Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

WINTER 2009 NEWSLETTER **Carl Eppstadt, CLU, CHFC, CFP, CHFS**

Carl's Comments

At the close of my 30th year in the investment business and my fifth bear market I have discovered that years come in many shapes and sizes. I have seen the strangest behavior at both ends: Rational investors buying into overpriced securities when the markets are peaking and rational investors bailing out of high quality, underpriced securities when the markets are near the bottom.

Warren Buffett, the richest man in the world, lives by one simple credo "Be fearful when others are greedy and be greedy when others are fearful." These are wise words, yet difficult for amateur investors to follow. It is very difficult to see the buying opportunities that the market presents once every six or seven years when the fear mongering, talking heads are scaring the daylights out of investors to foster better nightly news ratings.

The best way to keep yourself under control in tough times is to keep your emotions in check. Dale Carnegie said it best, "You can conquer almost any fear if you only make up your mind to do so."

What has been extremely helpful to me is to review history. History has shown that we have bear markets every six or seven years. We need to understand that the market is like a pendulum that over arcs on both ends before returning to the middle. Currently it is completely over arcing to the negative. Swinging way too far in one direction indicates that a huge movement is due in the other direction (please see US Market Reaction to Previous Crisis) and history has rewarded the patient investor.

What indicates that it is over arcing? Investors' sentiment is the lowest since 9/11, the Federal Bank rate is approaching zero, P/E rations are sitting way below the 20 year average, there are massive mutual fund redemptions (which generally occur at market bottoms) and investors are generally fearful. Maximum fear indicates that the market is bottoming. Conversely, maximum greed indicates the market is peaking.

World financial markets may have faced unprecedented turmoil this year however "an oasis of relative calm" in recent weeks is pointing to a happier New Year for investors, according to news reports by CIBC World Markets.

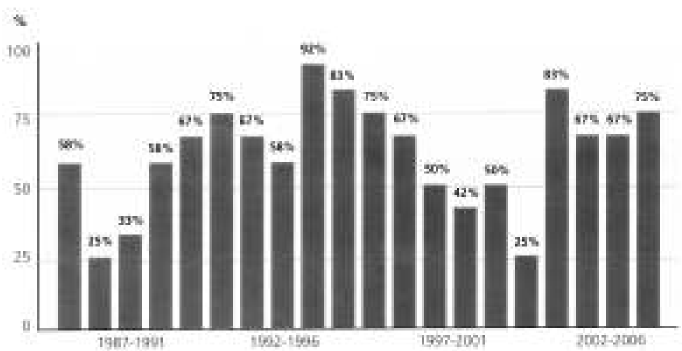
I have been advocating something similar. I have been noticing that we are not seeing the huge 10-15% daily swings that we saw in October. We are seeing swings of only 1-3%. This is very comforting and it appears that the earthquake and its tremors are coming to an end.

CIBC World Market economists say that 2009 will not be another losing year for equities since stock valuations appear to have already discounted much of the bad news. The report suggests that the market may be hitting bottom now since Canadian equities tend to bottom between three and nine months before the end of a U.S. recession. The recovery appears to be set to begin in 2009. The bank target for the TSX is 11,000, which is about 30% higher than today's value.

Although economists are predicting good potential returns, investors should be cautioned against investing aggressively in stocks and carefully selecting good managers that are in defensive sectors, such as consumer staples and utilities.

People Are Followers

Our data, and that of Dalbar, indicate that investors can only follow trends and cannot see when trends are changing. My examples are many. Early in my career interest rates were 20%. However we had a difficult time locking-in investors because they were certain that the rates were going to go higher. Why lock-in now, they said. When Nortel was trading at $120, investors were predicting it would reach $250. Bre-X was trading at $285 and investors predicted it would reach $350. Recently oil was at $140. Investors were predicting it would go to $200.



These numbers highlight an important finding in behavioral finance. Investors tend to hold onto their investments during bull markets, such as the one we experienced from 2002 – 2007, but sell when they anticipate a loss. The problem is that many investors sell their investments after the markets have already fallen and remain out of the markets when they eventually rebound.

The proof of this is found in the above graph. The Dalbar study presents an interesting evaluation of investor behavior called the “guess right ratio.” In a nutshell, the guess right ratio measures how often the average equity investor “guesses” the direction of the market correctly. What the study found was that average mutual fund investors made good calls during rising equity markets (1992, 1995, 1996, 1997 and 2003, 2005, 2006) but investors made most of their mistakes after down turns in the markets (1988, 1989 and 2002). Their conclusion was that these mistakes occur because investors are driven by the fear that the markets will not recover.

While it is impossible to provide a “one size fits all” recommendation to every investor these figures help illustrate why, for many, the best course of action may be to take no action at all.

CRA to Allow Reduced RRIF Withdrawals for 2008

The Canada Revenue Agency recently confirmed that it would allow a 25% reduction in the minimum RRIF withdrawal for 2008, as proposed in the federal government’s 2008 Economic and Fiscal Statement. RRIF minimum withdrawals are calculated as a percentage of the market value of the plan at the beginning of the current year. The government’s proposal is designed to help seniors deal with the rapid decline in market values that have occurred this year.

- Re-contributions will be permitted until the later of March 31, 2009 and 30 days of the proposal receiving Royal Assent.
- Re-contributions will receive a 60L contribution receipt to offset the amount reported on the clients T4RIF.

Tax Free Savings Account

T.F.S.A.

We Are Ready!

US Market Reaction to Previous Crisis

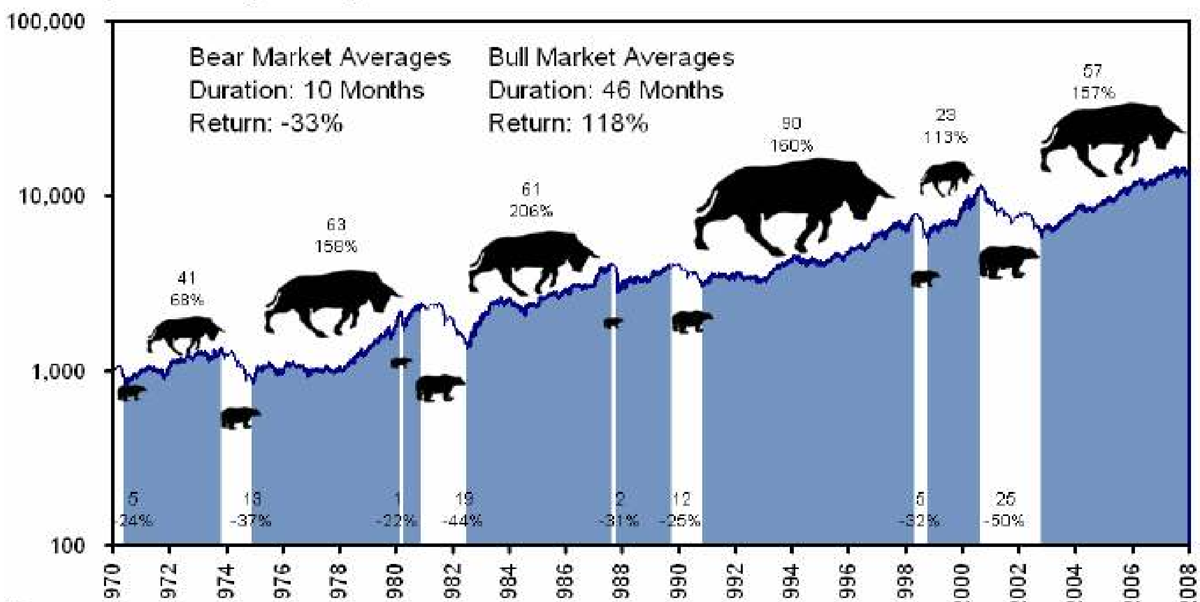
With the stock market's recent performance, it is more important to get clients focused on the long term. The following data reinforces the view that major stock market crashes are normally followed by major upturns in the following 12 and 24 months.

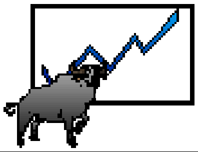
US Market reaction to crises

Event	**One Year Later**	**Two Years Later**
1948-1949 Berlin Blockade	-3.30%	13.20%
1950-1953 Korean War	28.80%	39.30%
1962 Stock Market Break	32.30%	55.10%
1962 Cuban Missile Crisis	33.80%	57.30%
1963 Kennedy Assassination	25.00%	33.00%
1969-1970 Stock market break	43.60%	53.90%
1973-1974 Stock market break	42.20%	66.50%
1979-1980 Oil crisis	7.90%	5.90%
1987 Stock market crash	22.90%	54.30%
1990 Persian Gulf war	23.60%	31.30%
2001 World Trade Centre Attack	-3.80%	6.00%
2003 Invasion of Iraq	29.60%	31.40%

Focus on the Long Run

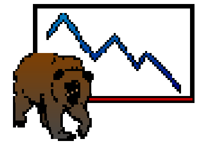
Short-term market corrections are inevitable. Historically, negative annual returns have happened once every four years. However, these short-term set-backs shouldn't distract investors from their long-term objectives. In fact, they often provide excellent entry points. Increased communication with your advisor should help increase confidence that your portfolio is on track to meet your long run goals.





FUND REPORT

Compounded to November 30, 2008



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %	Globe's Rating
CANADIAN EQUITY							
Trimark Cdn First Class	Y	M-H	-35.79	-8.29	2.01	7.93	★★★
BMO Dividend	Y	M	-24.98	-3.78	4.56	8.22	★★★★★
Dynamic Power Cdn Growth	Y	H	-47.59	-5.97	4.21	8.70	★★★★★
Fidelity Canadian Growth Company	Y	M-H	-32.46	-6.09	2.29	5.33	★★
Fidelity Cdn Disciplined Equity A	Y	M-H	-33.00	-3.55	4.67	8.68	★★★★
Front Street Growth	Y	H	-52.32	-15.34	1.26	12.97	★★★★
GGOF Monthly High Income	Y	M-H	-24.62	-6.68	4.98	10.46	★
IA Canadian Conservative Equity	Y	M-H	-17.65	-3.38	3.96	7.00	★★
Mackenzie Cundill Cdn Security A	Y	L-M	-24.79	-7.61	0.03	5.49	★
IA Clarington Cdn SmCap	Y	H	-34.13	-6.90	3.15	9.83	★★★
IA Clarington Dividend Inc-T4	Y	M	-27.21	-5.89	2.68	5.26	★★★
Sprott Canadian Equity	Y	H	-43.24	-1.81	6.89	24.23	★★★★★
INTERNATIONAL EQUITY							
AGF European Equity Class	Y	M-H	-41.24	-7.12	0.34		★★★★★
Dynamic Global Value Class	Y	M-H	-49.99	-13.18	-3.24		★★★★
Fidelity NorthStar A	Y	H	-34.51	-9.86	-1.54		★★★
Mackenzie Cundill Value A	Y	L-M	-29.98	-7.82	0.34	6.79	★★
Trimark Europlus	Y	M	-38.73	-7.23	0.63	3.41	★★★★★
BALANCED FUNDS							
Acuity Canadian Balanced	Y	M	-28.61	-6.76	0.24	4.49	★★★★
Dynamic Value Balanced	Y	M	-22.22	-3.74	4.01	6.30	★★★★
Fidelity Canadian Asset Alloc A	Y	M	-19.04	-0.75	4.54	4.87	★★★★
Mackenzie Cundill Cdn Balanced C	Y	L-M	-16.56	-3.78	0.81	5.22	★★
Renaissance Cdn Value Balanced	Y	L-M	-16.86	-3.09	2.43		★★★
Fidelity Cdn Balanced	Y	L-M	-18.35	-0.43	4.36	6.56	★★★
Dynamic Power Balanced	Y	M-H	-24.08	0.32	5.66	7.59	★★★
OTHER FUNDS							
Vertex	Y	H	-41.16	-8.51	4.13	16.08	★★★
Arrow Multi-Strategy	Y	L	-15.23	-0.68	1.95		★★★
BluMont Hirsch Performance	Y	H	-34.48	-6.59	0.49	12.50	★★★
Hillsdale Cdn Long/Short	Y	H	-8.90	-1.29	8.12		★★
Hillsdale Cdn Performance Equity A	Y	H	-46.02	-12.07	0.34	10.80	★★★
Sprott Opportunities Hedge Fund LP	Y	H	4.23	12.72			★★★★

All Mutual Funds Sold by Prospectus Only & Hedge Funds Sold by Offering Memorandum

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