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MONTHLY MARKET COMMENTARY

INVESTMENT RESEARCH

FEBRUARY 2012

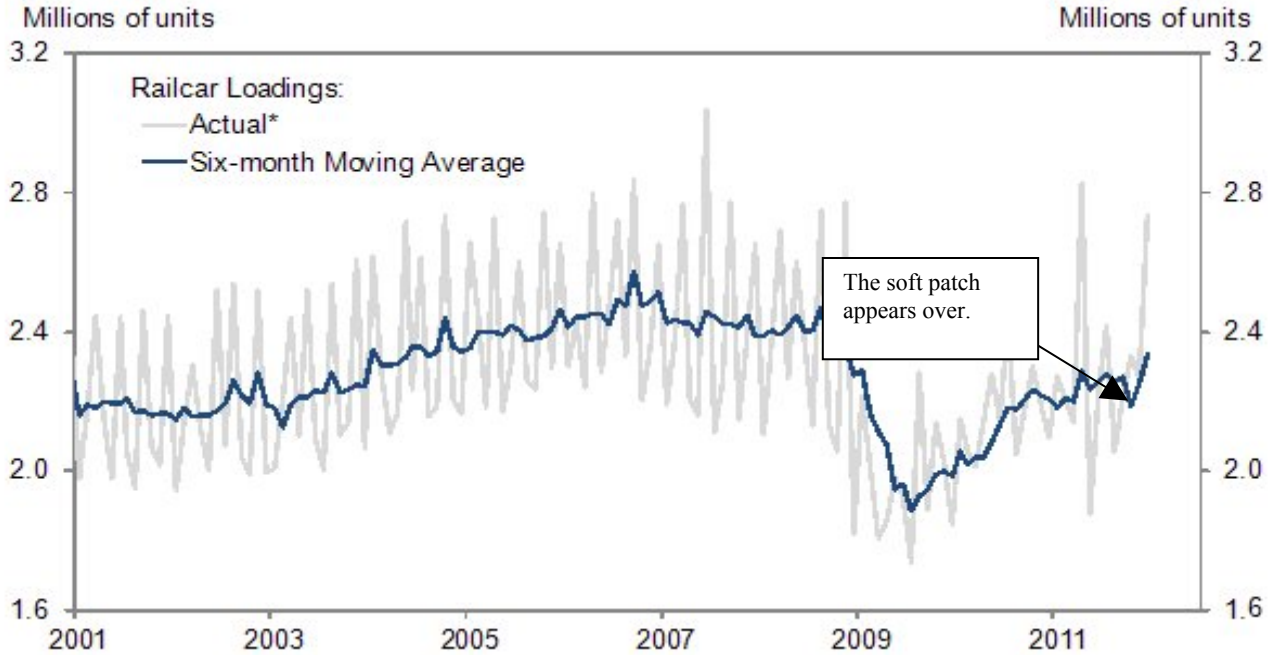
January 2012 Review

	January 31, 2012	December 31, 2011	% Change
TSX	12,452.1	11,955.1	4.1%
S&P 500	1,312.4	1,257.6	4.3%
DJII	12,632.9	12,217.6	3.4%
NASDAQ	2,813.8	2,605.1	8.0%
10 Yr. Cda Bonds	1.89%	1.94%	(5) bp
10 Yr. US Bonds	1.79%	1.88%	(9) bp
90 Day Cda T-Bills	0.86%	0.80%	8bp
90 Day US T-Bills	0.05%	0.01%	4bp
US\$ vs. Can\$	\$0.997	\$0.983	1.4%

Early 2012: Cautious Confidence

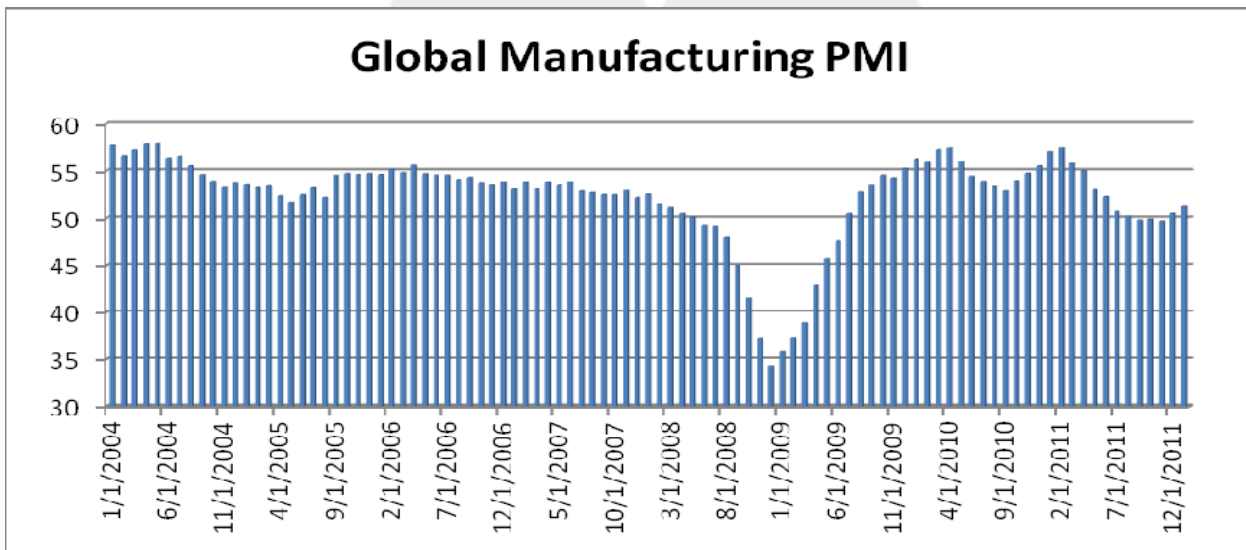
The start of the New Year was surprisingly strong. We believe the market rally caught many investors off guard, as they left 2011 in a sour mood as equity markets were down for the year. As the table above illustrates, the month was very strong, as all major North American indices were up a minimum of 3%. The emerging markets showed even greater strength as stock markets such as Brazil, India and China were up more than double the North American markets. We believe markets have rallied this year on the back of two separate forces; 1) better macro-economic news and 2) concerns over financial conditions (European debt crisis, Chinese monetary policy) which appear to be easing. We address both issues and answer the question: Does this rally have further to go?

Economic Pulse: There are tentative signs economic growth is strengthening after a soft patch that started in the spring of last year. Below is one "real life" example; U.S. rail car loadings which shows an improving economy as more freight is being carried. The month-to-month data can be very volatile (light lines) but it is unmistakable the six-month moving average has risen sharply.



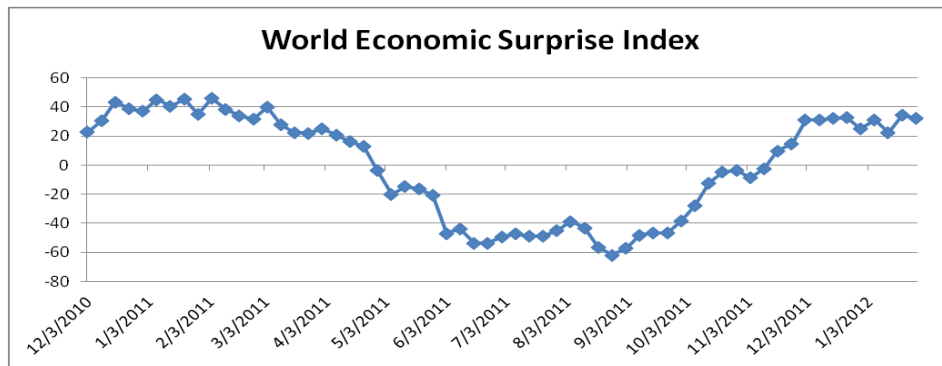
*Seasonally adjusted. Source: Global Economics Weekly, Goldman Sachs, February 1, 2012

Another often looked at series for guidance on the economy is the Purchasing Managers Index. This is a survey that asks global manufacturers if business conditions are improving, staying the same or deteriorating. A reading above 50 indicates conditions are improving. The index is back above 50 and at levels last seen seven months ago. These signs (plus a stronger than expected U.S. job hiring) are encouraging but a sustainable uptrend is still too early to predict. We sense the global economy is still fragile and ill prepared to withstand any significant negative shock (e.g. a sudden rise in oil prices and/or a disorderly break away of one of the EU members). Last year we believe it was a confluence of several unforeseen events; the Arab spring up-rising which led to a rapid rise in oil prices, the Japanese tsunami that affected production of various industries, the U.S. budget impasse, the U.S. sovereign debt downgrade and a further escalation in the European debt crisis that led consumers and businesses to retreat/pause. We believe these shocks are being absorbed and a resumption of growth is happening.



Source: Bloomberg

In 2011, economists severely underestimated the impact of the shocks (our view also) we discussed above on the economy. Today the reverse is happening as economic growth is surprising on the upside. Below is a graph of an index that tracks economists' expectations of the economy and compares these expectations with the actual data. A reading above/below zero indicates economists have under/overestimated the strength/weakness of the economy. This index appears to be worthy of following, as we note in May of 2011 the number went negative coinciding with a slide in global stock markets and turned positive in late fall of last year and equity markets rose. We accept the fact we are in a low economic environment, but believe the shocks of last year will fade and economic growth will continue.

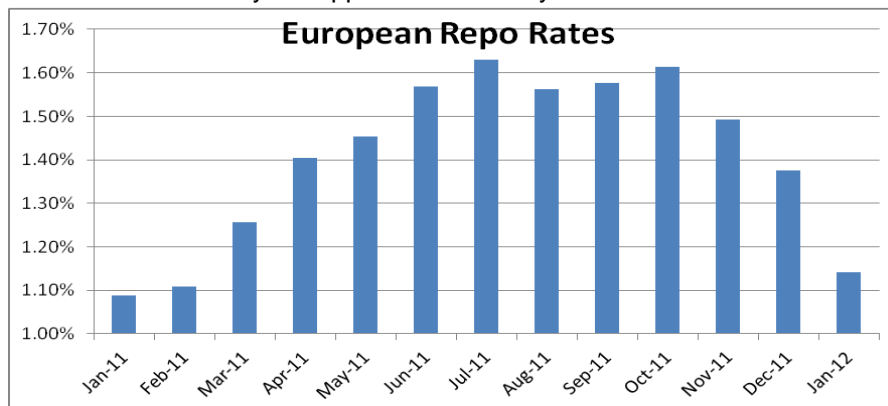


Source: Bloomberg, last data point is January 31, 2012

Financial Conditions: Financial conditions are very different now than six months ago. At the beginning of 2011, as oil and other commodity prices rose, the European Central Bank (ECB) was concerned rising commodity prices would lead to inflation. This led the ECB to increase interest rates (see below). It was only when the European financial crisis escalated further and a new central banker was appointed did the ECB change its policy and lower interest rates.

In 2010 and most of last year, the Chinese central bank was concerned about an over-heated housing market. They implemented measures to make credit availability more difficult. Today, the Chinese are much less concerned about property prices, as the softening in economic activity emanating from Europe and affecting Chinese manufacturers have caused them to ease credit availability. Last year the Federal Reserve in the U.S. had what at the time appeared to be a very "loose" monetary policy, but last week they took further easing measures by announcing they will keep their near zero interest policy in place at least until 2014. Most economists expected the Federal Reserve to begin to raise interest rates in late 2012 or 2013.

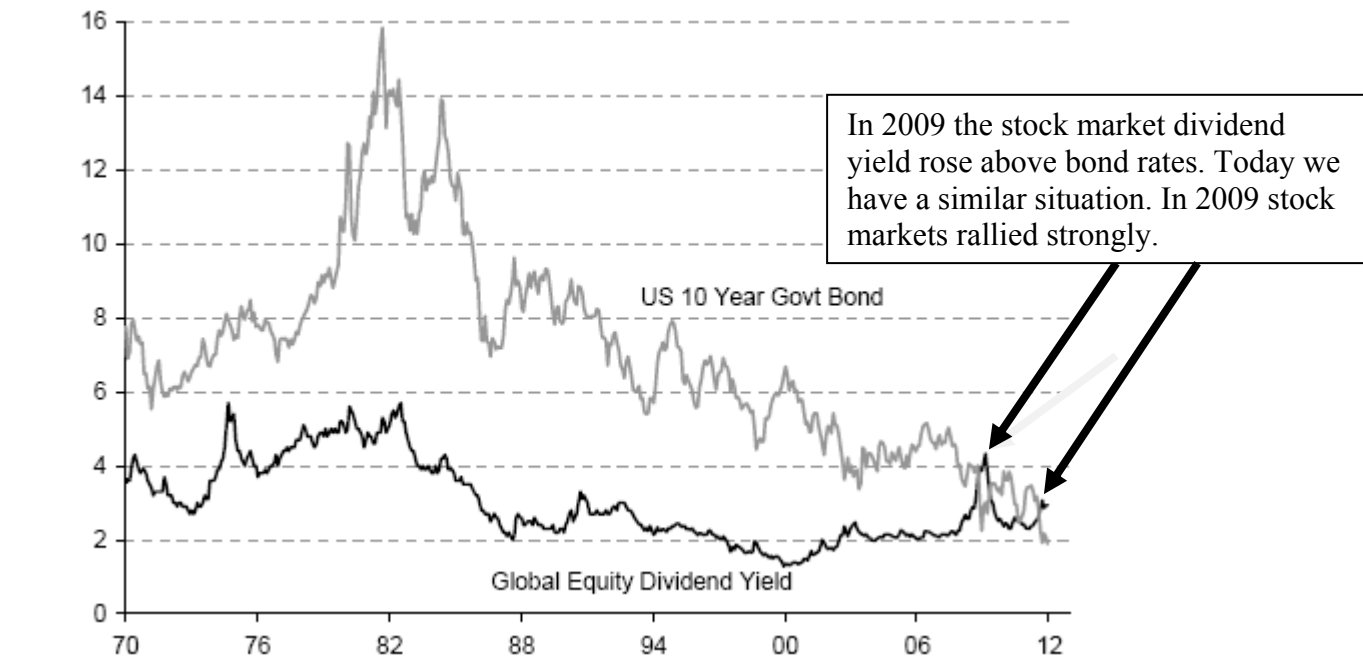
It is clear today all major regions of the world have a "pro-growth" (little inflation to worry about), loose monetary policy which have helped stabilize financial markets (easier to borrow) and breathed life into the economy. We also believe all central bankers are united with the goal to prevent a relapse in the global economy and will do what is necessary to support the economy and credit conditions.



2012 Markets: Last month we wrote that 2012 would be a good year to be invested in the stock market due to a variety of reasons which included better economic news, further policy moves by European and other central bankers, resilient earnings, low interest rates, an undervalued stock market and acquisitions by strategic buyers. We believed it would be the second half of 2012 that would reward investors. We certainly did not believe it would occur so soon. There is always a chance these better than expected economic numbers could reverse, but our sense is it will take a series of shocks to reverse this trend.

We believe markets will rally further, though a pause may be in order, as we see a situation similar to 2009. The graph below illustrates the stock dividend yield of the Morgan Stanley Composite Index (MSCI) relative to the 10-year US Government bond rate. In 2008 and early 2009, investors sold out of the stock market to purchase safe low yielding government bonds (flight to safety) causing the dividend yield of the stock market to rise above government bond rates. It was shortly after this crossover that the stock market reached bottom and rallied for the balance of 2009. Today, the situation is similar to 2009, as the dividend yield on the MSCI (Canadian market included in the index) is above the 10-year bond rate. Although the timing is uncertain, we believe a dividend yield above the Government bond yield is an anomaly and we expect stocks to eventually rise to a level causing the dividend yield to drop below government bond yields.

Global Dividend Yields vs Ten Year Bond Yields



Source: Citigroup, January, 2012

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Director of Research

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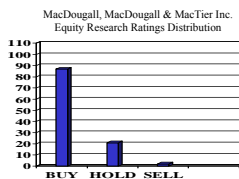
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EPS	Earnings per Share
P/E	Price to Earnings Ratio
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
Market Cap	Total Shares Outstanding multiplied by Shares Price
Enterprise Value	Fully Diluted Shares Outstanding
PEG	P/E Multiple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