

MARKET WATCH WEEKLY

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After closing out the week down 180 points to 11,094.31, the TSX has begun this week and month strongly up 233.34 points on Monday and 90 points yesterday to 11,408.34. The Dow has seen similar movement. The dollar is up to \$0.95 to the US dollar. Oil is hovering around US\$77 and gold is at US\$1,113.60 per ounce. As January rapidly went by, we look at what is happening right now, particularly in the US, and how the remainder of 2010 might look for a few currently dominant sectors and overall major economies.

In the US, President Obama has presented a controversial federal budget in which there are key economic and taxation strategies that are worth questioning for their longer-term impact on US economy and its future growth. Please review the following commentary on decidedly challenging points from this budget:

First, the Obama administration is adopting a slew of policies that are incentive structure-incompatible with growth. These include the wrong kind of fiscal stimulus (e.g., very little investment spending), a larger and more intrusive role of the state, disincentives for small business expansion, and the wrong kind of tax hikes (e.g., increased taxes on labor rather than product).

Second, the administration is dealing with the looming demographic threat to the economy by exacerbating rather than mitigating the entitlements time bomb. For example, it has attempted to enact a health care reform package sharply increasing demand for health care services while simultaneously reducing long-term supply – the worst possible demand/supply mix from the standpoint of “cost control,” which was supposedly one of the main goals of reform.

Third, and most fundamental, the Obama administration is willingly presiding over a doubling of US sovereign debt at exactly the wrong time – namely, on the doorstep of the retirement of the baby-boomers, which will trigger another \$50 trillion of “unfunded liabilities” and ever-higher taxes.

All of these developments create a drag on the economy at the very point that growth should be the key driver. Growth (the more rapid the better) is the only way of outgrowing the debt and lowering the debt/GDP ratio. As many economists now predict 3% growth during the current and last quarter but at this stage in a transition economy GDP growth would typically be much higher say 6% plus.

President Obama's handling of the bank bailout may not be heavy handed enough. Americans could possibly be cycling into another credit and housing bubble as credit is once again cheap, and taxation policies support personal debt accumulation.

Americans also enjoy a tax system that pushes them to max out their credit limit on first and second homes because mortgage interest is fully deductible. Congress recently boosted those generous incentives with an \$8,000 credit for first-time home buyers. And so far, none of the proposed financial reforms addresses the critical problem of banks that are so large they endanger the financial system, according to Neil Barofsky, US Troubled Asset Relief Program's special inspector.

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TODAY'S STOCK WATCH

S&P/ TSX Composite	11,365
Dow Jones Indus. Avg.	10,256
S&P	1,511
Canadian /US Dollar	\$1.0615
US/Canadian Dollar	\$0.9425
Gold	\$1112.20
Silver	\$16.40
Oil	\$77.15

CANACCORD Wealth Management

In Canada, while our own economy is moving forward with less of the above issues, we still face a mounting deficit that the new budget will have to address. Going forward, we can see a shift to focus more on world economics as oppose to being so closely reflective of US policy. 2010 has a positive outlook which domestically will still have large influence by commodities, energy and metals. Review the following commentary on the positives and negatives for this sector in 2010 (from Dundee Economic Monitor):

The following **bullish factors** will underpin a further rise in commodity prices in 2010:

1. Continuous global economic recovery
2. Robust growth in emerging economies led by China, currently the world's biggest consumer of base metals and the second biggest consumer of energy resources.
3. Possible further weakening of the US dollar and rising inflation expectations in the second half of 2010
4. Rising geopolitical risks – this factor is expected to increase the volatility of crude oil prices, and is likely to offset any possible downward pressures on prices; the 2010 year-end price is likely to be US\$90 - \$95/bbl with 2010 average of low \$80's.

The following more **bearish factors** argue that price rises will be more subdued than in 2009:

1. High level of global inventories at historic highs for many base metals and energy
2. Slow global economic recovery and low inflation
3. More supply: high cost oil producers, including Canada and Brazil, have started to pump more oil in response to the recent run up in oil prices
4. Lower-than-expected demand growth in emerging economies (particularly demand for energy commodities)

Overall, commodity prices are likely to experience some periods of sideway digression in 2010 and occasional corrections, with the result that the total price gain for most of the commodities is unlikely to be more than 20% in calendar year 2010. We are still quite positive on Canadian commodity companies, such as Goldcorp and Encana.

As always, please call or email us with your comments.

Have a great week,

The Dekker Hewett Group

Did you know?

RRSP Contributions

- \$22,000 maximum limit for 2010 or 18% of earned income.
- \$21,000 maximum limit for 2009 or 18% of earned income if you did not contribute.
- Deadline for 2009 contributions is **March 1st**.

Tax Free Savings Accounts

- \$5,000 annual limit, for 2009 and 2010. Total \$10,000 contribution available.
- Contributions are cumulative and can be caught up like an RSP.
- Withdrawals are not taxed and you can contribute the funds back in.
- Stock or cash contributions are allowed.

Financial Planning

- We offer Financial Planning through our Foundation Program. Call us for a review today.