

Market and Economic News

North American equity markets recorded gains during the last week, with the Canadian index outpacing the US indices, mainly the result of mostly positive quarterly earnings from Canadian banks and a rally in commodities. Other economic statistics indicated that the economic recovery is continuing in most sectors.

Canadian GDP rose 5.0% on an annualized basis during the fourth quarter of 2009. This was more than the 4.0% that economists had forecast. Strong consumer spending combined with government expenditures were the main factors behind the positive numbers. The Bank of Canada kept its benchmark interest rate unchanged at 0.25%, but there were hints that with the recovering economy, a tighter monetary policy may not be too far away.

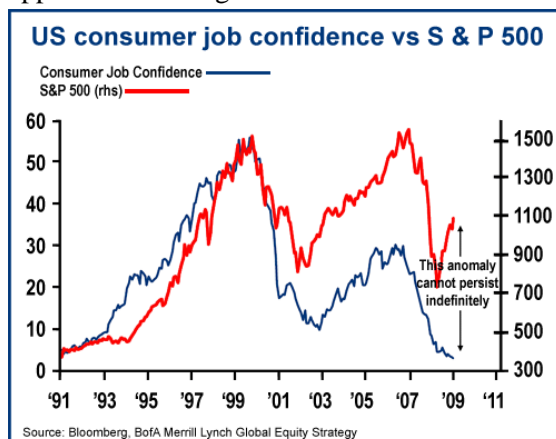


In the US, news was mostly positive, but there were still areas that remained sluggish. US GDP for the fourth quarter was revised upwards to 5.9% from 5.7%. US durable goods orders for the month of January were up 3.0% compared to the previous month. This was higher than expected, and was due mainly to strong gains in transportation orders. Excluding transportation equipment, orders for durable goods were down 0.6%. US personal income and personal spending for January were up 0.1% and 0.5% respectively, leading to a decrease in the savings rate. The Institute for Supply Management (ISM) noted continued growth in both the manufacturing and service sectors. US manufacturing experienced growth for the seventh straight month, though February's reading came in lower than January's. The service sector continued to grow during February with the non-manufacturing index increasing more than expected. Existing home sales in the US for January declined by 7.2%. A slight increase was expected.

Overseas, the Greek government announced austerity measures to help combat the financial crisis. The British pound declined for six straight days due to fears regarding the budget deficit. India's Finance Minister stated that his country could achieve 10% growth in the near future.

Main Street and Wall Street Divergence

Last year's economic weakness was a positive for stocks because it prompted the U.S. Federal Reserve to initiate an unprecedented interest rate easing policy. Stocks quickly rallied as the market panic subsided and all asset classes bounced back from their March 2009 lows. Since the stock market reflects the present value of all future cash flows for underlying assets represented by publicly traded securities, stocks tend to rally on forward expectations of a turnaround, as opposed to waiting for actual fundamentals to improve first.



In 2010, the economy needs to show a gradual recovery to support the market rebound of the past 12 months. This week's chart reflects the divergence in outlook between Main Street and Wall Street cannot continue indefinitely – either the economy (reflected by consumer job confidence) will recover or the equity market (S&P 500) will decline. During the past 20 years, the spread between consumer job confidence and the S&P 500 has never been this wide.

Since corporate earnings haven't rallied by the same degree as market prices, then by definition, stock valuations have increased. In March 2009, the forward P/E for the MSCI All-Country World Index was 8.7x, possibly discounting an Armageddon outcome, but has since risen to 14.0x. Despite the surge, the current market valuation is still below its 10-year average of 16.0x, indicating equities have more room to run!

THIS WEEK IN NUMBERS (February 25th to March 3rd)

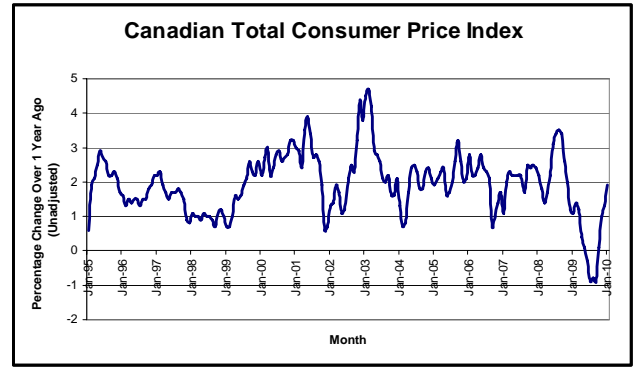
Canadian Markets	Latest Price	Week	Month	YTD	1-Year
S&P/TSX Composite	11,852.85	2.9%	4.1%	0.9%	55.3%
S&P/TSX Capped Cons Discretion	84.52	1.2%	1.9%	3.4%	35.8%
S&P/TSX Capped Cons Staples	180.36	-0.1%	1.0%	0.1%	15.9%
S&P/TSX Capped Energy	288.13	1.9%	0.6%	-3.1%	59.4%
S&P/TSX Capped Financials	179.32	2.8%	5.6%	1.8%	85.4%
S&P/TSX Capped Health Care	35.70	0.7%	1.8%	0.1%	26.7%
S&P/TSX Capped Industrials	98.58	3.4%	4.0%	2.0%	62.0%
S&P/TSX Capped Materials	340.40	6.7%	7.7%	3.5%	44.1%
S&P/TSX Capped Info Tech	31.55	1.3%	5.3%	7.6%	73.4%
S&P/TSX Capped Telecom Serv	80.69	1.9%	4.5%	1.2%	15.8%
S&P/TSX Capped Utilities	198.02	1.0%	2.4%	0.3%	24.9%

International Markets	Latest Price	Week	Month	YTD	1-Year
All Ordinaries, Australia	4,744	1.7%	1.5%	-2.8%	49.6%
CAC 40, France	3,843	3.4%	1.3%	-2.4%	50.4%
DAX, Frankfurt	5,818	3.6%	2.6%	-2.3%	49.5%
Dow Jones Industrials	10,397	0.2%	1.2%	-0.3%	54.6%
FTSE, London	5,533	3.5%	5.3%	2.2%	51.8%
Hang Seng, Hong Kong	20,877	2.0%	0.7%	-4.6%	73.5%
Nikkei 225, Japan	10,253	0.5%	-1.5%	-2.8%	41.8%
S&P 500	1,119	1.2%	2.0%	0.3%	60.7%

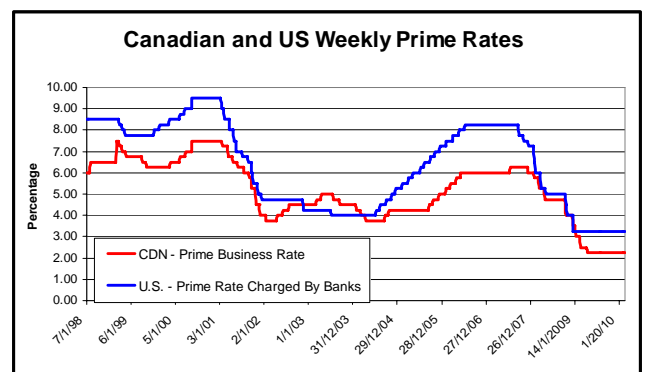
Fixed Income	Latest Price	Week	Month	YTD	1-Year
iShares Cdn Univrs Bond E.T.F.	\$29.78	0.4%	0.4%	1.6%	2.1%
iShares Cdn Long Bond E.T.F.	\$19.75	0.9%	0.6%	2.4%	4.7%
iShares Cdn Shrt Trm Bd E.T.F.	\$29.28	-0.2%	-0.2%	1.0%	0.1%
CDN 30 yr yield	4.007%	-1.0%	-0.9%	-1.8%	10.3%
US 30 yr yield	4.590%	-0.9%	-0.9%	-1.1%	24.7%

Exchange Rates	Latest Price	Week	Month	YTD	1-Year
Canadian Dollar (\$US)	\$0.969	2.1%	2.9%	1.8%	25.1%
Canadian Dollar (Euro)	\$0.708	0.9%	4.5%	6.5%	14.9%
Canadian Dollar (Yen)	\$85.690	0.2%	0.1%	-3.3%	12.6%

Commodities	Latest Price	Week	Month	YTD	1-Year
RJ/CRB Index	277.71	1.1%	2.6%	-2.0%	36.4%
Dow Jones UBS Livestock	35.70	2.3%	5.4%	3.8%	-5.1%
Gold	\$1,143.30	4.2%	2.8%	4.2%	25.1%
Natural Gas	\$4.76	-2.1%	-12.2%	-14.6%	11.1%
Light Sweet Crude Oil	\$80.87	1.1%	5.1%	1.9%	94.2%
CBOE Volatility Index	18.83	-7.1%	-12.8%	-13.1%	-63.0%



Current CPI (Jan 2010) → 1.9



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)



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