REVIEW & COMMENTARY
1ST QUARTER 2010

Much Ado

In the 130 years of our collective investment experience, we can not remember a time where the market's recovery is any less typical than it is now. Good conservative stocks, often the first sold when market fears heightened, do extremely well when the market turns upward. The few who predicted the downturn remain stubbornly vigilant that worse times are ahead and the many investors who sat on the sideline as markets improved wait for a better time to get their money back to work. The number of optimists increases with every notch higher in equity prices.

These days, the amount of information easily available to all parties is enormous and growing exponentially. The problem is that our ability to absorb it hasn't changed at all. Recently, at a social gathering, a friend mentioned a relative that spends most of the day watching a nationally televised investment program. Despite the obvious concerns about introversion, I inquired whether the person's portfolio performance had improved measurably. The answer was "Yes, until the big downturn in the market." Thus, despite the increased availability of "expert opinions" for public consumption, the markets are no more predictable than before. Importantly, it is the quality of the information not the amount that makes a difference. And while we are pleased with our long term returns, our short term predictions are no better than those of others. However, we still feel quite comfortable with our predictions for 2010 contained in our last commentary.

We anticipate that interest rates will stay low in the US until ample evidence suggests that the economy is turning decisively. On Easter Friday, US payrolls showed a growth of 162,000 in March, the largest increase in 3 years. The largest increase was in private sector and while there are many disbelievers, our simple take is that the economy is improving- at worst slowly and it would appear that the idea of a "double dip" recession is less likely. Further, corporate America (and Canada for the most part) has lots of cash and financial flexibility. Skeptics continue to suspect that emerging markets such as China will be unable to continue on their torrid pace of growth; however, the increasing strength of natural resource prices would suggest the opposite: China, India and many other emerging economies' "industrial revolution" may very well last decades. The thesis we outlined at the beginning of the year remains sound from our view; low short term interest rates, an improving economy, growth from emerging countries, lots of cash on the sidelines, financially sound corporate balance sheets and a worldwide banking system that appears to have the worst behind it, all point to one conclusion- equities are a better alternative to cash and bonds.

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Interest rates will go up and equities will be volatile. While we don’t expect equity prices to continue to appreciate at the torrent pace of the last twelve months, we are comfortable with the businesses we have invested in. Investing in financially sound companies has been very rewarding over the past year, the past five and particularly the past 10 in Canada. Many Canadian companies have recently raised their dividends. In the past year, 44 of the SP 100 US companies have increased their dividends. This is testimony to at least two things in our view; one, many companies expect their own fortunes to improve and two, even if their stock price may be volatile, as long as their dividend is paid- or increased- these companies will be superior investments. Certainly, we feel that if so many of these companies feel confident enough to increase their regular distributions to investors, they too are seeing an improving financial horizon- something we should all note. We still believe that many, if not all, of the Canadian banks will increase their dividends this year.

Very few people catch the top or bottom of the market and it is even rarer that the same person catches both. So watch or listen to whomever you want but keep in mind that the world’s population is getting bigger every day and in the long run solid companies will too.

Stodgell Investment Management Ltd.