FOURTH QUARTER COMMENTARY

JANUARY 2010

THE INDEPENDENT ACCOUNTANTS' INVESTMENT COUNSEL INC.

A Turn Around Year for the Global Economy...

The fourth quarter of 2009 capped off a year that started off mired in one of the deepest recessions in 80 years. Credit must be given to the US Treasury, the Federal Reserve and central banks around the world. Twelve months later the economy is showing positive signs of being on the mend. Without the swift and co-ordinated efforts of both the Obama and Bush administrations with their international partners to support their banking systems and inject stimulus into the global economy, we may have found ourselves dealing with an economic Armageddon. This is not to downplay what we have been through over the past 24 months. Many people are hurting and will continue to hurt for years to come. Manufacturing jobs have evaporated and may never return. The ripple effect this has had in communities where large plants have laid off their workforce, or closed for good extends to retailers, service providers and even volunteer organizations. Seniors have seen their pensions and savings erode and many will never be able to live out the retirement that they were planning on.

But there are many signs that better times are ahead. Employment seems to be stabilizing and some companies are now rehiring, anticipating increased output and profits. Housing in Canada, which slumped in the latter half of 2008, has bounced back to life with some cities reporting record sales and prices exceeding the levels reached prior to the downturn. US housing stats for the most part are also providing signs of hope. Foreclosure rates are slowing and housing inventories are declining. The auto sector is another barometer of the economy. After a painful restructuring compounded by credit issues making funds for car loans and leases basically nonexistent, the sector is rebounding. Again, government intervention to assure the orderly restructuring of General Motors and the acquisition of Chrysler by the Italian automaker Fiat, as well as stimulus funding to encourage consumers to purchase new vehicles, seems to have had the desired affect. Sales in the North American market have been improving and the industry is forecasting a 15 – 20% increase in 2010. The ripple effect of this will touch many sectors of our economy.

The question is thus, how does all of this translate to the stock market and what should investors expect? First, it is important to re-iterate an excerpt from our Third Quarter Commentary: "The stock market is a leading indicator of our economic state". This means that the improving economy that we are now experiencing was priced into the market months ago. Investors have reason to be more cautious now than they may have been at this same time last year. The downside risk now is that expectations priced into the market are not realized in the first two quarters of 2010. Investors need to appreciate that the returns the market enjoyed in the last three quarters of 2009 will not be realized in 2010. Again, we re-iterate another excerpt from our previous Commentary: "After a severe downturn, the largest gains to be made in the stock market are in the two – three months following its low point." While we anticipate that the economic recovery will continue, as many leading indicators are showing, we caution investors to anticipate a slower growth rate in stock prices and some possible retrenchment of prices if corporate earnings fail to meet expectations.

Finally, when talking about the global economy and the world's stock markets, one needs to consider China and other key emerging markets. Growth in many of these economies, as anticipated, helped to mitigate the downturn we experienced in North America and Europe. For example, in 2009 auto sales fell drastically in North America. At the same time China posted gains of 5 million units making it the largest automotive market in the world. We need to pay careful attention to economic and political developments in these emerging economies and ensure that we have some global diversification in our portfolios.

Inflation and Interest Rates...

Other key measures we must pay attention to are inflation and interest rates. With US unemployment at 10% and Canada nearing 9%, there is a mitigated risk of inflation taking hold in the short-term. At present, the major risk impacting inflation is government spending and deficits. As we head back to prosperity and growth, inflationary pressures will start to influence monetary policy and short-term interest rates will increase. The market is already anticipating this which is supported by an upward sloping yield curve. Higher rates further out (i.e. 5 –years) are effectively incorporating the market's future expectations of short-term rates rising.

Please contact your local IAIC Representative if you have any questions regarding this commentary.

145 Main Street East, Listowel, ON, N4W 2B5 – Tel: (877) 291-3040 Fax: (519) 291-1240