

## Market and Economic News

We are only 5 trading days into the month of October and we have already experienced the markets dropping over 3% and then bounce back to initial levels. Stocks last week retreated after the U.S. Labor Department said unemployment rose to 9.8 percent, the Institute for Supply Management's factory gauge showed that American manufacturing expanded less than economists estimated and the New York-based Conference Board said consumer confidence unexpectedly fell.

On Monday investors worries about the economy were alleviated on a better-than-expected report on the service sector and on an upgrade of the financial sector by analysts at Goldman Sachs. Yesterday stocks continued the rebound as Australia unexpectedly increased interest rates. Australia is the first Group of 20 nations to do so since the recession began, and the increase spurred optimism that the global economy is on the mend. This caused the US dollar to fall, in turn boosted commodity prices. Gold futures advanced to a record \$1,045 on speculation that inflation will accelerate and as a hedge against a decline in the US dollar.

Traders noted much of the activity for the past week has revolved around positioning ahead of the earnings period due to start today. Analysts expect that, over all, third-quarter profits of S&P 500 companies will be down 25 per cent, year-over-year. Investors will be looking for higher revenues as last quarter Street estimates were beaten primarily due to aggressive cost-cutting rather than higher sales. Alcoa Inc. was the first Dow Jones Industrial to report (after hours) and it soundly beat earnings estimates and recorded a 9% quarter over quarter growth in sales.

In other news, numerous experts have been casting doubts on the sustainability of the global recovery. Among the experts issuing warnings last week were New York University Professor Nouriel Roubini, George Soros and the Group of Seven finance ministers and central bankers. They all believe the prospects for growth "remain fragile."

## Equities Remained On A Roll For The Third Quarter

Stocks continued to rebound from their March 2009 lows, as virtually all global equity indices were up in the third quarter. Stateside, the S&P 500 appreciated another 15.0% during the September quarter, while the TSX/S&P Composite rallied by 9.8%, respectively. However, for Canadian investors the 8.4% move in the Loonie relative to the US dollar during the quarter dampened returns for US holdings. Key themes that have lifted stocks in the recent quarter include: (1) an improving macro-economic outlook; (2) better than expected corporate earnings results; (3) reasonable historical valuation levels; and (4) increasing appetite for risk by investors.

A further review of the results by market capitalization and industry sector reveal some noticeable performance trends. Canadian small cap stocks have outperformed their large cap peers with the S&P/TSX Small Cap Index up 21% in Q3 and 39% year-to-date. Eight of the top ten S&P/TSX Composite sectors posted gains, led by IT, Financials and Healthcare stocks which were up 43%, 41% and 33%, respectively, in the third quarter. Energy remained resilient despite sustained weakness in natural gas and flat oil prices, while Materials were buoyed by rising base metals and gold stocks assisted by a weak US dollar. The worst industry sector performers in the September quarter were Telecom, and Consumer Staples, down 8% and 3%, respectively. Investors continue to favour stocks with greater leverage to the economic recovery.

<b>Third Quarter 2009 - Sector Returns</b>		
<i>(In Canadian \$)</i>	<b>S&amp;P/TSX</b>	<b>S&amp;P 500</b>
Composite	9.8%	6.1%
Consumer Discretionary	5.3%	9.6%
Consumer Staples	-3.2%	1.9%
Energy	8.2%	1.0%
Financial	14.9%	15.4%
Health Care	21.4%	0.4%
Industrials	10.4%	11.8%
Information Technology	-8.1%	7.6%
Materials	12.3%	11.6%
Telecommunication Services	6.7%	-4.2%
Utilities	2.3%	-3.2%

*Source: S&P 500 & Bloomberg Finance LP*

# THIS WEEK IN NUMBERS

## (September 30<sup>th</sup> to October 7<sup>th</sup>)

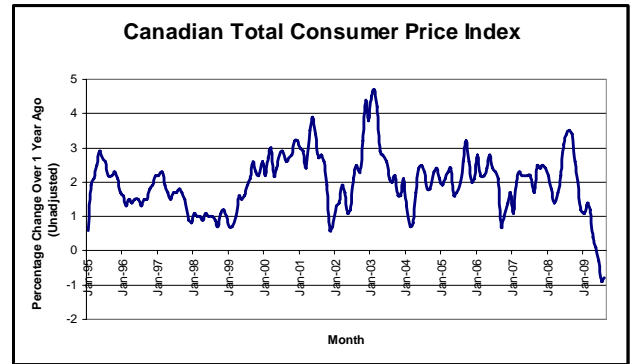
Canadian Markets	Latest Price	Week	Month	YTD	1-Year
S&P/TSX Composite	11,349.88	-1.3%	2.1%	25.1%	9.9%
S&P/TSX Capped Cons Discretion	78.18	0.7%	2.9%	6.3%	1.4%
S&P/TSX Capped Cons Staples	168.31	0.9%	0.3%	0.2%	9.9%
S&P/TSX Capped Energy	286.40	-0.9%	9.7%	32.3%	22.3%
S&P/TSX Capped Financials	176.16	-2.0%	2.1%	38.6%	9.0%
S&P/TSX Capped Health Care	35.65	-0.9%	9.2%	28.1%	18.5%
S&P/TSX Capped Industrials	88.68	-1.0%	-0.3%	13.1%	12.3%
S&P/TSX Capped Materials	318.67	2.7%	2.5%	29.3%	42.3%
S&P/TSX Capped Info Tech	27.58	1.9%	2.3%	44.4%	33.0%
S&P/TSX Capped Telecom Serv	74.57	-2.5%	-2.6%	-5.6%	-9.9%
S&P/TSX Capped Utilities	178.99	1.3%	3.3%	2.3%	5.1%

International Markets	Latest Price	Week	Month	YTD	1-Year
All Ordinaries, Australia	4,696	-0.9%	5.3%	28.3%	2.1%
CAC 40, France	3,756	-1.0%	2.8%	16.7%	0.6%
DAX, Frankfurt	5,641	-0.6%	3.2%	17.3%	5.9%
Dow Jones Industrials	9,726	0.1%	3.0%	10.8%	2.9%
FTSE, London	5,109	-0.5%	3.6%	15.2%	10.9%
Hang Seng, Hong Kong	21,242	1.4%	3.0%	47.6%	26.4%
Nikkei 225, Japan	9,800	-3.3%	-5.1%	10.6%	-3.5%
S&P 500 Index	1,058	0.1%	4.1%	17.1%	6.2%

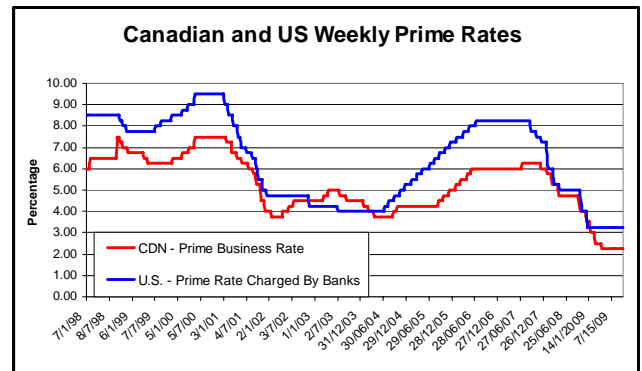
Fixed Income	Latest Price	Week	Month	YTD	1-Year
iShares Cdn Univrs Bond E.T.F.	\$29.63	-0.1%	-0.3%	1.7%	4.3%
iShares Cdn Long Bond E.T.F.	\$19.81	0.5%	1.0%	3.4%	5.4%
iShares Cdn Shrt Trm Bd E.T.F.	\$29.25	0.1%	-0.5%	1.2%	3.1%
CDN 30 yr yield	3.838%	-0.1%	-1.5%	11.1%	-5.7%
US 30 yr yield	3.992%	-1.4%	-6.6%	48.3%	-0.9%

Exchange Rates	Latest Price	Week	Month	YTD	1-Year
Canadian Dollar (\$US)	\$0.941	0.8%	2.3%	14.7%	4.2%
Canadian Dollar (Euro)	\$0.641	0.5%	-0.3%	9.0%	-3.3%
Canadian Dollar (Yen)	\$83.400	-0.5%	-2.6%	11.9%	-8.8%

Commodities	Latest Price	Week	Month	YTD	1-Year
RJ/CRB Index	258.37	-0.4%	4.4%	12.6%	-17.4%
Dow Jones UBS Livestock	33.01	-0.3%	0.1%	-18.6%	-27.8%
Gold	\$1,044.40	3.5%	4.8%	18.1%	18.4%
Natural Gas	\$4.90	1.3%	79.8%	-12.8%	-27.5%
Light Sweet Crude Oil	\$69.57	-1.5%	2.3%	56.0%	-22.8%
CBOE Volatility Index	24.70	-3.6%	-2.3%	-38.3%	-54.0%



Current CPI (Aug 2009) → -0.8



Current CDN Prime Business Rate → 2.25%  
Current US Prime Rate Charged by Banks → 3.25%

(Sources: The Globe & Mail, Yahoo Finance and Bank of Canada)



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