



Office News

WOW! What a start to the New Year.

The volatility we saw for the first few weeks of 2008 has not been seen since the technology bubble burst in 2000.

We devote the majority of this newsletter to discussion on diversification and staying on course with your long-term goals. We are thankful that we had very few calls from concerned clients. This confirms that we have accomplished our goal of providing financial coaching to allow our clients an understanding that markets are not always positive and we must be ready at any time for a set back. On the positive side, market set backs create new opportunities.

REMINDER – Your 2007 income taxes must be filed by April 30, 2008.

long-term plan that can weather short-term changes in the investment climate.

We have discussed these and other ideas personally with many clients over the past few weeks and if you have concerns about your investments and would like to discuss them with us, we are here to answer your questions. Please call us and we can set a time to meet.

Portfolios That Look Like Pensions

Pensions are often referred to as the "smart money." But how do pensions invest? The Canadian Pension Fund Investment Directory gives us a glimpse into how the smart money is managed.



The survey found that the average Canadian Defined Benefit plan allocates 56% in equities, 34% in bonds, 5% in cash, 3% in alternative investments and 2% in real estate. The 56% allocation to stocks is broken down as follows: 25% Canadian, 12% US, 12% international (non North America) and 7% global (anywhere across the globe).

As you can see, Canada receives 45% of the total stock allocation. The domestic over-weight can be traced back to the days when Canada had foreign content restrictions. However, since the foreign property rule was removed in 2005, there has still been some hesitance to move away from domestic equity — fortunately, the Canadian stock market has served Canadians well recently. More than 80% of plans are reducing the domestic stock exposure. The majority is shifting money into international and US stocks and less than one third are shifting to bonds.

So how can we relate all this good information to us as individuals? Knowing how pensions diversify can be a useful model for long-term investing. Even pension plans experience the challenges of market volatility.

For many years we have recommended a disciplined asset allocation strategy when constructing our client investment accounts. Some clients have more fixed income than others. It's all a matter of risk and ability to remain calm during challenging times. We applaud everyone for staying on course and sticking to your long-term plan. Thank you for your continued trust.

First Quarter Update

The Year 2008 certainly started with a surprise. There was a sharp and sudden decline in world stock markets. The drop was largely blamed on concerns that the U.S. had entered a recession and that this will lead to a global economic slowdown. In addition, there were fears that financial institutions may announce further losses stemming from the sub-prime mortgage situation.

Indeed, this kind of market activity can be unnerving, especially with the media reporting it on their front pages like a major natural disaster. However, the fact of the matter is that it's not a disaster. Market declines are a normal part of investing.

You must always remember why you invest – for your long-term goals. History shows that market downturns have provided opportunities for people who remained committed to their plan. By staying the course and continuing to invest – buying when prices are down – you can create enhanced potential for long-term gains.

A portfolio that is diversified by asset class (stocks and bonds), market sector (technology and energy) and region (Canada and International) will have more stable returns, because not all investments provide the same returns at the same time, or respond to events in the same way. This is how diversification helps boost returns and reduce risk at the same time.

Ultimately, your investments were chosen to help you meet your financial needs, based on your individual goals and risk tolerance. A stock market downturn can be uncomfortable, but it's no time for hasty actions. Together, we have developed a disciplined,

The Danger of Extrapolation



It is only natural that we have human biases. We know that when we flip a coin there is a 50/50 chance it will either be heads or tails. When the coin is tossed 10 times we naturally expect there will be 5 heads and 5 tails. But what happens when after the ninth coin toss we receive 7 heads and 2 tails. We now begin to guess the tenth toss will likely be heads rather than tails. The reality is that there is still a 50% chance that it will be tails.

Now, let's take this dangerous theory a little into the realm of the absurd. Steven Leuthold, a market watcher, some years ago identified that in 1960 there were 260 Elvis impersonators in the US, in 1970 there were 2,400 and by 1980 there were an estimated 6,300 Elvis impersonators. At that time and based on the Theory of Extrapolation he estimated there would be 14,000 Elvis impersonators by 1992 and by 2010 one in four Americans would be an Elvis impersonator. Are one in four of your friends an Elvis impersonator? Crazy, but this is how extrapolation works.

Now let's talk about our business and the danger of extrapolation. Just because the stock market declines 20% over a six-month period, it does not mean that all stocks will be worthless over the next few years. But that could be the conclusion when we try to extrapolate current results into the future.

Here's the message. Do not allow the theory of extrapolation convince you to change your long-term plan. The next rise could begin as soon as tomorrow. History has proven

How's Your Credit Report?

Is your credit report accurate? When you borrow money, your lender will do a credit check. **Sometimes old loans can come back and haunt you.**

It's a good practice to ensure credit information is accurately recorded. It can make the difference between obtaining credit, or not. Privacy laws allow you to obtain your credit information. Your credit report includes a listing of your current debts, and payment history. It shows if you have declared bankruptcy. It will tell if you did not pay



consistently that when markets decline 20% or more, the following 1, 3 and 5-year periods have rewarded investors who stay invested. Stick with your plan, don't try to out guess the trend and rebalance when necessary.

Jacob Fugger The Rich

It's often thought that investing must be complicated and difficult. **Investment gurus describe Modern Portfolio Theory as a complicated science.** These ideas can be daunting to the average Canadian. However, following proven investment principles requires nothing more than discipline and confidence in your decisions.



We go way back to a quote by Jacob Fugger, 1459-1525. Fugger was an early German capitalist who said, "Divide your fortune into four equal parts: stocks, real estate, bonds and gold coins. Be prepared to lose on one of them most of the time. During inflation, you will lose on your bonds and win on your gold and real estate; during deflation, you will lose on your real estate and win on your bonds, while your stocks will see you through both periods, although in a mixed fashion. Whenever performance differences cause a major imbalance, rebalance your fortunes back into the four equal parts."

Yes, Fugger was a wise man that lived more than five centuries ago. His simple diversification model allowed him to amass a fortune of more than \$75 million in sixteenth century dollars. What would that be worth today?

The problem is not that investing is difficult and hard. The problem is that it is hard and difficult to stick with a plan when emotions run high.

a bill and your account was sent to a collection agency. Your credit file is a report of your financial history and performance with lenders.

To obtain a copy of your credit report you should contact Equifax Canada Inc. at 1-800-465-7166 or Trans Union of Canada at 1-800-663-9980. The Internet also has information on these two companies. They offer a fee service for an immediate report, or you can wait and have your report mailed to your home address.

Keep In Touch

We welcome your suggestions, ideas, comments and questions by email at rick@invested-interest.ca.

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Phone us at 613-798-2421 or fax us at 613-798-2427

Don't forget to check our website for interesting articles, new links and updates at www.invested-interest.ca

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