High Net Worth Journal

An Investment Update

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What's News

By Neil McIver

Steady Hands
Investing has changed in many ways over my past 20 years in the industry and it has not necessarily become any easier. In fact, on balance, it may be more difficult today than ever for individual retail investors, especially in trying to avoid the pressure of succumbing to emotions when making investment decisions.

It is ironic that technology with its 'Information Superhighway' does not always contribute to the effort to make better, more informed decisions. In fact, in the worst cases, technology has created confusion and lead investors badly astray. There is a qualitative difference between the data that technology provides us and the good information that is refined by applying knowledge and experience. Data without context or knowledge is meaningless. Because of the veritable fire hose of raw data that is directed at us, the sheer volume can be overwhelming. Even experienced and knowledgeable professionals find it challenging to examine it on a timely basis in order to gleam useful information. The perceived benefit of instant raw data and the seduction of flashy captivating headlines decrease the likelihood that the average investor will read a thoughtfully compiled report based upon weeks or months of work.

Retail investors tend to behave as a group to economic news. This is natural as most have other responsibilities in life and likely do not have the time or knowledge to act confidently and independently. As a result, if we monitor how retail investors react to new financial data, we begin to see evidence of 'herd instinct' and 'school of fish' reaction patterns if they perceive the data to either be an opportunity or a threat. This behavior is a result of our pre-historic wiring where we are programmed to respond with fear or greed depending upon how we examine the situation regardless of whether we have good or bad information.

The financial media has a roll to play in the lack of sober analysis over the last three years. Because they have to provide content on an hourly basis, they have a strong tendency to provide 'instant market analysis' usually reflecting the current momentum or direction of the market with little or no context. If the equity market is rising on a particular day, they'll interview an analyst or commentator who believes that this will continue unabated. Conversely if it's falling, they will find a negative individual to explain why this will continue. It may appear to be information, but is really just more meaningless data.

This cycle becomes exaggerated when market trends persist for some time. Some analysts have learned that a quick way to get noticed is to come out with a report that reacts with, and reflects, investor fear or optimism.

A case in point was a Bank of Montreal June 2010 report called "Go to Cash – In Plain English"(1) which advocated that investors sell all their stocks. The news of that report, coming just weeks after the "Flash Crash" of May 6th 2010 that had badly shaken investor confidence, instantly went viral. The report lacked historical context and deep analysis, but it was exactly what scared investors wanted to hear.

Few retail investors ever the read the report. Most felt they didn't need to as the title, which flashed across newspaper and internet headlines, said it all. Had investors followed this report's advice, they would have forfeited 8.1% market growth since then. That's money you can never get back.

Few if any analysts predicted the timing or the depth of the 2008 – 2009 market correction and many have tried to make amends by calling for massive market corrections since that point. David A. Rosenberg , Chief Economist & Strategist at Gluskin Sheff has been bearish at least since the Armageddon lows of March 2009, when the market was some 66% lower than it is today. Jim Cramer from Mad Money on MSNBC plays both sides, seemingly being either bullish or bearish depending on which direction the market runs each day.

Retail investors often wonder why large institutional investors manage to outperform them over the longer haul. The reason is simple. They are rarely pulled by emotion into making bad decisions based on relatively meaningless data because they run asset allocated portfolios – just as we do for our clients.

We have larger game plan; we invest with knowledge and experience, not just with 'data'. Moreover we are guided by a peer-reviewed and time-tested asset allocation process, which is not susceptible to emotional influences. A recent case in point; not only did we advocate clients add dollars to their portfolio right at the depths of market swoon in late 2008 and early 2009 – we also rebalanced our clients' portfolios in a special rebalancing which had the effect of selling bonds and buying equities, right along the bottom. That would likely not have been possible if we had been swept up in emotion after watching an episode of CNBC's Mad Money at the time.

(1) Mark Steele, BMO Capital Markets, *Focal Points, Investment and Trading Ideas*, June 8, 2010 "Go to Cash – In Plain English"

On the Mark

By Mark Jasayko

Race to the Bottom

Alan Blinder, a former Vice-Chairman of the Federal Reserve, was recently asked about the predicament that the Fed is in with respect to its attempt to restart the U.S. economy when he responded by stating: "The Fed has run out of the strong tools, and is turning to weak ones. When you're fighting in a foxhole and you've used up the machine guns and hand grenades, you pull out the sword and start throwing rocks."

In an effort to stimulate economic activity following the worst financial crisis in a generation, the Fed has worked through its arsenal with little success. Some say that the crisis would have been catastrophic if the Fed didn't throw everything at it. But that is circular reasoning because we will never know. In previous serious recessions, the Fed provided far less support. The recessions were painful, but they were allowed to bottom out at which point the economy was balanced and in a better position for recovery.

At present, the global and U.S. economies are imbalanced and stuck in neutral. Massive bailouts and stimulus packages have kept the old order alive and have prevented the necessary rejuvenation that occurs when new and healthy companies and industries replace those that have become obsolete or inefficient.

The result has been a world that is awash in cheap credit. Historically, easy credit has been a potent economic elixir. However, we are now in an era where companies and individuals that became over-extended in the last bubble are now trying to pay off debt, neutralizing the effects of all the added liquidity. But the Fed continues to try by unveiling a never-ending stream of policies and expecting a different outcome each time.

Initially, to create liquidity the U.S. Fed lowered the short-term interest rate that sets the base for all interest rates. Eventually, the short-term rate was lowered to zero. Since interest rates can't be negative, that was the limit of that strategy.

The Fed, in concert with the U.S. Treasury, then created a number of programs to lend out funds to financial institutions in the hope that it would be re-lent to other borrowers in an attempt to create liquidity.

Then the Fed offered to buy hundreds of billions of dollars of securities backed by bad mortgages at 100 cents on the dollar to put even more money into the hands of those institutions (while simultaneously bailing them out in the process). The Fed had also promised that those programs would have ended by now and that they would have begun selling the dismal mortgage securities back to the markets. But that hasn't happened. In fact, the Fed is now strongly hinting that it will start to purchase even more of these securities beginning in early November.

The fact that U.S. policymakers have become silent on exit strategies and have begun to argue for even more monetary stimulus has irked the foreign currency markets. Without a commitment to exit strategies, the policies begin to look like blatant money printing. This is tantamount to "pulling out the sword and throwing rocks" as quoted above.

One side effect of this is a devaluation of the U.S. dollar (which is in contrast to the official "strong dollar" policy of the last three decades). The U.S. dollar has fallen to a 15-year low against the yen and has fallen against the troubled euro over the last six months.

Naturally there is a sense of panic among many countries that rely on exports to the U.S. as a weaker U.S. dollar makes their goods more expensive. A number of the countries, including Japan, have tried to jump ahead of the U.S. in devaluing their own currencies. Brazil, which has been burdened by a significant strengthening in the Brazilian real, added fuel to the fire when they said that a global currency war was developing. Following that, the financial press has been filled with headlines using the term "currency war."

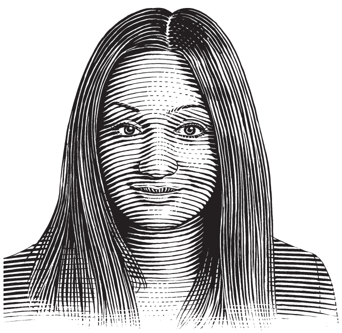
The International Monetary Fund has entered the debate by saying that there needs to be coordination between the currency policies of all the countries. Coordination has had some success in the past when countries recognized that it was better for certain currencies to be stronger than others. However, in a world where everyone is angling for a weaker currency in order to prop up post-crisis economies, it is difficult to imagine where the IMF will find any countries that are willing to let their currency rise.

So it appears that the race to the bottom is on.

If the currency battle continues, gold will be a winner. As currencies devalue, the price of gold in those currencies will rise. Bonds could have a difficult time if any corresponding inflation fears emerge. And stocks will probably trade in a range, with better quality and less vulnerable companies doing the best. We have considered all these possible opportunities and risks in the management of our Asset-Allocated model portfolios.

Good Karma

By Karm Bhatti



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Our website design is designed as a resource and guide for our clients. It explains how we provide *discretionary investment management* services and its advantageous benefits for clients and also explains the concept of providing wealth management planning services.

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Preserve and Protect

By Tricia McIver

Good offence – the Family Mission Statement

Strategic Review … we don't often think about strategic review and planning in the context of our family matters. However, in business, a strategic review is a critical element in laying down a roadmap for success. Through the review process, values, priorities, goals, and needs of the business are discussed and defined, and from this, a corporate mission statement emerges. The corporate mission statement, which establishes a governance system, provides focus and commitment for the managers going forward.

As we move into a time where there will be an unprecedented transfer of wealth, inheritance will play a leading role in the creation of wealth. Will the newly-wealthy be prepared to carry the torch from their forbearers? Will they be up to the responsibilities and challenges associated with their new position? Focus and commitment will be required.

A thoughtful Estate Plan will provide guidance for heirs. There are many ways to provide this guidance and one of the most effective is the drafting of a Family Mission Statement, much like those for businesses as discussed above. This Statement, containing a Code of Conduct and a Constitution, demands the completion of a strategic review of the elements – values, priorities, goals and needs – that contributed to the family's success and defined the family's culture. The Family Mission Statement will provide guidance for preserving not only wealth but family values as well.

The primary benefit of the family strategic review is the engagement of multiple generations of the family. And this is an important point – the process should be collaborative rather than directed solely by the patriarch and matriarch so that all affected have a sense of involvement, engagement and responsibility. Collectively agreeing on important principals may help to avoid future conflict. The sharing of information and points of view will provide (1) the younger generations with an understanding and appreciation of accomplishments of their forbearers, and (2) visionary direction based on the collective wants and needs of the family. The family strategic review will provide the opportunity for discussions that will educate the younger generations on the responsibilities and challenges of wealth, and cause them pause to consider the unique value system their family upholds and how they intend to honour it.

The family strategic review, consisting of a series of discussions, will determine precisely the family's priorities, values, goals and needs (with thought to both collective and individual needs). From this the Family Mission Statement is created. This Family Mission Statement should be clear and understood by all. It should inspire yet be achievable. The Family Mission Statement should be forward-looking without disregard to the past. The Family Mission Statement should provide direction for ensuing generations and must enunciate the following very simply and clearly:

- values and beliefs;
- rules for family meetings and sharing information, financial and otherwise;
- framework for resolving disputes and conflicts;
- policies on how wealth is to be managed and used;
- policies for charitable and community outreach; and
- the vision for family legacies and wealth.

Like a Will or other Estate Planning tool, the Family Mission Statement is not static. The Statement will evolve over time and will require amendments to reflect changing priorities, values and needs. What should not change though is its ability to inspire the family to greatness.

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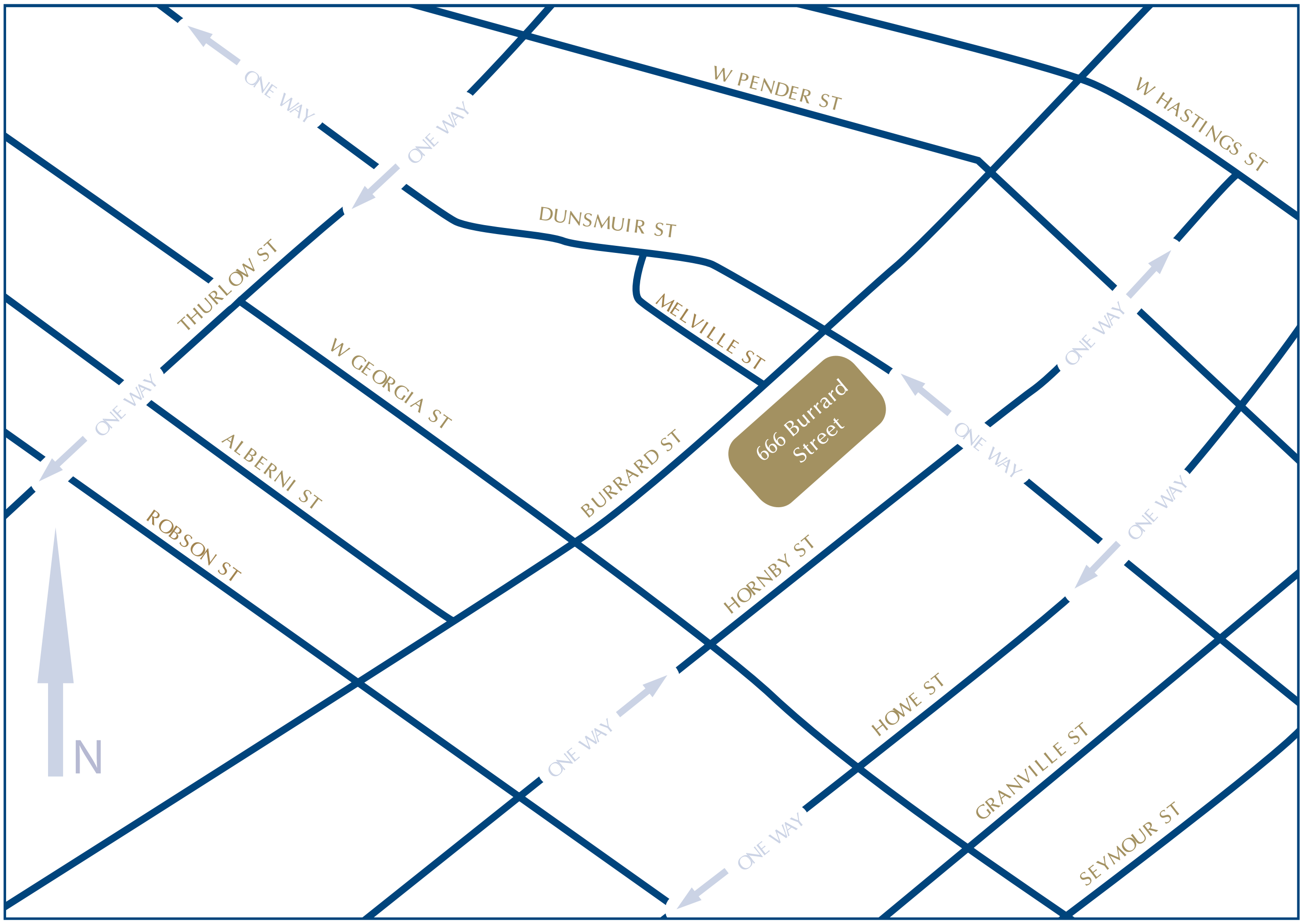

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