

QUEENSBURY GROUP OUTLOOK

January 2012

The Economic Club of Canada recently released their survey results which reveal a severe disconnect between how economists assess our economy and how Canadians view their prospects. The survey found optimism towards the Canadian economy has dropped to 25% of those surveyed compared with 54% in 2009. Doug Porter, BMO deputy chief economist, said “by most definitions we’re not even close to being in recession in Canada. It is somewhat baffling that Canadians are so dour”. This pessimism is validated by the fact that stocks appear undervalued when compared to their historic metrics.

At the Empire Club’s Annual Investment Outlook last week, presented by the Investment Industry Association of Canada, it was pointed out that, unlike government balance sheets, corporate statements have never been stronger. Bond yields are at historic lows and are likely to remain there for at least a couple of years as the current cycle of deleveraging runs its course. As such, there is little incentive for purchasing bonds or other fixed income securities especially on an after-tax basis.

This past year has seen a 9% decline Canadian stock prices as measured by the S&P TSX. There has been no appreciation in equity prices over the past five years in Canada, or for that matter in the United States. The Rule of 20 subtracts the rate of inflation (2.5%) from 20 to estimate a reasonable P/E ratio for stocks. The current P/E ratio for the S&P TSX of 14.5 times is well below the estimate of 17.5 times according to the Rule of 20. This suggests that there could be a surprise upward move in equity prices of 15% - 20% (without any increase in earnings) to bring this metric into line.

Dividend yields of between 4% and 5% are available from a number of top quality, blue chip Canadian companies. One of these companies (BCE) has managed to increase its dividend seven times over the past three years. We believe there is good value in this space. Specific recommendations in keeping with individual investment objectives and level of risk tolerance are available from your Queensbury advisor.

Levels	DJIA	S&P 500	S&P TSX	Chart		
				Bank Prime	10 yr Bonds	Cdn \$
Jan 2012	12,418	1,277	12,226	3.00%	2.0%	98.78
Jan 2011	11,823	1,276	13,437	3.00%	3.3%	99.89
Jan 2010	10,067	1,073	11,094	2.25%	2.8%	93.52
Jan 2009	8,009	825	8,694	3.00%	2.7%	81.53
Jan 2007	12,621	1,438	13,034	6.00%	4.1%	98.74