SHAUNESSY INVESTMENT COUNSEL INC.

2010: PUT YOUR EGGS IN MANY BASKETS.

***MARKET AND INVESTMENT REVIEW ------** December 22nd , 2009*

- Looking back: 2009 did not go smoothly (remember March?) but on a year to date basis (all local currencies) the **TSX Composite** is +27.5%; the **S&P 500** is +22% and **EAFE** (Europe, Australasia and Far East) is +29%. The Canadian bond index provided a return of 6.9% (mostly from corporate bonds). In 2009, a global balanced portfolio will have generated returns in the high teens. The **TSX** is now at the same level as it was in June 2006 but the **S&P 500** and **EAFE** remain underwater on a 5 year basis. Makes one think: "how to invest in 2010?"

- A prudent strategy for 2010 (or how to put your eggs in many baskets and sleep well)

- 2010 should be good for stocks but not like 2009. Portfolios with strong yields are safer and diversify returns.
- 65% into various leading stock ETFs with cautious bond exposure – remember "if stocks do well, bonds will not".
- Psychology: there is still a lot of investor unease. Many misread 2009 and continue to defend their position (lots of cash & equivalents). One should expect markets to continue to be volatile in 2010.
- Global and U.S. economic recovery– see **TD** and **National Bank** research[1].
- 2010 investment risks ('bad things to watch for'): recovery falters, trade protectionism, rising interest rates.

Asset Class	Allocation[2]	Currency	Investment Themes
Canadian Bonds	**20%**	C$	**Theme:** Interest rates are at rock bottom so to guard against a rise in rates, portfolio may be tilted to a combination or real return, short term and corporate bonds in the 2010[3] . Governments will be hard pressed to raise interest rates quickly while unemployment remains relatively high.
U.S. High Yield Bonds	**5%**	U.S.$	**Theme:** High yields and improving credit risk as U.S. economy strengthens.
Canadian Preferred Shares	**5%**	C$	**Theme:** Attractive and tax advantaged yields.
Canadian Equity	**25%**	C$	**Theme:** Commodity-heavy TSX 60 provides an opportunity to invest in global growth and U.S. recovery. **Theme:** Dividend Play - REITs and Financials pay healthy dividends.
U.S. Equity	**25%**	90% C$ hedged, 10% U.S.$	**Theme:** U.S. cyclical recovery in tandem with low U.S. dollar and global growth to support earnings growth of S&P 500 companies in 2010.
International Equity	**15%**	C$ hedged	**Theme:** Global economic recovery, continuing strength in emerging markets.
Gold/ Commodities	**5%**	C$ hedged	**Theme:** Uncertainty in currency markets and fear of inflation will drive up the price of gold bullion.

Footnotes:

1. Along with analysts from **Scotia Capital**, **UBS** etc. who collectively report that a recovery is on firm ground in the U.S. and globally with still moderate stock valuations based on forward P/E ratios as investors underestimate the extent and depth of economic growth. U.S. export strength is an emerging theme to extend the earnings run.
2. Approximate targets depending on individual risk and subject to change during the course of the year.
3. Longer-term bonds are more sensitive to interest rate changes than short term bonds. If the yield on a newly issued 10-year bond goes from 4% to 6%, bond prices would drop about 15%, while a 3-year bond would be down only 5-6%. Real return bonds provide are inflation protected, and as inflation and interest rates generally work in tandem, the capital value of the bond is therefore protected. Corporate bonds should not be significantly impacted because (a) high yields provide a cushion and (b) because rising rates also mean that the economy is improving causing a reduction in credit risk (default) of corporate bonds.

For more info call Mark Kryzan or Terry Shaunessy at 403-802-3108.