

Market and Economic News

After recording a 5.4% decline on the S&P/TSX and a 3.6% decline on the S&P 500 in January, both North American markets began the month of February on a positive note, by both recording gains of more than 2.2% for the first three trading days. Quarterly earnings announcements have been a positive influence on the markets as 81% of S&P 500 companies that have announced earnings have beaten estimates.

Both Canada and the US reported economic growth numbers that topped economists' expectations. The Canadian economy grew by 0.4% for November, with upward revisions to the previous two months' figures. The growth rate for the fourth quarter is expected to at least meet the Bank of Canada's estimate of 3.3%. In the US, the economy grew during the fourth quarter at a 5.7% annual rate, the fastest pace in 6 years.

US durable goods orders rose more than expected for December. The Institute for Supply Management (ISM) reported that manufacturing activity in the US for January was better than the most optimistic estimate, leading to the view that there will be more hiring in the coming months. Manufacturing activity in China and Europe during January was also very strong. ISM reported that non-manufacturing activity in the US for January showed the first increase in three months, but was less than forecast. US consumer spending for December edged higher, but was slightly weaker than expected. US pending home sales rose unexpectedly in December. ADP Employer Services estimated that companies cut 22,000 jobs in January, the lowest number in two years.



Other areas of interest that affected the markets were US Federal Reserve Chairman Ben Bernanke receiving the necessary votes for a second term, albeit with the smallest majority in the history of such a vote. In Canada, a survey of consumer confidence done by the Royal Bank in January revealed a slight decline in consumer sentiment regarding the economy compared to December. Another survey by the Conference Board of Canada was more optimistic.

Conflicting Predictions from the Stock Trader's Almanac

Jeffrey Hirsch of Yale founded the Stock Trader's Almanac, in 1966. It was the first compilation of the market's seasonal trends and tendencies combined with a calendar. Two of his theories are giving opposite signals for 2010 market returns.

The first theory is the **First Five Days** of trading theory. This theory states that the first five days of trading in the year can predict the outcome for the whole year. Since 1951 the S&P 500 has experienced 36 up First Five Days. They were subsequently followed by full-year gains 31 times, for an 86.1% accuracy ratio and a 13.7% average gain in all 36 years. Unfortunately, this theory does not work as well on the downside. Of the 23 times the market declined in the first five days since 1951, 12 were followed by up years and 11 with down years. On top of this the Almanac says this indicator has a spotty record in midterm election years*.

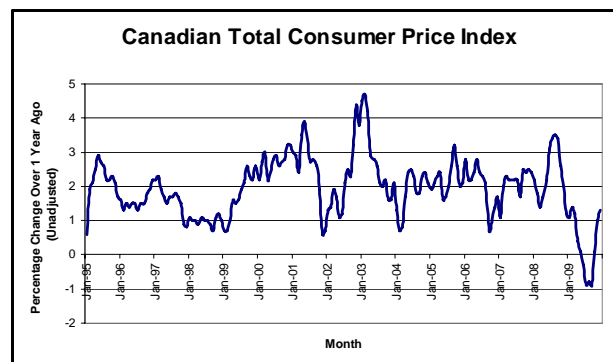
Like the First Five Days theory, the second theory, the **January Barometer** theory, states that as the month of January goes, so goes the market for the year. For the past 60 years, the month of January has been higher 37 times, and led to a positive year 34 times, for a 92% success rate. Once again on the downside this theory has difficulty. Of the 23 January losses during this time period, only 13 of them showed annual losses - a 57% success rate.

The S&P 500 index was up 2.7% in the first five days of 2010, but was down 3.6% for the full month of January. So now what? Are the markets going to be up or down for the year? By December 31, 2010 we shall know who the winner is. My guess is that there will be a new theory created for conflicting signals.

*A midterm election is a vote that occurs every four years, two years into a presidential term. The **election cycle** is another Almanac theory that states the first half of a presidential term is the weakest for the markets as politicians do the unpopular things early, hoping that the electorate will forget about them by the time the next election rolls around.

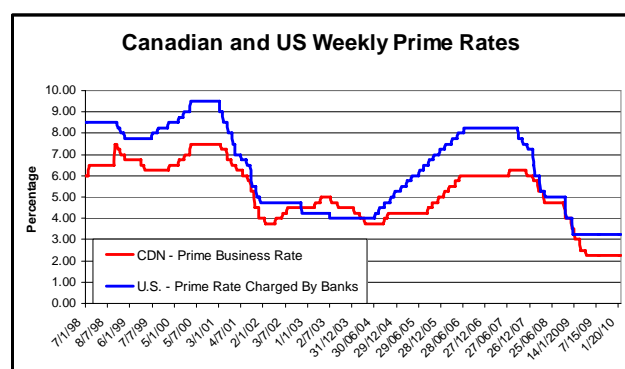
THIS WEEK IN NUMBERS (January 28th to February 3rd)

Canadian Markets	Latest Price	Week	Month	YTD	1-Year
S&P/TSX Composite	11,390.46	0.4%	-2.9%	-2.9%	32.3%
S&P/TSX Capped Cons Discretion	82.92	1.6%	1.5%	1.5%	22.2%
S&P/TSX Capped Cons Staples	178.65	0.2%	-0.9%	-0.9%	8.2%
S&P/TSX Capped Energy	286.29	0.8%	-3.7%	-3.7%	40.8%
S&P/TSX Capped Financials	169.79	0.0%	-3.6%	-3.6%	44.7%
S&P/TSX Capped Health Care	35.06	0.5%	-1.7%	-1.7%	13.2%
S&P/TSX Capped Industrials	94.78	-0.2%	-1.9%	-1.9%	32.5%
S&P/TSX Capped Materials	316.14	0.1%	-3.9%	-3.9%	31.0%
S&P/TSX Capped Info Tech	29.95	1.9%	2.1%	2.1%	41.9%
S&P/TSX Capped Telecom Serv	77.19	-1.5%	-3.2%	-3.2%	0.6%
S&P/TSX Capped Utilities	193.43	-0.2%	-2.0%	-2.0%	14.4%



Current CPI (Dec 2009) → 1.3

International Markets	Latest Price	Week	Month	YTD	1-Year
All Ordinaries, Australia	4,673	0.1%	-4.3%	-4.3%	35.5%
CAC 40, France	3,793	0.9%	-3.6%	-3.6%	27.2%
DAX, Frankfurt	5,672	0.5%	-6.2%	-4.8%	29.6%
Dow Jones Industrials	10,271	0.3%	-1.5%	-1.5%	27.1%
FTSE, London	5,253	0.7%	-4.5%	-3.0%	26.1%
Hang Seng, Hong Kong	20,722	3.4%	-5.3%	-5.3%	62.2%
Nikkei 225, Japan	10,404	1.5%	-1.3%	-1.3%	33.0%
S&P 500	1,097	0.0%	-1.6%	-1.6%	30.9%



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)

Fixed Income	Latest Price	Week	Month	YTD	1-Year
iShares Cdn Univrs Bond E.T.F.	\$29.67	-0.3%	1.3%	1.3%	2.8%
iShares Cdn Long Bond E.T.F.	\$19.63	0.4%	2.3%	2.3%	4.8%
iShares Cdn Shrt Trm Bd E.T.F.	\$29.35	0.0%	1.2%	1.2%	1.5%
CDN 30 yr	4.042%	2.3%	-0.9%	-0.9%	7.6%
US 30 yr	4.630%	1.5%	-0.2%	-0.2%	27.9%

Exchange Rates	Latest Price	Week	Month	YTD	1-Year
Canadian Dollar (\$US)	\$0.941	0.2%	-1.1%	-1.1%	15.8%
Canadian Dollar (Euro)	\$0.677	1.1%	1.9%	1.9%	8.6%
Canadian Dollar (Yen)	\$85.620	1.3%	-3.3%	-3.3%	18.1%

Commodities	Latest Price	Week	Month	YTD	1-Year
RJ/CRB Index	270.58	0.7%	-4.5%	-4.5%	24.8%
Dow Jones UBS Livestock	33.88	-0.2%	-1.5%	-1.5%	-11.9%
Gold	\$1,112.00	2.5%	1.4%	1.4%	24.6%
Natural Gas	\$5.42	3.7%	-2.7%	-2.7%	20.1%
Light Sweet Crude Oil	\$76.98	4.5%	-3.0%	-3.0%	88.8%
CBOE Volatility Index	21.64	-6.7%	-0.4%	-0.4%	-49.8%



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