

# CFO MONTHLY REPORT

January

2012



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## Welcome

Welcome to another issue of the Mac Investment Club's Monthly CFO Report!

January 2012 turned out to be extremely positive for the club with more than just one landmark accomplishment achieved. The club's portfolio was able to stay in the green throughout January, even being able to break to 10 percent resistance. On January 27<sup>th</sup> the club closed at 10.43 percent – the highest we've closed at this year! Although we at the MacIC put education before any monetary gains, the current return can't go unnoticed. This great feat could not have been accomplished without the help of everyone who has participated with the club this year. Fund managers, associates, investors, and general members, it has been your continuous efforts with the club that have helped us grow tremendously this year. Every stock you have pitched, or question you have asked, have aided us in being able to expand your knowledge on the markets, and ultimately be able to post these returns. Keep up the great work throughout the remainder of the term!

January 14<sup>th</sup> marked the inaugural event for the McMaster Capital Markets Conference – an event co-organized with the DeGroot Finance Association and the MBA Finance Association. The event turned out to be a huge success with over 65 student delegates in attendance and over 30 guests from firms including TD Securities, RBC Capital Markets, BMO Capital Markets, Morgan Stanley, CIBC World Markets, Scotia Capital, and many, many more! Delegates were able to be exposed to almost every corner of the capital markets as they became engaged with speaker presentations, discussion panels, workshops, and networking sessions. The talented roster of speakers included the likes of Mr. Craig Alexander, Chief Economist at TD Bank Financial Group, Mr. Rob Wittmann, President & CEO of Jameson Bank, Neil Mohammed, Managing Director at BMO Capital Markets, and Paul Bates, Strategic Advisor the President at McMaster. The discussion 5-member discussion panel featured young professionals working in a wide variety of roles in the capital markets who were able to share both their experiences and expertise with students. Students were also able to gain insight into portfolio management with a CFA-prep workshop provided by Schweser. Thank you to all those who participated in the event and who helped make it such a success. Information regarding the committee for next year's conference will be sent out shortly. If you have any feedback from the event, please send your comments to [deveauk@mcmaster.ca](mailto:deveauk@mcmaster.ca)

## Key News Stories

As investors began to regain confidence in world financial institutions, markets were able to keep up the 'Christmas rally' into the new year. January 2012 marked the best start to a new year since 1987. So far the S&P 500 has risen over 4 percent this year, closing above 1,300 points on January 17<sup>th</sup> for the first time since July 2011.

Positive economic data was released right from the get-go with U.S. Unemployment data being released on January 3<sup>rd</sup> at 8.5 percent, beating consensus estimates of 8.6 percent. This figure represents the lowest unemployment rate in three years, something President Obama has made sure to touch upon in regards to his re-election campaign. The Canadian figure remained unchanged at 7.6 percent. Throughout the month a series of other positive indicators were released. The NY Manufacturing Index came in at 13.6, significantly beating analyst estimates of 11. Manufacturing in New York has expanded at the fastest pace in 9 months. Other economic data also came back positive throughout the month. Durable goods orders in the U.S. rose 3 percent in the past month, beating analyst estimates of 2 percent. New U.S. applications for unemployment benefits continued to drop throughout the end of the month with the latest claims (as of January 26<sup>th</sup>), showing continued improvement in the labour market. Jobless claims dropped 50,000 to 352,000.

Figure 1: U.S. Unemployment Rate

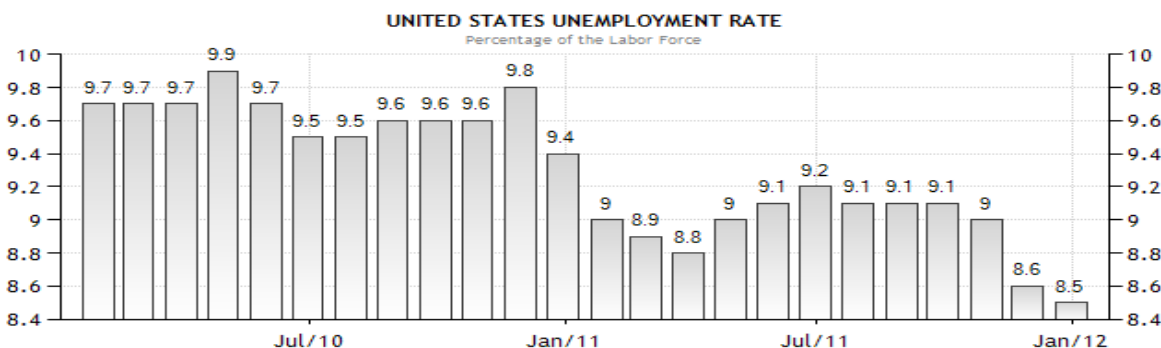
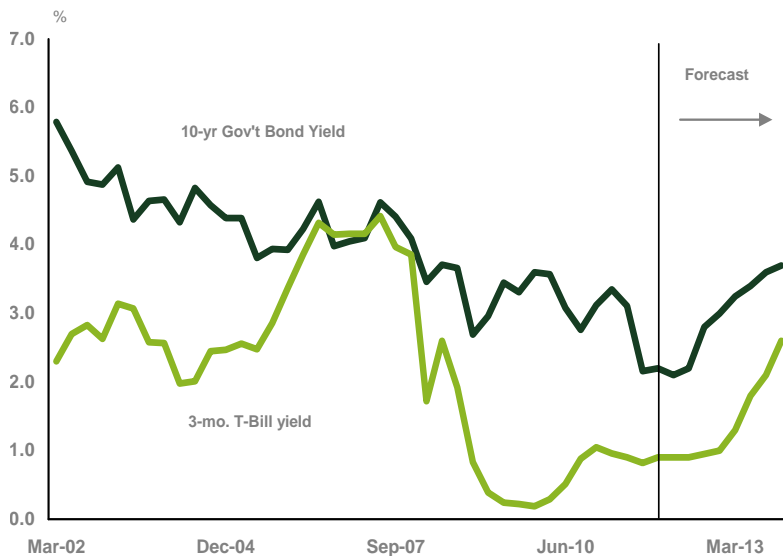


Figure 2: U.S. Treasuries



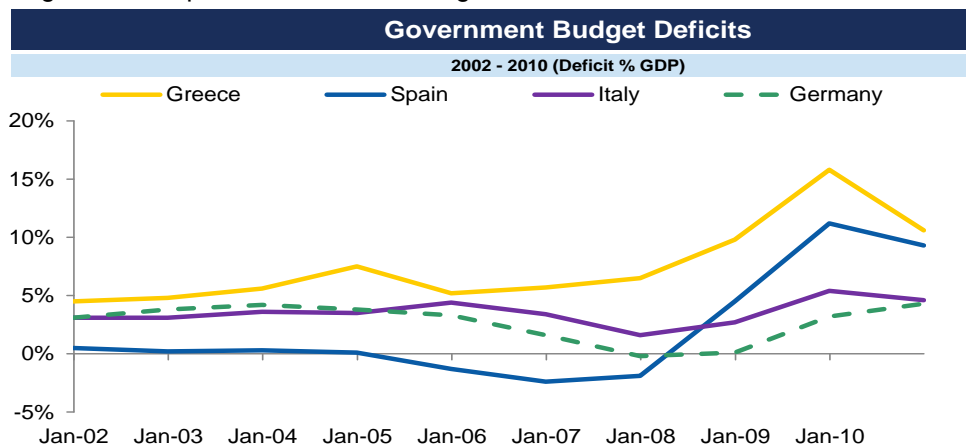
Forecast by TD Economics as at December 2011  
 Source: Bank of Canada/Haver Analytics

Despite investors having regained confidence in U.S. markets, troubles in Europe continued to be of focus. A series of downgrades by the S&P lead to almost every European country, except for 4, to lose top credit ratings. In addition, the ratings company also downgraded many financial institutions, including all French banks as a result to the significant exposure they have to Greek debt. Despite this, however, borrowing costs for countries at the forefront of this crisis were able to keep interest rates in check. Spain's borrowing costs were able to decrease at an auction in mid-January, showing that investors were ignoring the downgrades the S&P had issued a few days prior. GDP figures from China showed that the economy had grown at the slowest pace in 10 quarters – 8.9 percent. This news could have been devastating for many as a slowing Chinese economy would likely mean a significant decrease in exports for many countries and companies. The Chinese government

ultimately responded with an announcement that they would ease monetary policy.

A series of meetings across both sides of the Atlantic also kept markets busy over the remainder of January. Monday, January 23<sup>rd</sup> saw the commencement of a two-day European Finance Ministers meeting taking place in Brussels. The outcome of the meeting was ultimately that even if Europe combined both of its bailout packages for Greece, the country may still require more funds. The country's high government budget deficit is depicted in Figure 3. Tuesday marked the beginning of the annual five-day World Economic Forum taking place in Davos, Switzerland. The annual event saw the likes of major leaders and figures in world politics and business, including an opening speech being given by German Chancellor Angela Merkel. January 24<sup>th</sup> also saw the beginning of a two-day Federal Reserve meeting in Washington, D.C. that culminated with the FOMC's announcement to keep interest rates at historic 1 percent lows until 2014. This is revised from previous reports from the Fed that stated interest rates would remain low until mid-2013.

Figure 3: European Government Budget Deficits



Despite the rally in equities, commodities have still been able to take advantage of this increased consumer confidence. After dropping to a support level of \$1550/roy ounce back in December, the precious metal has been able to regain much of its 2011 appreciation to close at \$1,732.84/roy ounce on Friday, January 27<sup>th</sup>. WTI Crude Oil also posted gains for the current year. Despite Iran's continuous threat of closing off the Strait of Hormuz, oil has been able to remain in a fairly tight range around \$100/barrel. WTI closed at \$99.56/barrel on Friday, January 27<sup>th</sup>. Iran has been threatening to close off the straight for nearly two months now as the country wants to be able to hold nuclear weapons. The Euro zone has already blocked off exports from the country and several other countries have stated their discontent with firms and individuals doing business with Iran.

## Our Portfolio

January 2012 turned out to be extremely positive for the club with more than just one landmark accomplishment achieved. The club's portfolio was able to stay in the green throughout January, even being able to break to 10 percent resistance. On January 31<sup>st</sup> the club closed at 10.51 percent – the highest we've closed at this year. This figure currently represents a monetary return of over \$25 per full slot position. Our portfolio was also able to beat the S&P/TSX Composite Index during the same time period by roughly 3 percent. These returns, and the general up-tick direction of the portfolio, have been made possible through a number of factors. Most importantly, I think they represent the achievement that you, the members, have accomplished by being able to research and analyze stocks and determine those that the club could profit from.

January also saw the club invest in ETFs for the first time. We purchased HEJ.TO and HEX.TO. Approximately \$15,000 have been allocated to these two low-volatility, dividend ETFs. If held until liquidation (late March), they will provide about \$1,000 worth of dividends, along with the possibility of a small capital gain. The club also entered into a 350-share, \$4,339.70 position of WestJet Airlines Ltd. on strong fundamental values entering into earnings season. The company will report Q4 earnings on February 14<sup>th</sup>. The club held the same stock last year as just before they reported Q4 earnings and the result was a 10.76 percent capital gain within a 24-hour time period. Refer to Table 1 for a chart depicting our complete current portfolio.

The club pitched four further companies throughout January – BHP Billiton Ltd., Wal-Mart, Precision Drilling Corp., and Rio Alto Mining Ltd. BHP was voted no by the club by a 1-vote difference. Wal-Mart, Precision, and Rio are on our watch-list with limit buy orders of \$57.00, \$9.25, and \$3.70, respectively. Each of these stocks have declined in price since their pitch and are approaching these limit buy orders.

Table 1

### MAC Investment Club 2011.2012 : Open Positions

Security Statistics				BUY				Unrealized Gains or Losses		
Security Name	Ticker	Exch.	Curr.	Quan.	Buy Price	Fees	Total Cost	Current Price	Current Value	Gain/Loss
Cash			CAD				\$CAD 56,575.00		\$CAD 26,089.35	
Premier Gold Mines Limited	PG.TO	TSX	CAD	800	\$CAD 5.21	\$CAD 9.95	\$CAD 4,177.95	\$CAD 5.80	\$CAD 4,630.05	\$CAD 452.10
Toronto-Dominion Bank	TD.TO	TSX	CAD	100	\$CAD 76.19	\$CAD 9.95	\$CAD 7,628.95	\$CAD 77.54	\$CAD 7,812.05	\$CAD 183.10
Ithaca Energy Inc.	IAE.TO	TSX	CAD	1,700	\$CAD 2.17	\$CAD 19.90	\$CAD 3,707.90	\$CAD 2.84	\$CAD 4,818.05	\$CAD 1,110.15
Horizons Enhanced Income - International	HEJ.TO	TSX	CAD	500	\$CAD 10.31	\$CAD 9.95	\$CAD 5,164.95	\$CAD 10.16	\$CAD 5,140.81	-\$CAD 24.14
Horizons Enhanced Income ETF	HEX.TO	TSX	CAD	1,200	\$CAD 8.09	\$CAD 9.95	\$CAD 9,717.95	\$CAD 7.96	\$CAD 9,663.35	-\$CAD 54.60
WestJet Airlines Ltd.	WJA.TO	TSX	CAD	350	\$CAD 12.40	\$CAD 9.95	\$CAD 4,349.65	\$CAD 12.50	\$CAD 4,365.05	\$CAD 15.40
Initial Portfolio Value			Current Portfolio Value	\$ Portfolio Change		% Portfolio Change		Full Share Value		Half Share Value
CAS 56,575.00			CAS 62,518.70	\$CAD 5,943.70		10.51%		\$CAD 276.26		\$CAD 138.13

In order to lock in a portion of the gains many of our holdings experienced earlier in the year, we sold several of our positions within the first few weeks of January. Positions sold during January include, in order of sale, TransCanada Corporation, Apple Inc., Citigroup Inc., Suncor Energy Inc., Agrium Inc., Bombardier Inc., and Potash Corp. of Saskatchewan, Inc. each of these were able to yield a profit of between 6.44 percent and 17.83 percent. For a detailed chart of when we sold each position and at what price, refer to Table 2.

Table 2

### MAC Investment Club 2011.2012 : Closed Positions

Security Statistics				SELLING STATISTICS					Performance	
Security Name	Ticker	Exchange	Currency	Shares	Price	Brokerage Fees	Total Proceeds	Date of Sale	Gain/Loss	Dividends
Silvercorp Metals Inc.	SVM.TO	TSX	CAD	500	CAS 7.50	CAS 9.95	CAS 3,740.05	21 November 2011	-\$CAS 1,159.90	CAS 0.00
Orbite Aluminae	ORT.TO	TSX	CAD	1,000	CAS 3.81	CAS 9.95	CAS 3,800.05	30 November 2011	CAS 1,080.10	CAS 0.00
TransCanada Corporation	TRP.TO	TSX	CAD	100	CAS 44.14	CAS 9.95	CAS 4,446.15	3 January 2012	CAS 428.20	CAS 42.00
Apple Inc.	AAPL	NASDAQ	CAD	20	CAS 430.96	CAS 9.95	CAS 8,609.26	6 January 2012	CAS 889.20	CAS 0.00
Citigroup Inc.	C	NYSE	CAD	200	CAS 31.59	CAS 9.95	CAS 6,307.05	11 January 2012	CAS 809.24	CAS 0.00
Suncor Energy Inc.	SU.TO	TSX	CAD	200	CAS 33.10	CAS 9.95	CAS 6,610.05	12 January 2012	CAS 1,000.10	CAS 0.00
Agrium Inc.	AGU.TO	TSX	CAD	100	CAS 75.00	CAS 9.95	CAS 7,512.55	12 January 2012	CAS 454.60	CAS 22.50
Bombardier Inc.	BBD.TO	TSX	CAD	500	CAS 4.59	CAS 9.95	CAS 2,298.25	24 January 2012	CAS 263.30	CAS 12.70
Potash Corp. of Saskatchewan, Inc.	POT.TO	TSX	CAD	125	CAS 47.45	CAS 9.95	CAS 5,930.30	27 January 2012	CAS 484.15	CAS 9.00

## The World Looking Forward

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Despite the gain in confidence in the U.S., investors will likely continue to flee to both German and U.S. government bonds. The markets are very forgetful; the later half of 2011 was marked by an overwhelming presence concerning news from Europe. Investors took the first positive economic indicator to shift the focus back to the states, which has been able to partially explain the prolonged rally in U.S. equities. The reality of the matter is though that the outcome of Europe will still play a humongous role in world markets. Despite positive news on the home front, the potential demise of the Euro zone, and probable default of Greece, would have a tremendously negative impact on almost every asset class. Even the safe-haven status of some commodities could be jeopardized because as of lately, they have been moving more closely in tangent with equity markets.

February will again be marked with the report of several key economic indicators and earnings reports. US Personal Income and Personal Spending will kick the week off as both will be announced on Monday, January 30<sup>th</sup>. U.S. Consumer Confidence will be released the following day and will be a good indicator if the current market rally is in line with how investors are feeling, especially now that the Holiday shopping season has come to a close. The week will end with Unemployment figures being released on both sides of the border. Analyst estimates are calling for no changes in either of the unemployment rates.

Over in Europe, sovereign debt auctions will again show the current state of many countries being affected by the current debt crisis. Up to 21 billion euros in five countries could be auctioned in the first week of February alone, including Italy and Spain. The ECB may also signal its next interest rate move on February 2<sup>nd</sup> at its first policy meeting of the year. Interest rates will likely stay near 1 percent. The Bank of England is facing a similar decision in the UK as common consensus is that rates will remain unchanged. French President Nicholas Sarkozy and German Chancellor Angela Merkel will meet on January 30<sup>th</sup> to discuss plans for an EU summit taking place in early February. The topic of this summit will again be focused on Greece and how to resolve the debt crisis.

On the earnings front, Facebook could be announcing its billion-dollar IPO as early as the week of January 30<sup>th</sup>. This week also coincides with over 100 S&P 500 companies announcing Q4 earnings as the markets are right in the middle of earnings season. Amazon will be releasing Q4 earnings on January 31st after markets close. Sales for the company are expected to of doubled, with EPS estimates of \$0.19. This is down considerably from previous earnings releases though as the company has invested heavily in its tablet. Other companies reporting in the short term include Exxon and UPS on January 31<sup>st</sup>, Kellogg February 2<sup>nd</sup>, and Clorox on February 3<sup>rd</sup>. all listed announcements in this paragraph are taking place before market open.

## MACIC Looking Forward

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Going into February, the Mac Investment Club will continue to operate in full swing. To kick things off, our Senior Trader Victor Kuntzevitsky will continue his educational seminars with a tutorial on Options on Monday, January 30<sup>th</sup> at 6:00PM in the GTF.

In addition to our regular seminars, one of our senior members has put together a series of seminars on Options Trading. Sean Jewell, who has previous experience working on a derivatives desk in New York, will begin his series on Wednesday, February 1<sup>st</sup> at 7:00PM in the GTF.

Two stock pitches will also take place on February 1<sup>st</sup> – Melco Crown Entertainment Ltd. and Descartes Systems. Pitches begin at 5:30PM in the GTF. Research reports and presentations for these, as well as all other companies the club has pitched throughout its four-year history, can be found on our website.

Until Next Time,

Kathryn Deveau

MacIC CFO 2011/2012