

CFO MONTHLY REPORT

Holiday
Issue

November -
December

2011



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Macic 2011/2012

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Welcome

Welcome back to another school term at McMaster! In continuing with our desire to provide you with as much information as possible, the following pages will describe both general market activity and portfolio performance, but more importantly, it will also show a connection between the two and how the Mac Investment Club has been able to persevere during these volatile times. Our “MACIC Looking Forward” section has a particular focus this issue on the McMaster Capital Markets Conference that is taking place on Saturday, January 14th at Burlington’s Ron Joyce Centre. Check out page 6 of this issue for more detailed information on the event, including a full list of speakers and firms in attendance (TD, BMO, Scotia, RBC, CIBC, Morgan Stanley, just to name a few).

2011 was an outlier in many sorts as world markets tried to grapple with the constantly changing market situations. These events have not gone unnoticed by the club either. The bulk of these news stories have been surrounding the European debt crisis. European officials have met a record amount of times over the past year. A final 2011 summit that took place December 6-8 marked the 15th summit for leaders. Markets over the past few months have been described as “schizophrenic” as they whipsaw back and forth and are driven by heavily by news, versus underlying fundamental values for specific firms and assets. The world economy is filled with opposing views; for every individual that has a bullish outlook on a certain situation, there is general an equal number of opponents with a bearish outlook. This has never been more true within the past few months as news headlines, largely from Europe, have been consistently moving markets in both up and down trends.

During the month of November MACIC continued its mandate of “Education Through Action” by delivering more events for our investors and members. Our sector teams were able to put together pitches on a weekly basis, meaning that we were given the opportunity to invest in the markets on a weekly basis. Along side this, we also had a CFA prep workshop on November 16th, hosted by Stalla, given students an overview of equity analysis while providing them with sample questions that would be found on the CFA Level 1 exam. Just as exams neared the corner our Senior Trader Victor Kuntzevsky delivered another of his seminars to students, this time on the general market and economy. The club took a break from operations throughout December to allow members to focus on exams and enjoy a happy Holiday season. MACIC will resume regular term operations on January 11th with a pitch on BHP.N, and of course with the McMaster Capital Markets Conference taking place three days following this.

Key News Stories

November 2011 saw world markets whipsaw back and forth as economic and political news stories continued to dominate the direction of all asset classes. November 1st saw one of the worst open for North American stocks since the Great Depression as the Greek Prime Minister announced he had plans to hold a referendum for his people to vote on the newly-approved bailout package for the debt-ridden country.

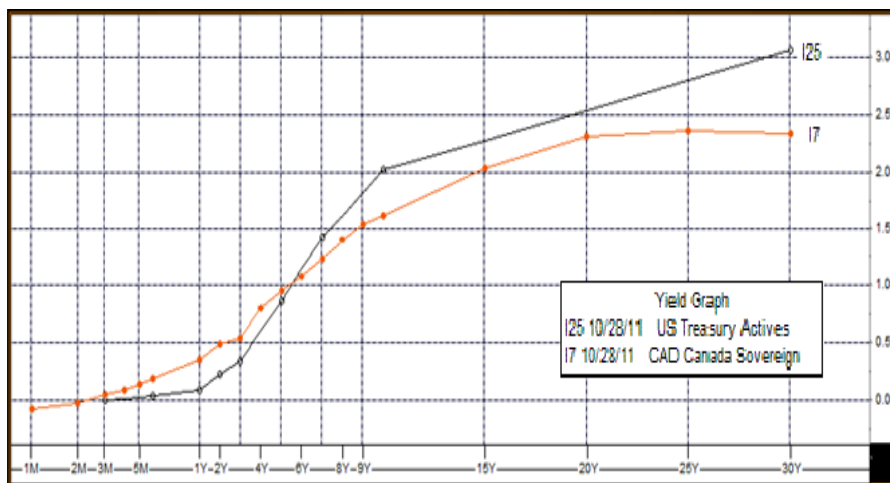
November was also flagged with serious concerns over the possibility of debt contagion spilling over into other European countries. Investors grew weary not because of the amount of debt Greece had, but over the large amounts that countries, including Germany and France, were holding. Bond auctions from European countries painted a grim picture of the economy as yields have risen to record highs. A November 23rd German bond auction left one third of bonds unsold, initiating fear that the crisis had spread to Europe’s most resilient country. November 29th saw Italy raise €7.5 billion, but at more than 7 percent. A sharp mid-November decline of over 5 percent in North American markets reminded investors that markets were still extremely volatile and reactive to news-driven events. After market close on November 21st, the U.S. bipartisan committee tasked with reducing the deficit by \$1.2 trillion failed to come to an agreement. The outcome means that automatic cuts outlined in the bill that created the committee should take effect in 2013. The U.S. national debt has recently risen to above \$15 trillion.

Mario Draghi, the new head of the European Central Bank, announced on December 1st that the ECB stands ready to act more aggressively to fight Europe's debt crisis if political leaders agree to much tighter budget controls at a December 9th summit. This announcement came as he delivered the bank's annual report to the European parliament. A December 1st rally came as unemployment figures on both sides of the border were released. Despite the Canadian unemployment rate rising to 7.6 percent, the U.S. figures unexpectedly declined below the psychological barrier of 9 percent to come in at 8.6 percent. American indices rallied on this bullish figure to further maintain the "Christmas" rally equity markets had been experiencing.

On December 8th European leaders held lengthy talks in Brussels which resulted in the addition of \$267 billion to the crisis fund, as well as being able to tighten anti-deficit rules. This summit marked the 15th time leaders have met this year. The start of a 500 billion-euro rescue fund was also sped up to next year and diluted demand that bondholders would carry losses. There is still a long way to go though as is apparent with the record high yields being experienced. Even with the European Central Bank buying Italian and Spanish bonds in the market, yields continue to decrease amid fear that those countries will not be able to repay their debts. German Chancellor Angela Merkel says a breakthrough was achieved at the summit as Europe sets a March deadline for reassessing plans to cap the overall lending of the permanent rescue facility at 500 billion euros.

By mid-December markets had once again reversed trends and began declining amid uncertainty regarding Europe. Investors became worried that governments would not be able to pull through on the promises they had made during the prior few weeks. Stocks were able to regain some of these losses as Italy's Prime Minister urged European policymakers to beware of dividing the continent in the effort to contain the debt crisis as he wins austerity approval in the Lower House for Italy. On December 16th a bipartisan agreement was also reached after a day of negotiations. A \$202.4 billion extension of a payroll tax cut, expanded unemployment benefits and a provision preventing doctors from having their Medicare reimbursements cut will be put into effect.

A late Christmas rally was able to add upwards of 3 percent to major North American indices the week starting December 19th with the S&P 500 adding 3.7 percent alone. This figure is not by any means representative of how the index has performed throughout the year. With a current 2011 gain of just 0.6 percent, this is the smallest percentage change for the S&P since 1970 when it decreased by just -0.1 percent. Throughout the year though, volatility has been consistently moving markets based on news story after news story. Despite all of this, confidence is steadily returning to North American markets. The Thomson Reuters/University of Michigan index of consumer sentiment for December rose to 67.7, which beat analyst estimates of 65.8.

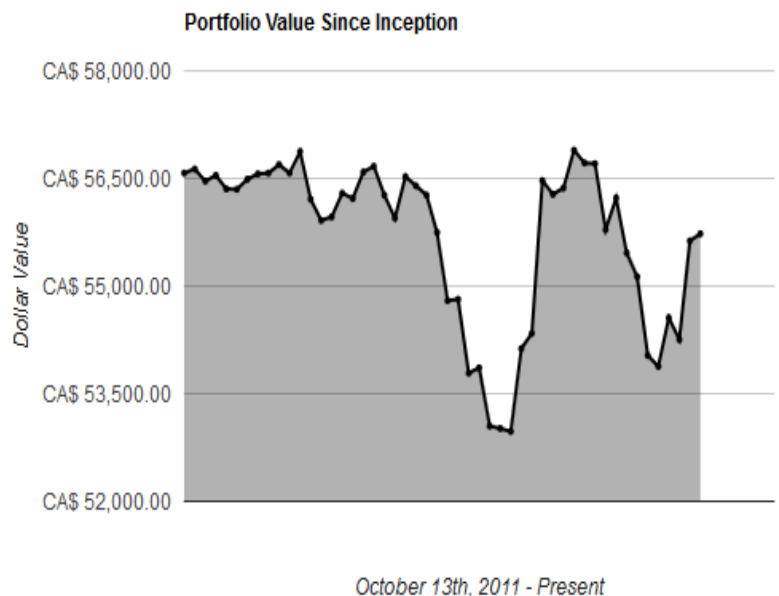


The adjacent figure represents the yield curves for the U.S. Treasury yield and the Canadian Sovereign rate as of December 16th. Medium and long-term yields have decreased for both benchmarks over the course of the past couple months with the U.S. Treasury rate even dropping below 3 percent for a brief amount of time in early December. The Canadian rates continue to decrease at a quicker pace than its counterpart. Short-term rates on both sides of the border continue to be held near 0 percent and will likely remain as such throughout 2012, and possibly 2013.

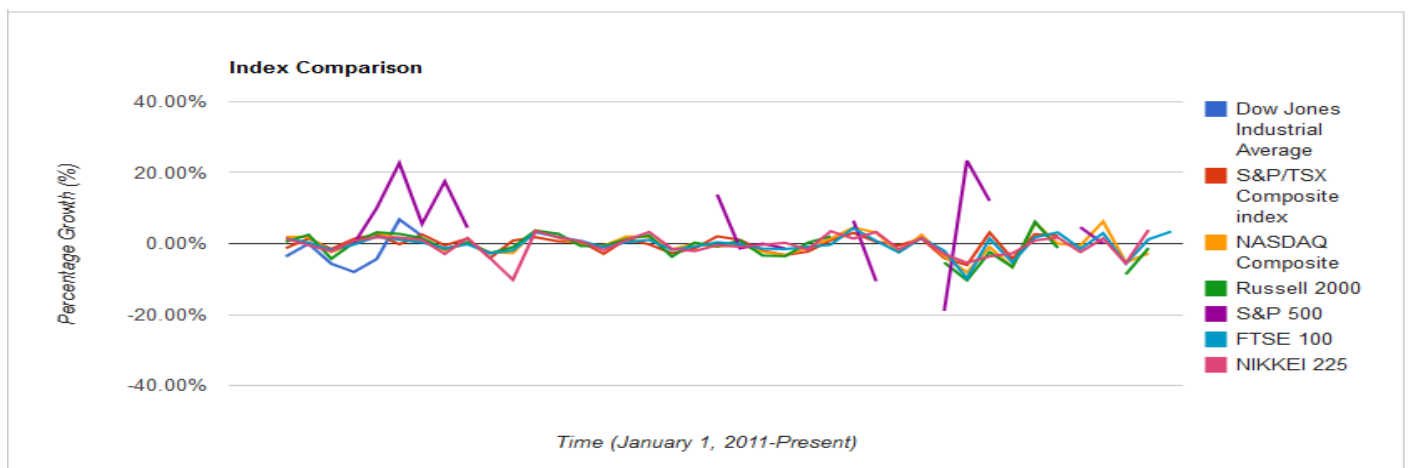
Our Portfolio

November proved to be one of the most volatile months for our portfolio. One thing that has really shown through recently is the club's ability to pull through in volatile situations like the one we are in now. One of our biggest downfall's last year was that the stocks in our portfolio often hit their stop-loss, even if only for a very brief amount of time before bouncing back. This year, by going back to our mandate of "education through action", our members have become better educated in determining appropriate stop-losses, and in some cases, have determined it was better all together not to have one. Our portfolio is also now comprised of only 6.2 percent cash. Percentage-wise, this is the most we have ever been invested in the markets with (last year was our absolute value record with approximately \$65,000 invested by February 2011).

The adjacent chart shows the club's portfolio value since October 13th. When compared to the movement of North American indices, the values are very similar. The steep decline of roughly 4 percent during the first half of November was due to the political state of European nations including Greece and Italy. What started on November 1st with Greek PM Papandreou calling for a referendum on the bailout package the rest of the European Union had agreed upon resulted with his resignation a week later. Adding to this decline was record high yields in Italy, which also resulted in a change of leadership as Silvio Berlusconi resigned and Mario Monti was sworn in as Prime Minister. By mid November the portfolio was able to regain momentum and close in the green as companies held began to churn out positive news.



The following chart shows the historical performance of major world indices over the past year. As you can see, our portfolio follows the S&P/TSX the most closely as a result of our diversification with stocks on the index.



The past month saw the club exit two positions. After markets as a whole started a downward trend around mid-November on contagion fear from Europe, Silvercorp Metals, SVM.TO hit its stop loss and was sold at \$7.50, which resulted in a loss of -23.67 percent for the club. The position was for 500 shares. A little over a week later, on November 30th, we exited a 1000-share position of Orbite Alumninae, ORT.TO, selling at \$3.31, which locked in a profit of 39.71 percent for the club.

TransCanada Pipelines and Suncor both originally pitched in October, hit their limit-buy orders as the general economy dragged stocks to an attractive buying price. A 100-share position of TransCanada, TRP.TO, was bought at \$40.50 at the beginning of the month while a 200-share position of Suncor, SU.TO, was recently bought at \$28.00.

Other positions bought throughout the month include Ithaca Energy Inc. (IAE.TO), Citigroup Inc. (C.N), Apple Inc. (AAPL), Potash Corp. of Saskatchewan Inc (POT.TO), and Agrium Inc. (AGU.TO). The following chart represents the club's current holdings as of December 20th.

MAC Investment Club 2011.2012 : Open Positions

Security Statistics				BUY				Unrealized Gains or Losses			
Security Name	Ticker	Exchange	Currency	Shares	Buy Price	Fees	Total Cost	Current Price	Current Value	Gain/Loss	% Change
Cash			CAD				\$CAD 58,575.00		\$CAD 3,516.40		
Bombardier Inc.	BBD.B	TSX	CAD	500	\$CAD 4.05	\$CAD 9.95	\$CAD 2,034.45	\$CAD 3.68	\$CAD 1,830.05	-\$CAD 204.40	-10.05%
Premier Gold Mines Limited	PG.TO	TSX	CAD	800	\$CAD 5.21	\$CAD 9.95	\$CAD 4,177.95	\$CAD 4.47	\$CAD 3,566.05	-\$CAD 611.90	-14.65%
Toronto-Dominion Bank	TD.TO	TSX	CAD	100	\$CAD 76.19	\$CAD 9.95	\$CAD 7,628.95	\$CAD 74.47	\$CAD 7,437.05	-\$CAD 191.90	-2.52%
TransCanada Corp	TRP.TO	TSX	CAD	100	\$CAD 40.50	\$CAD 9.95	\$CAD 4,059.95	\$CAD 44.02	\$CAD 4,392.05	\$CAD 332.10	8.18%
Ithaca Energy Inc.	IAE.TO	TSX	CAD	1,700	\$CAD 2.17	\$CAD 19.90	\$CAD 3,707.90	\$CAD 2.16	\$CAD 3,662.05	-\$CAD 45.85	-1.24%
Citigroup Inc.	C	NYSE	CAD	200	\$CAD 27.39	\$CAD 19.90	\$CAD 5,538.05	\$CAD 28.53	\$CAD 5,695.23	\$CAD 159.18	2.88%
Apple Inc.	AAPL	NYSE	CAD	20	\$CAD 385.51	\$CAD 9.95	\$CAD 7,720.06	\$CAD 407.86	\$CAD 8,147.29	\$CAD 427.23	5.53%
Potash Corp. of Saskatchewan, Inc.	POT.TO	TSX	CAD	125	\$CAD 43.41	\$CAD 19.90	\$CAD 5,446.15	\$CAD 43.39	\$CAD 5,413.80	-\$CAD 32.35	-0.59%
Agrium Inc.	AGU.TO	TSX	CAD	100	\$CAD 70.38	\$CAD 19.90	\$CAD 7,057.40	\$CAD 70.07	\$CAD 6,997.05	-\$CAD 60.35	-0.86%
Suncor Inc.	SU.TO	TSX	CAD	200	\$CAD 28.00	\$CAD 9.95	\$CAD 5,609.95	\$CAD 28.58	\$CAD 5,706.05	\$CAD 96.10	1.71%
Initial Portfolio Value					Current Portfolio Value		\$ Portfolio Change		% Portfolio Change		
CAS 58,575.00					CAS 58,363.07		-\$CAD 211.93		-0.37%		
								Full Share Value		Half Share Value	
								\$CAD 249.08		\$CAD 124.53	

The World Looking Forward

Europe will remain the focus in world markets as they continue to struggle with the debt crisis. European leaders will also continue to be watched to see if they are able to pull through on the statements they have made over the past few months. Concern will continue to be placed upon countries at risk for contagion effects from Greece, primarily Italy, who has seen historically high yield levels recently. The country is viewed as too big to rescue and the current fear is that Italy's downfall would likely also lead to the downfall of the Euro. The country will continue to hold bond auctions into the new year. These auctions will be a strong determinant of the health of the country and the faith investors have.

The Middle East will also continue to be watched as Iran might disrupt traffic through the Straits of Hormuz, located at the mouth of the Persian Gulf. This passageway accounts for one-sixth of the world's oil shipments and could have significant upward pressure on the price of Crude Oil should turmoil persist. The U.S. has said they would not tolerate any of these disruptions. If this were the case and the U.S. was to become directly involved, it could have a direct effect on certain sectors and asset classes, predominantly commodities and defence.

North American equities, who have recently been following the euro's move, may take a brief patriotic swing as they become less impacted by the currency as we enter earnings season this week and events rigged closer to home. The bulk of announcements will be in the weeks ahead. January will be a relatively important month for economic data as figures related to the Holiday season will be released. These will be a good indication of how

North America has reacted in terms of the Euro debt crisis. The second week of January will also mark the unofficial start to earnings season. Alcoa, AA.N, who is generally one of the first to announce, will be the first to report on January 9th.

On January 9th German Chancellor Angela Merkel and French President Nicholas Sarkozy will meet on January 9th, their first in the new year. Arranging plans for the first EU summit of the year that is taking place in late January will be on the agenda. The weeks ahead also have several European sovereign debt auctions taking place, although the focus will be on yield levels in Italy and Spain. Both countries are set to auction bonds during the second week of January.

MACIC Looking Forward

MCMaster CAPITAL MARKETS CONFERENCE (MAC CMC) – JANUARY 14th, 2012

The McMaster Capital Markets Conference (MAC CMC) is a new finance conference focused around current issues and trends taking place in the capital markets while connecting students with industry professionals in a real world environment. The event is taking place on Saturday, January 14th, 2012 at the Ron Joyce Centre in Burlington. Delegates will be exposed to Capital Markets through industry discussion panels, guest speakers, workshops, and networking events. The inter-university conference will conclude with a Cocktail Mixer where students will have the opportunity to network with peers, colleagues, faculty and professionals in the field.

The opening keynote is Mr. Craig Alexander, Chief Economist at TD Bank Financial Group. Other speakers and industry professionals in attendance throughout the day hold a variety of positions at firms including RBC Capital Markets, Scotia Capital, BMO Capital Markets, CIBC World Markets, TD Securities, Thomson Reuters, Jameson Bank, Investors Group, and Edward Jones, among many more.

To find out more please visit our website, www.maccmc.com, as well as our Facebook and Twitter pages (McMaster Capital Markets Conference, @McMasterCMC). Tickets are on sale now and can be purchased via paypal at: www.maccmc.com/registration. Likewise, a table will be set up in the DeGroot School of Business lobby during the first week back after Christmas holidays should you prefer to pay in cash or cheque, however online payment is preferred to ensure attendance at the event. This is a great opportunity to expand your network while hearing first hand from Analysts, Associates, Vice Presidents, and Managing Directors what their thoughts on current market events are. Get your tickets before we sell out!

Info booth dates in the DSB lobby:

Jan. 9th, 10th, 11th – 10:30am – 3:30pm

*Tickets can be purchased with either cash or cheque (to McMaster Capital Markets), or online (www.maccmc.com/registration).

Firms at the Cocktail Mixer:



Securities



**RBC
Capital
Markets**



THOMSON REUTERS



**JAMESON
BANK**



Scotia Capital



**CIBC
World Markets**



BMO Capital Markets



**Investors
Group**

Edward Jones

...and many more!