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“It’s pretty much been the case for a year now – earnings have been out well ahead of estimates” Vincent Delisle, Strategist at Scotia Capital



The Investment **EDGE**

Spring 2010

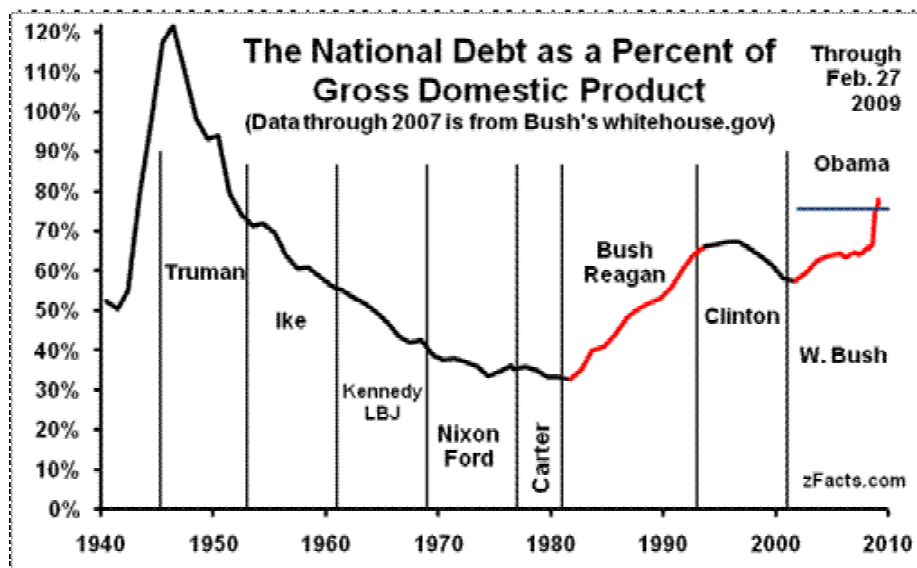
Market Observations

Equity markets around the world continue to push higher on the back of stronger economic data. We are experiencing extremely encouraging signs during this recovery; job creation, retail sales in the US up 10% year over year, rail traffic up 16% and above-average GDP numbers both here in Canada and for our friends to the south. So far this quarterly earnings season sees corporate Canada showing revenue and earnings that are higher than analysts had thought, confirming our assumption that all the cost-cutting of the last 2 years does go directly to a company’s bottom line.

Concerns over Greek sovereign debt default continues to raise it’s ugly head and we would not be at all surprised to see similar problems in Portugal, Spain, and Italy. As intimidating as these problems seem, the market appears to be quite resilient....quick to shake off this negative news flow.

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Historical Perspective: The US Debt situation has actually been worse...



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Cont...

There is no doubt that this sovereign debt issue is going to be a tough bridge for the global economic recovery to cross. However, the important news is that a self-sustaining global economic expansion now seems well entrenched. The challenge for investors will be to avoid over-reacting to the occasional bouts of volatility that are likely as policy makers try to orchestrate graceful exits from the extraordinary policies (zero interest rates and massive economic stimulus) put in place late 2008/early 2009.

The media titled it a “Bailout’ but will history view it as an extremely profitable investment?

Less than two years after it began, the US government’s life-saving embrace of the country’s financial industry is nearly finished. Most of the largest banks have already repaid American taxpayers and now Citigroup Inc, long considered the most vulnerable of the surviving big banks, will join them. The government received the right to buy shares in exchange for a \$25 billion cash infusion made in late 2008 as the financial system tottered. The government plans to sell its 27% stake in Citigroup this year and at today’s prices they stand to turn a profit of 8 billion or 30% rate of return.

GM announced it had repaid in full the 8.4 billion in loans it received from the American, Canadian and Ontario governments, five years ahead of schedule. Albeit these governments still have an approximate 45 billion equity stake in the company – it will be interesting to see if that equity stake also proves to be a good investment.

Keep Thinking Green

Can we send this newsletter to you electronically? In order to reduce paper we would be happy to add you to our email list.

If you have any ideas or suggestions for our newsletter, we’d love to hear from you! Just send an email to linda_koebel@scotiamcleod.com

Changes to CPP

The phasing in of CPP changes will commence in 2011; those who take their CPP retirement benefits before 2012 will not be affected.

Under the old rules where a current applicant at age 60 would be eligible to receive 70 per cent of their expected benefit at age 65; now, under the new rules they will only receive 64 per cent. For someone entitled to the maximum retirement benefit, this represents almost \$700 per year less at today’s CPP rates. Before, if an individual retired before age 65 it was fairly easy to advise to start receiving CPP early – now it is not as clear cut.

Additionally, support for later retirement may be further enhanced by allowing Canadians to continue to work while collecting CPP benefits – a significant policy shift that can prove beneficial, not only for late retirees but also for working individuals who have not maximized their CPP contributions.

Bank of Canada closer to raising rates...

Removing the conditional commitment to keep rates on hold until July and ending Purchase and Resale Agreements are as good as cementing a June 1st hike in accordance with our forecast. That leaves open the debate over whether 25 bps or 50 bps is likely, and our forecast for 25 bps may now be conservative in light of a significantly hawkish bias that has been revealed.

We expect rate hikes in June or July and that trend (higher rates) to continue through to the end of this year.

“The error of optimism dies in the crisis, but in dying it gives birth to an error of pessimism. This error is born not an infant, but a giant.”
Arthur C. Pigou (1920)