investors. We worry other countries (e.g., France) could follow a similar fate.



Source: Bloomberg

Until European leaders provide a credible fiscal plan, investors will favour other geographic regions. The “heavy” lifting lie with the European Central Bank to support the European governments until credible fiscal action is taken. For now, the U.S. stock market is being favoured as its economy, along with the U.K., is the only major economy performing better than forecast. We illustrate this below. The first graph shows economists have underestimated the strength of the U.S. economy since the fall of 2011. A reading above zero indicates U.S. economic numbers are coming in stronger than expected by economists. The most recent U.S. reading (December 1) has not been this high since the spring of 2011. In contrast, European economic statistics (second graph) have been weaker than forecast.





Ian Nakamoto
Director of Research

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<u>Company</u>	<u>Ticker</u>	<u>Disclosures</u>
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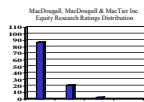
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EPS	Earnings per Share
P/E	Price to Earnings Ratio
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
Market Cap	Total Shares Outstanding multiplied by Shares Price
Enterprise Value	Fully Diluted Shares Outstanding
PEG	P/E Multiple 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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