VOLUME IV, ISSUE 1

COMMODARI ANTINORI GROUP

SAFEGUARDING YOUR WEALTH

INVESTMENT COMMENTARY: JANUARY 2010

"And why does a man who is gloomy about stocks own so much stock? Partly, it's habit . . . Partly, it's just that stocks mean business, and owning businesses is much more interesting than owning gold or farmland. Besides, stocks are probably still the best of all the poor alternatives in an era of inflation – at least they are if you buy in at appropriate prices."

– Warren Buffett, Fortune, May 1977

We are pleased to report that portfolios managed by the Commodari Antinori Group posted strong results in 2009 and even more pleased to report that having avoided big losses in 2008, our long-term results are excellent. As usual, a detailed tabulation of your portfolio holdings and individual results are enclosed for your quick reference.

For the year ended December 31, 2009, the total returns for the Standard & Poor's 500 and the Dow Jones Industrial Average were 26.5% and 22.7% respectively while in Canada, the S&P/TSX Composite gained 35.1% on a total return basis.

On the back of such strong calendar year returns, we feel it necessary to taper some of your expectations going forward and, as usual, encourage you to always focus on long-term results and not single year greatness when evaluating the merits of an investment program and the performance of your managers.

THE TORTOISE VS. THE HARE

Since its 2008 high, the S&P/TSX Index saw a 49% nosedive followed by a subsequent rise of 54%. Given the magnitude of this recovery, many investors wrongly believe that they are now ahead of the game. For many, that is simply not the case. To illustrate, just look at the compound total returns over the past two and three years for the indices outlined below.

Index	2 Yr	3 Yr
S&P/TSX Composite	-4.9%	-0.2%
S&P 500 (C$)	-8.3%	-8.8%
MSCI World (C$)	-9.0%	-10.7%

Source: Bloomberg - as at December 31, 2009

Regrettably, even after accounting for double-digit returns in 2009, most investors are still behind where they were at the end of 2006. That is not the case for our clients. Over the same period, our slow and steady approach delivered significantly better results.

At the Commodari Antinori Group, we have always stressed that the avoidance of catastrophic losses - like those in 2008 - combined with slow and steady growth always outperform in the long-term. Like we wrote in July 2007, "*it's a marathon not a sprint.*"

BMO Nesbitt Burns®

INFLATION

There has been widespread discussion lately about the similarities between the stagflation/inflation that transpired in the 1970's and what we may experience going forward.

As a rule, you all know that when it comes to market forecasts we are agnostic. That said, we do believe that we are more than likely to experience significant inflation going forward.

We say this because in finance, like in nature, every action has a consequence. A consequence of the billions of dollars of monetary medicine poured into the economy during the course of the credit crisis will certainly set in motion inflationary forces that will be very difficult to stop in the future. After all, one of the easiest ways for politicians to pay for their excess spending is to inflate the value of the local currency.

Of course it is difficult to tell just how severe inflation will be because there are things that governments can do years from now to counteract it. But what can we do? For starters, we can avoid strategies we know to be destructive in the face of inflation. And, implement others that historically have performed satisfactorily.

SAFETY IN BONDS – A FINANCIAL MIRAGE

First, a little history. As many of you may remember, the last period of extended inflation spanned from 1965-1982. At that time, long-term government bond yields went from levels similar to what we are seeing today to over 18% in 1981.[†]

So, what did this mean for bonds? Well, unlike the last thirty years - where rates steadily declined - this period proved to be very unfavorable to bonds. As the value of the dollar depreciated year after year, bonds with fixed income and principal payments denominated in those dollars had nowhere to go but down and thus bondholders suffered negative real returns.

Today, much like 1965, interest rates are very low. As a result, the starting coupons for bonds are low and face the same prospect of price erosion should rates rise.

Mindful that not all our clients have long-term investment horizons or the stomach for the fluctuations that come with owning an all equity portfolio, our strategy when it comes to bonds is simple yet effective.

We have intentionally laddered bonds out over a short one-to-six year period. This way, we have the luxury of renegotiating the terms of our contracts on a regular basis as rates slowly increase. Although this strategy was sub-optimal during the great bond bull market from the early 1980's into the 2000's, we strongly believe that it has a good chance of outperforming going forward.

NEW BUBBLE BREWING – NO FEVER LIKE GOLD FEVER

What about gold? At Commodari Antinori Group, we see signs of a bubble brewing in gold and see little investment merit in holding the precious metal or shares of gold producers at these levels.

According to GFMS, the consultancy that compiles benchmark supply and demand data on the metal, although demand for gold doubled to 1,820 tonnes in 2009, jewelry purchases fell 23% to 1,687 tonnes. This statistic is alarming since it is the first time in three decades that this occurred. The last time marked the end of the 1970's gold rush.

Considering that the SPDR Gold Trust, the largest exchange-traded fund backed by bullion, has amassed more gold than Switzerland's central bank and that London department store, Harrods, began selling gold bars in October, we have reason to sound the alarm.

Despite its promise of a safe haven and store of value, gold has historically been a poor investment. According to data compiled by Bloomberg, despite gold's best showing in three decades, it has yet to match the return of a simple interest-bearing checking account for those who bought it during the last peak in January 1980.

Investors who paid $850 an ounce back then have earned a total return as at December 31, 2009 of only 44% – a whopping 1.3% per year. In the same period, the S&P 500 stock index produced a 22-fold total return (a gain of 2,182%), Treasuries rose 11-fold or 1,089% and cash in the average U.S. checking account rose at least 92%. On an inflation-adjusted basis, gold investors are still 79% away from getting their money back.

EQUITIES – SEEK OUT GREAT BUSINESSES

Warren Buffett recently said that without a doubt, the best asset you can have during inflation is your own abilities. We agree. Operating with a specific skill set in a niche market will always guarantee that you will be able to command sufficient payment for your services, regardless of the value of the currency.

We realize that after reading this, not all of you will want to rush off to your local university and enroll in courses to brush up on your skills. So, as an alternative we propose the second best protection against inflation — buying into other people's talents through equities.

Just like a lawyer or a doctor will command higher wages over time, so too will the products and services of an excellent business. Although not immune to the short-term ills of inflation, over time, great businesses have the ability to pass on price increases without experiencing volume declines. Consequently, at the very least, you maintain your purchasing power.

WHAT DOES THIS ALL MEAN?

While investors may currently feel safer in bonds, the toxic combination of low coupons and the likely prospect of higher future inflation mean bondholders are likely to be more vulnerable to long-term wealth destruction than stockholders. Similarly, if history is any indication, buyers of gold at current prices will be disappointed.

COMPANY DEVELOPMENTS

Over the last six months, we added to our position in Loblaw. We are pleased to report that despite investors fret over the company's short-term challenges, Loblaw's is finally reporting good progress in their long-term operational efforts. And, with profit margins still well below their 2004 peak, we feel there is lots of room for further improvement.

With great real-estate locations throughout Canada, a solid management team, and President's Choice, their lucrative private label business, Loblaw's clearly has a wide moat around its business that should enable it to create long-term shareholder value. We continue to hold the name and expect to generate superior investment returns from this holding.

Other noteworthy developments include our decision in early August to sell our stake in health and natural food grocer Whole Foods Market. We originally bought Whole Foods back in October 2008 after investor concerns over weak consumer spending and a higher debt burden - brought on by the acquisition of rival Wild Oats - depressed the shares to their lowest level in five years.

Despite hitting new lows after our original purchase, Whole Foods proved to be an excellent investment. When sentiment finally changed, the share price reversed course, gaining as much as 279% from its lows. We sold as the price approached our assessment of intrinsic value and doubled our money in the process.

CONCLUDING THOUGHTS

As one decade ends and another begins, we look back at how things have changed and look ahead to what might change in the next ten years.

Although we cannot be certain where equity markets are heading or how bumpy the ride may be, we face the future with confidence. We say this because we know that successful investing does not depend on being able to predict the future, but rather on using sound investment principles that in turn produce sound investment results.

You have our commitment that we will continue to use the same sound investment principles we always have in the management of your portfolios.

Alessandro Commodari
Investment Advisor

Tel.: 514.286.7254
alessandro.commodari@nbpcd.com

Mario Antinori
Investment Advisor

Tel.: 514.286.7311
mario.antinori@nbpcd.com

January 7, 2010

COMMODARI ANTINORI GROUP

1501 McGill College Avenue, Suite 3200
Montreal, Quebec H3A 3M8

"Commodari Antinori Group is a boutique private client wealth management group within BMO Nesbitt Burns. We work exclusively with high-net-worth individuals and their families and build for them unique portfolios — no pooled funds or other proprietary products."

The opinions, estimates and projections contained herein are those of the author as of the date hereof and are subject to change without notice and may not reflect those of BMO Nesbitt Burns Inc. ("BMO NBI"). Every effort has been made to ensure that the contents have been compiled or derived from sources believed to be reliable and contain information and opinions that are accurate and complete. Information may be available to BMO Nesbitt Burns or its affiliates that is not reflected herein. However, neither the author nor BMO NBI makes any representation or warranty, express or implied, in respect thereof, takes any responsibility for any errors or omissions which may be contained herein or accepts any liability whatsoever for any loss arising from any use of or reliance on this report or its contents. This report is not to be construed as an offer to sell or a solicitation for or an offer to buy any securities. BMO NBI, its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities mentioned herein as principal or agent. BMO Nesbitt Burns Inc. and BMO Nesbitt Burns Ltee/Ltd. ("BMO Nesbitt Burns") will buy from or sell to customers securities of issuers mentioned herein on a principal basis. BMO Nesbitt Burns, its affiliates, officers, directors or employees may have a long or short position in the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. BMO Nesbitt Burns or its affiliates may act as financial advisor and/or underwriter for the issuers mentioned herein and may receive remuneration for same. A significant lending relationship may exist between Bank of Montreal, or its affiliates, and certain of the issuers mentioned herein. BMO NBI is a wholly owned subsidiary of BMO Nesbitt Burns Corporation Limited which is an indirect wholly-owned subsidiary of Bank of Montreal. Any U.S. person wishing to effect transactions in any security discussed herein should do so through BMO Nesbitt Burns Corp. and/or BMO Nesbitt Burns Securities Ltd.

® "BMO (M-bar roundel symbol)" is a registered trade-mark of Bank of Montreal, used under licence.
® "Nesbitt Burns" is a registered trade-mark of BMO Nesbitt Burns Corporation Limited, used under licence.

[†] Bank of Canada, Department of Monetary and Financial Analysis