

August 6, 2011

Market Update: Understanding the Volatility!!

There are two main stressors to the global stock markets right now 1). US Debt/Slowing Economy 2). European Sovereign Debt, mainly Italy and Spain NOW! I will explain more in a moment.

You have probably heard that the stock market is mainly driven by fear and greed and I do believe there is truth to both sediments. The "Market" does not like "uncertainty" which produces "FEAR" and then selling of stocks takes place. When the markets are stable, economy growing then stocks are rising which creates buying of stocks and then people compare their portfolio's..."I received 12%" and another says "I received 14%". So how much is enough? Well just a little bit more...GREED. Now the truth is this system has worked quite well historically and see Historic Stock Chart (Fidelity Stock Owner Manual PDF attachment) to verify. Over the last 41 years with all the UPS and DOWNS of the stock market (Fear & Greed) you would have realized a 46 fold return on your money if you just invested in just 2 of the major stock indexes (S&P 500 and TSX) and left it there. \$1 would equal \$46, \$100 would equal \$4600, \$10,000 would equal \$460,000...you get the point. Remember we have had some pretty nasty "Fear times in the last 41 years" and our most resent 2008. All my clients recovered there temporary losses in less than two years (Greed season) because we choose quality Corporate Bond Funds, Income Funds, Balanced Funds, Dividend Funds and some choose a bit of Pure Equity Funds (more aggressive). Now we are in a season of fear again which cause good portfolios to go down for a while. The biggest danger of the fear season is when people PANIC and want to sell everything (React instead of Respond wisely with good actions)...and to be honest this is plain foolish and you realize true losses. I will provide some possible good guidance and actions in just a moment.

Another very important piece of knowledge is this: The "Market" is NOT the "Economy"! The "Government" is NOT the "Economy"! The stock markets usually only get it partly right because they are driven by fear and greed...and we know on a personal level both are not great ways to live...in fact we make bad decisions when we live in either state. Remember the "Technology Phenomena" of the mid 1990's people were going nuts buying any technology stock and some made a fortune who sold in time...most DIDN'T AND LOST MOST or ALL OF THEIR MONEY...GREED!!!. The day to day trading of the stock market is whimsical based on sediment and not always rational like Thursday of this week. We have also learned that poor governance can greatly affect the stock market and conversely good government can create stable regulation and favourable economic conditions. But remember the Government is not the economy. The ECONOMY is BUSINESSES globally which create jobs, create wealth and sell products or services around the world...PERIOD. Now back to Thursday, did businesses stop working or hire people by the millions...absolutely NOT. In fact the jobs number came out on Friday and in both the US and Canada both nations added new jobs. So why did the TSX drop 435 point and the Dow drop 500? Governments around the world, mainly US, Spain and Italy are affecting the market by bad policy and excessive DEBT. What are Politian's in each of these countries and Central banks and greater Governing forces like the EU doing....trying to FIX these MESSES...and this will take time and create volatility in the market for a season.

Let's look at the REAL economy...BUSINESSES. Canada is number one in the G7 with stable healthy growth of 3.5 to 4% GDP and we are at almost normal unemployment levels of 7% (which is considered FULL employment) and Alberta is even better at around 6 %. The US economy is slowing which has added to volatile markets and still has just over 9% unemployment which is a real problem. When people don't work there are less taxes to go to the

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government chauffer's. 46 million America's are using "FOOD STAMPS" to provide basic food needs...this is a serious issue. The US is using 100% of their GDP (biggest economy in the world) just to service their enormous debt...very serious!! My belief there is also a serious "Leadership crises" in the US and this has fuelled the fire. Some fear a Double Dip and I believe there is less than a 50% chance because most US businesses are cash rich, strong balance sheets and growing. Most likely we will see "Stagnation" ("O" growth or very modest 1 to 2%) to the economy. The US housing market is still in a mess (high foreclosures) and I strongly recommend NOT buying there unless you are a professional real-estate expert and know what you are doing and understand the local market that you are going to invest in. I still see a real possibility of 20 to 30 % decline of residential building values in many States and 5 to 10 years before there will be any recovery. Europe (EU) most nations are in stagnation except for Germany, France and some of the smaller nations which has complicated their huge DEBT issues of the PIIGS. Greece which we just went through is the late Spring and their bailout equals 3% of the EU economy; but Spain and Italy equal 30% which makes it more serious a problem for the EU to handle. China, India, South East Asian countries are booming...period many with 8% plus GDP growth. South America has many very strong and diverse economies with Brazil leading the pack.

To summarize there are some very bright spots in the global economy (Business) and some very real risks as I discussed mainly due to irresponsible Governments of the world. So what does this all mean to you my values clients and friends?

Action Steps:

- 1). Please read my monthly e-letters so you are educated on markets and strategies and take action. Make good decisions in developing a long-term wealth plan. Remember wealth is created over a life-time, NOT with short-term thinking or perspective on any asset class.
- 2). Do not make major decisions in fear or panic. Sound knowledge and wise counsel puts things in perspective.
- 3). Make sure your wealth is well diversified between quality Real-Estate, Stocks, Business ownership, Exempt Market Products and always watch your TAXES.
- 4). Don't get fixated on short-term volatility in the market...evaluate your portfolio on a yearly bases...NOT daily, weekly or monthly. You can have 7 months of bad markets and still end the year with a positive gain. Remember 8 out of 10 years you will do well in the stock market and 2 years you won't...historically over the last 41 years would still realize a 9.7% return in the stock market if you just kept it in a good basket of stocks in a major index.
- 5). You can always call me or email me if you have any questions or concerns. Yes there are times to rebalance your portfolio and that is why I recommend doing an annual review to make sure your portfolio is consistent with your risk level. If you are in 3 to 5 different quality funds you will do well long-term.
- 6). Most of my clients are in Segregated funds with 75% or 100% guarantees of deposits on maturity of the contract and many have bonus features. If you are in Segregated funds you have 100% death benefit to protect your family or estate and 100% creditor protection if you ever went bankrupt or got sued...this is why I use Segregated funds...NOT mutual funds which has none of these guarantees. Those who have taken advantage of Exempt

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Market Offerings are generally not affected at all with market volatility and generally have consistent yields of 8% plus (especially the REIT and MICS).

I hope you are enjoying your summer...we really are! Please remember life is more than the stock-market whether Bull or Bear.

Best regards,

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