VOLUME V, ISSUE 1

COMMODARI ANTINORI GROUP

SAFEGUARDING YOUR WEALTH

INVESTMENT COMMENTARY: JANUARY 2011

"Speculation is an effort, probably unsuccessful, to turn a little money into a lot. Investing is an effort, which should be successful, to prevent a lot of money from becoming a little."

– Fred Schwed Jr., Where Are the Customers' Yachts?

Looking back at 2010, we can safely say that Mr. Market was true to form and demonstrated his typical vicissitudes. Signs of a global economic recovery in the early months caused him to be enthusiastic and markets rallied. Euro zone debt worries in the spring and summer saw his enthusiasm turn to despair and markets declined. Later in the year, his mood changed once more and markets moved up sharply.

Through all this, we maintained our trademark steady-hand and are pleased to report that portfolios managed by Commodari Antinori Group posted solid returns in 2010, albeit slightly lagging major indices. This is not worrisome. After all, it was a strong year for the market, and we have consistently pointed out that we expect to shine on a relative basis during down years, whereas plus years of any magnitude may find us blushing. This held true in 2010.

For the year ended December 31, 2010, the total returns in Canadian dollars for the Standard & Poor's 500 and the MSCI World Index were 8.89% and 6.32% respectively while in Canada, the S&P/TSX Composite gained 17.61%.

Enclosed is your personal *Portfolio Review* detailing your holdings and performance marked-up with our thoughts and recommendations. As always, we would like to remind you that regardless of whether we are plus or minus in a particular year, if we can maintain a large *absolute* edge over relevant indices in difficult years, our long-term results will be excellent – financially as well as philosophically. On that note, results speak for themselves.

THE GROUND RULES

The investment industry is rife with soothsayers eager to make exaggerated promises of rich returns. Not so at Commodari Antinori Group. We believe it best to paint a clear and realistic picture of what clients can expect as opposed to making lofty promises that often fall short.

On that note, let us be clear. We are not adventurers aiming to turn a grand into a million. Our primary goal is preventing your already **large** nest egg from becoming a **small** one. In so doing, much of the value we add is by protecting capital during down markets not outperforming in bubbling ones.

Over a period of time, we expect to have good and bad years; there is nothing that can be gained by

getting enthused or depressed about the sequence in which they occur. The important thing for us is beating par for the course. After all, when all eighteen holes are tallied, that's all that really matters.

A WORD ABOUT PAR

We are adamant that money managers must, in a simple and clear manner, report on the outcome of their handiwork. If our performance is poor, we expect clients to withdraw, and indeed, we should start looking for new employment. If performance is good, we are assured of doing splendidly, a state of affairs to which we are sure we can adjust.

The rub is in being sure that we all have the same ideas of what is good and what is poor. We believe in establishing yardsticks prior to the act; retrospectively, almost anything can be made to look good in relation to something or other. That's where your *Investment Policy Statement (IPS)* comes in.

At the outset of working together, we clearly define in your IPS what and where *par* is. We do not retroactively swap one definition of *par* for another whenever doing so paints us in a better light. Once we have jointly decided and memorialized *par* in your IPS, our job over the many years ahead is to pile up advantages above and beyond this metric without worrying too much about market indices or whether results in a given year are plus or minus.

THE GROWTH TRAP

With markets posting solid gains once more, it is only a matter of time before the average investor starts to regain his appetite for risk and begins to venture back into equities. As is often the case, many of these new risk takers will seek to maximize short-term profits by focusing on the fastest-growing new firms, industries, and even foreign countries.

On the surface this behavior appears to be completely logical. After all, growth is a component of value. The more rapidly a business grows its profitability the more it is worth. No rocket science here! The million dollar question however, is whether or not this explosive growth translates into profits for the average investor.

Sadly, in most cases, the answer to this question is a resounding no. Prospects for physical growth in a business do not translate into **obvious** profits for investors. Carpets in the 1950s, electronics in the 1960s, Japan in the 1980s, and tech stocks in the 1990s all failed to deliver significant profit to investors. How can this be? Didn't we just say that growth was a component of value? We did, but an even more important component of value - and investor return - is the price that you pay.

Unfortunately, growth seduces investors into overpaying for the very firms and industries that drive innovation and spearhead economic expansion. This relentless pursuit of growth through buying hot stocks, seeking exciting new technologies, or investing in the fastest-growing countries dooms investors to poor returns. In fact, as Dr. Jeremy Siegel points out in his book, *The Future for Investors*, history shows that many of the best-performing investments are instead found in mature industries and in slower-growing countries. Here are two examples:

Annual Growth Rates, 1990-2010

Company	EPS Growth	Investor Total Return
Microsoft	22.5%	22.9%
Philip Morris	1.6%	24.2%

Source: Bloomberg

Annual Growth Rates, 1993-2010 (in U.S. Dollars)

Country	GDP Growth	Index Total Return
China	14.1%	-2.3%
United States	4.7%	6.2%

Source: Bloomberg & International Monetary Fund

Because growth alone does not guarantee good returns, and overly optimistic estimates of growth tend to inflate stock prices, we are always conscious of the price that we pay for the businesses that

we own. We prefer passing on the *"next big thing"* and sustain the penalties resulting from over-conservatism rather than adopt a philosophy where trees really do grow to the sky and the consequence of error results in permanent capital losses.

A WORD ON CHINA

There is no shortage of predictions that demographic and economic forces will slowly shift the center of the global economy eastward and that China will eventually eclipse the U.S. as the world's largest economy.

While we love growth and would agree that economic prospects for China are quite promising, we refuse to pay a premium for the hope of growth and wish to remind readers that the growth trap does not discriminate. As we have just pointed out, only growth in excess of investor estimates equates to investor returns. Based on current valuations, it is likely that direct stock investments in China will prove to be disappointing.

We continue to believe that participating in China's growth indirectly through multinational companies like Coca-Cola or Diageo is not only safer, but in time, will yield better returns. On that note, we wish to congratulate Omnicom, our U.S. based advertiser, on having recently clinched the Chinese advertising industry's top awards for outstanding work in China at the China International Advertising Festival - a feat sure to deliver great results going forward. Keep up the great work!

PORTFOLIO DEVELOPMENTS

In our last issue, we examined three of our largest holdings: General Electric, Saputo and Walgreen. Since gracing the pages of that report, the shares are up 31.3%, 26.8% and 43.5% respectively. Move over Jim Cramer, it looks like CAG is beginning to get a following of its own.

This newfound celebrity has not changed our approach. We continue to do what has worked for us in the past. That is, discover undervalued businesses and then hold them patiently until others recognize the superior value. So, when others are selling at lower and lower prices, we buy.

In the last six months we had two such opportunities and used them to build positions in Visa and Encana. Another noteworthy development was disposing of the last of our Martin Marietta Materials.

As you all know, Visa is the world's largest retail electronics payment network. They provide a service wherein a merchant's bank and a consumer's bank are able to communicate with one another approving or denying credit. In exchange for this service, the respective banks pay Visa a modest fee. They do not issue cards or extend credit.

With the shift from traditional payment methods to electronic forms showing no signs of slowing, and the fact that Visa collects a small *"toll"* on all of these transactions, we think this is a great business. We were able to stake a claim on this wonderful company late last year after a veil of uncertainty descended on the industry following passage of surprising legislation by Congress potentially lowering the toll Visa collects at the booth.

While regulatory risks remain a concern, we believe that any lost revenue will eventually be offset by increased volume. The quality of Visa's business remains enduring and based on the price we paid we are very optimistic about our future return.

On a separate note, excess supply of natural gas in North America has temporarily depressed gas prices and with it the valuation of many Canadian gas producers. Having previously owned Encana in the past, we know the business well and are happy to once again include it among our portfolio of companies. For those of you keeping score, we originally sold it back in 2006 at a higher split adjusted cost.

Finally, Martin Marietta Materials (MLM) – the ugly duckling we'd like to forget about. We booked a small loss on the name after reviewing our investment thesis and concluding that large fiscal deficits may delay infrastructure spending in the U.S. longer than we would like. Simply put, federal, state and local governments just don't have the money.

We are disappointed in the outcome of our investment in MLM. The good news is, after including dividend income, our loss is insignificant. Anyone who says that dividends do not matter clearly has not looked at the numbers.

CONCLUSION

Investing doesn't need to be so complicated. When you buy great businesses you don't need to worry about exchange rates, debt crises or other macroeconomic events. You need only worry about the price you initially pay. The rest takes care of itself.

We enter 2011 with a positive outlook because the world continues to develop and grow and we own some of the very best global businesses. These businesses operate on a worldwide basis, with globally recognized brands, the financial strength to weather difficult economic conditions, and a large and growing exposure to the faster growing half of the world.

Thank you for investing with us, and for your continued confidence.

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 14, 2011

COMMODARI ANTINORI GROUP

1501 McGill College Avenue, Suite 3200
Montreal, Quebec H3A 3M8
www.commodariantinorigroup.com

"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. If you are already a client of BMO Nesbitt Burns, please contact your Investment Advisor for more information.

® "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.

Member-Canadian Investor Protection Fund