

Investment Insights

Where do we go from here?

"I have no idea what the stock market will do next month or six months from now. I do know that, over a period of time, the American economy will do very well and investors who own a piece of it will do well."

Warren Buffett in an interview on CNBC, October 10, 2008

After the market roller coaster of 2008 and 2009, the first four months of 2010 have been blessedly uneventful by comparison – the markets ended the first quarter about where they started the year, although up almost 60% from their lows of a year ago.

That said, there is still a cloud of uncertainty that is making many investors nervous.

Forecasting the future

Whether you choose to focus on the positives or the negatives, there's broad agreement that the steps taken by governments stabilized the financial crisis that we were facing a year ago – and there is almost no talk today of a global depression.

So the issue is not whether the economy will recover, but when and at what rate – and whether there might be another stumble along the way.

If you look for investing advice in the newspaper or on television, the discussions tend to revolve around what stocks will do well in the immediate period ahead ... this week, this month, this quarter.

I refuse to participate in that speculation – when it comes to short-term predictions, whether about the economy or the stock market, there's one thing I can say with absolute certainty: most of them will be wrong. Quite simply, no one has a consistent track record of successfully forecasting short-term movements in the economy and markets. This is why in times such as today, one of the people that I look to for guidance is Warren Buffett.

Advice from Warren Buffett

In one of his annual letters to shareholders (snippets of which I have shared with you in previous years), Warren wrote that it only takes two things to invest successfully – having a sound plan and sticking to it. He went on to say that of these two, it's the "sticking to it" part that investors struggle with the most. The quote at the top of this newsletter, made at the height of the financial crisis, speaks to Buffett' discipline on this issue.

I try to apply this approach as well – putting a plan in place for each client that will meet their long term needs and modifying it as circumstances warrant, without walking away from the plan itself.

Continued ...



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Please be advised...

Some of you are used to using Morgan's direct line to contact us. Please note that going forward, there will only be two phone lines for use:

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Cause and Effect

Cause:

Interest Rates Increase in Canada

Effect:

Perfect for you Snowbirds!

Canadian Dollar Increases against the US Dollar

Trips to Vegas are even Cheaper

Ladies, you can buy those shoes without your spouse complaining

Greece - What's the fuss?

Everywhere we look in the news these days, there's mention of Greece. What exactly is going on over there, and what does it mean to you and your investments?

Bottom line – they spend more than they earn. Greece's national debt is approximately 120% of their expected annual gross domestic product in 2010!

Now what – their credit rating has been downgraded to the lowest in the Euro zone, which leaves investors fleeing and the country struggling to pay its bills as interest rates on existing debts rise.

So – the government has hiked taxes on fuel, tobacco and alcohol, raised the retirement age two years and imposed public sector pay cuts.

Does it affect you? No. The excess risk of investing in Greece doesn't follow my investment philosophy.

Continued ...

Boom times such as we saw in the late 90's and scary conditions such as we've seen in the past two years can make that difficult – but those conditions can also represent opportunity. Indeed, in his most recent letter to shareholders Buffett wrote, "A climate of fear is an investor's best friend."

Five core principles that shape my approach

On balance, I share Warren Buffett's mid term positive outlook, not least because many of the positives that drove market optimism two years ago are still in place, among these the continued emergence of a global middle class in developing countries like Brazil, China, India and Turkey. This educated middle class will fuel global growth that will make us all better off.

Concentrate on quality – Companies with the weakest credit ratings led the record bounce in stock prices over the past year. That is unlikely to continue, which is why I'm focusing client portfolios on only the highest quality companies, those best able to withstand the inevitable ups and downs of the economy.

Look to dividends – Historically, dividends made up 40% of the total returns of investing in stocks and have also helped provide stability through market turbulence. Two years ago a good bank dividend was 3% - today we're able to get 4.5%.

Focus on valuations – Having a strong price discipline on buying and selling stocks is paramount to your success. You can never go broke taking a profit; so if you get in at the right time, don't hesitate to get out if you've made money.

Build in a buffer – Given that I expect to see continued volatility, I identify cash flow needs for the next three years for every client and ensure these are set aside in safe investments. That buffer protects you from short-term volatility, and reduces the stress along the way.

Stick to your plan – Having a diversified plan appropriate to your risk tolerance, and then sticking to it is ultimately the only way to achieve long-term goals.

In closing, let me express my thanks for the continued opportunity to work together. Should you ever have any questions, or if there's anything you'd like to talk about, my team and I are always pleased to take your call.

- Jolene

What's new?

As you know, Morgan Butler has decided to move on to her next adventure in life. After 10 years in the industry, Morgan is making a change. Her talented husband, Connor, is taking on a position with Burrowing Owl Winery, which means a move to the Okanagan – and plenty of summer visitors!

Life should not be a journey to the grave with the intention of arriving safely in an attractive and well preserved body, but rather to skid in sideways – Merlot in one hand – chocolate in the other – body thoroughly used up, totally worn out and screaming, "WOO HOO, WHAT A RIDE!"

Here's to Morgan – may there be plenty of Merlot and chocolate in your life. I may have lost a colleague, but I'll always have a friend.

Important Upcoming Dates

May 2010

9 – Mother's Day
24 – Victoria Day, Canadian Market Closed
31 – Memorial Day, US Markets Closed

June 2010

1 – Bank of Canada Interest Rate Announcement
20 – Father's Day
22-23 – US Federal Reserve Announcement

July 2010

1 – Canada Day, Canadian Market Closed
5 – US Observance of Independence Day, US Markets Closed
20 – Bank of Canada Interest Rate Announcement

The Last Word

Wimbledon here I come!

Many of you know that I'm a HUGE tennis fan. I'm happy to report that I managed to get tickets for Wimbledon this year and will be heading to London for ten days at the end of June. In my absence, Nichole and our Branch Manager, Mark, will be available for any immediate needs.

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