

Market and Economic News

Most global indices edged downward during the past week as news released earlier this week indicated that the global recovery in 2010 may be slower than originally thought. Aluminum giant Alcoa, the first Dow component to report earnings for the fourth quarter of 2009 came in with disappointing results. Meanwhile, China surprised the markets by beginning to tighten its monetary policy. Chinese monetary authorities increased auction rates on its 3 and 12 month treasury bills and changed reserve requirements for banks in an attempt to avoid inflation and asset bubbles.

Last Friday, both Canada and the US announced larger than expected job loss numbers for December. In Canada, employers shed 2,600 jobs compared to an expected gain of 20,000 as the unemployment rate remained at 8.5%. The US unemployment rate was unchanged at 10.0%, with 85,000 jobs lost, worse than the 8,000 drop that was expected. In Europe, the November unemployment rate was at its highest since the introduction of the euro in 1999, coming in at a combined 10.0% for the 16 countries which use the euro. A strong Canadian dollar was a factor in Canada posting a trade deficit of C\$344 million for November, the fourth deficit in the past five months. Meanwhile, the US trade deficit also increased to US\$36.4 billion for November, the highest level in 10 months.

In news related to the housing and construction market in Canada, December housing starts rose, as did the price of new homes in November, while building permits for the month dropped.

Will 'Flight to Quality' Continue In 2010?

A common criticism of the 2009 stock market rally has been the relative quality of the best-performing stocks. Many experts believe that the relative outperformance of the riskiest stocks was unwarranted. In fact, some bearish investors attribute this phenomenon to why they think the current market rally is unsustainable. The performance data did support this notion in the early stages of the advance, but there has been a pronounced 'flight-to-quality' visible in the numbers since September.

The table below provides a summary of stock returns since the lows of March 9th, 2009 for US companies categorized by credit rating. The results clearly demonstrate that higher rated companies underperformed during the recovery phase through September 30th. While all the categories exhibited gains over the 7-month period, the 248% return registered by the companies with a credit rating of 'B' or lower was well ahead of the group average.

| 2009 US Equity Returns | | |
|---------------------------------|--------------------------------|-------------------------------|
| S&P Credit Rating | March 9th to Sept. 30th | Sept. 30th to Mid-Dec. |
| AAA | 32.1% | 7.3% |
| AA | 55.2% | 4.5% |
| A | 80.8% | 3.3% |
| BBB | 98.3% | 4.0% |
| BB | 121.0% | -1.1% |
| B or lower | 248.0% | -6.6% |
| Source: J. Zechner & Associates | | |

The trend has reversed since the end of September where we've seen a dramatic shift toward higher-quality names leading performance. While somewhat counterintuitive at first glance, this trend is not terribly unusual. It simply reflects the fact that the lower quality stocks were also the ones that had declined the most in the 2008 downturn and therefore, initially, had the most ground to make up. The trend going forward will likely support those companies with higher credit quality features and that generate the best earnings growth.

THIS WEEK IN NUMBERS (January 6th to January 13th)

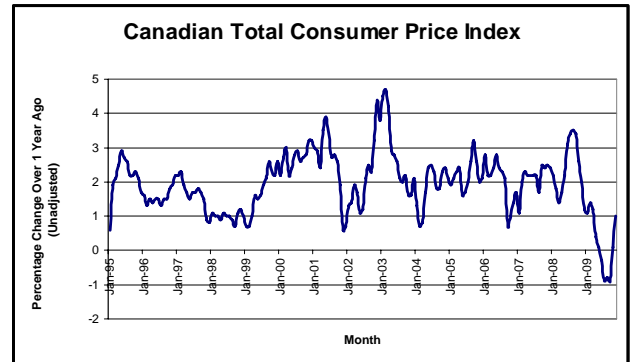
| Canadian Markets | Latest Price | Week | Month | YTD | 1-Year |
|--------------------------------|--------------|--------------|-------|-------|--------|
| S&P/TSX Composite | 11,853.56 | -0.8% | 3.8% | 0.9% | 32.3% |
| S&P/TSX Capped Cons Discretion | 82.66 | -0.1% | 3.1% | 1.2% | 18.9% |
| S&P/TSX Capped Cons Staples | 179.85 | 0.6% | 2.8% | -0.2% | 12.0% |
| S&P/TSX Capped Energy | 300.64 | -2.2% | 7.4% | 1.1% | 35.5% |
| S&P/TSX Capped Financials | 173.97 | -0.7% | 1.9% | -1.2% | 34.5% |
| S&P/TSX Capped Health Care | 35.40 | -1.8% | 1.8% | -0.8% | 17.6% |
| S&P/TSX Capped Industrials | 98.54 | 1.7% | 5.0% | 2.0% | 26.8% |
| S&P/TSX Capped Materials | 350.36 | -0.2% | 4.2% | 6.5% | 52.3% |
| S&P/TSX Capped Info Tech | 28.73 | -1.1% | 4.5% | -2.0% | 41.5% |
| S&P/TSX Capped Telecom Serv | 78.86 | 0.1% | 3.4% | -1.1% | 3.7% |
| S&P/TSX Capped Utilities | 197.19 | 0.6% | 3.9% | -0.1% | 13.9% |

| International Markets | Latest Price | Week | Month | YTD | 1-Year |
|---------------------------|--------------|--------------|-------|-------|--------|
| All Ordinaries, Australia | 4,900 | -0.9% | 5.3% | 0.4% | 36.3% |
| CAC 40, France | 4,001 | -0.4% | 5.2% | 1.6% | 25.1% |
| DAX, Frankfurt | 5,963 | -1.2% | 2.8% | 0.1% | 28.6% |
| Dow Jones Industrials | 10,681 | 1.0% | 2.0% | 2.4% | 26.4% |
| FTSE, London | 5,473 | 1.0% | 3.0% | 1.1% | 24.4% |
| Hang Seng, Hong Kong | 21,749 | -3.0% | -0.7% | -0.6% | 59.1% |
| Nikkei 225, Japan | 10,735 | 0.0% | 6.2% | 1.8% | 27.6% |
| S&P 500 | 1,146 | 0.8% | 3.5% | 2.7% | 31.4% |

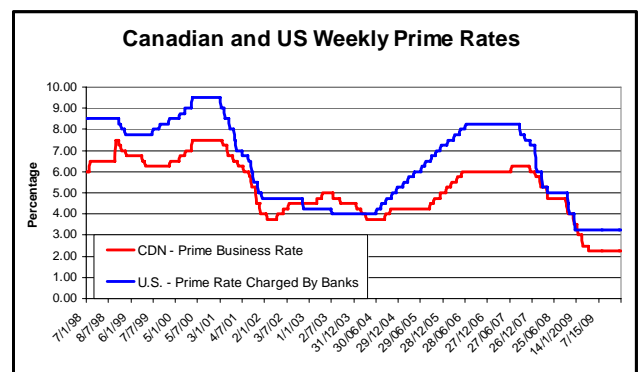
| Fixed Income | Latest Price | Week | Month | YTD | 1-Year |
|--------------------------------|--------------|--------------|-------|------|--------|
| iShares Cdn Univrs Bond E.T.F. | \$29.39 | 0.8% | -1.4% | 0.3% | 0.8% |
| iShares Cdn Long Bond E.T.F. | \$19.30 | 0.8% | -1.4% | 0.1% | 1.3% |
| iShares Cdn Shrt Trm Bd E.T.F. | \$29.19 | 0.3% | -0.9% | 0.7% | 0.5% |
| CDN 30 yr yield | 4.141% | 1.0% | 3.6% | 1.5% | 16.3% |
| US 30 yr yield | 4.640% | -0.6% | 3.1% | 0.0% | 53.6% |

| Exchange Rates | Latest Price | Week | Month | YTD | 1-Year |
|------------------------|--------------|--------------|-------|------|--------|
| Canadian Dollar (\$US) | \$0.970 | 0.2% | 2.8% | 2.0% | 18.8% |
| Canadian Dollar (Euro) | \$0.669 | -0.5% | 3.7% | 0.6% | 8.0% |
| Canadian Dollar (Yen) | \$88.730 | -0.8% | 5.6% | 0.2% | 21.9% |

| Commodities | Latest Price | Week | Month | YTD | 1-Year |
|-------------------------|--------------|--------------|--------|--------|--------|
| RJ/CRB Index | 285.14 | -2.9% | 5.3% | 0.6% | 28.3% |
| Dow Jones UBS Livestock | 34.89 | 1.1% | 3.8% | 1.5% | -12.9% |
| Gold | \$1,136.80 | 0.0% | 1.5% | 3.6% | 38.5% |
| Natural Gas | \$5.73 | -4.6% | 11.0% | 2.9% | 10.6% |
| Light Sweet Crude Oil | \$79.65 | -4.2% | 14.4% | 0.4% | 110.8% |
| CBOE Volatility Index | 17.85 | -6.8% | -17.3% | -17.7% | -58.7% |



Current CPI (Nov 2009) → 1.0



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)



**KERR
FINANCIAL**

Founded in 1979 as a fee-only personal wealth management firm, Kerr Financial has evolved into one of the largest multi-family office firms in Canada, bringing together tax advice, investment management and estate planning under one roof. We work with clients to help them maximize their personal financial resources, alleviate their financial and retirement concerns and simplify the administration of their affairs.