Investment Insights

ScotiaMcLeod™

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Happy New Year 2009!

The ball has dropped, the calendar page has turned – it's time to celebrate what most of us love…a new beginning. With all that's happening around the world, and more specifically in North America, 2009 is bound to be an exciting year! In saying that, it's the perfect time to reflect on what occurred over the past year, and take a look at the lessons learned.

It is years such as 2008 that challenge our convictions and our confidence. Certainly, there have been moments in the last twelve months when the bad news seemed to be as overwhelming as at any point in our careers as wealth advisors.

As a result of the events of the past year, our team has spent many hours taking a hard look at the core philosophies that guide our approach to investing, which is based on these tenets:

1. We start by truly understanding each client's objectives and capacity for risk.
2. We take a long-term view, reviewing a broad range of research and expert thinking on prospects for the economy and the market.
3. We stubbornly stay away from fads and look for quality companies in which to invest.
4. We approach the markets with healthy scepticism.
5. We are fundamentally optimistic about the long-term outlook for the stock market. Based on in-depth research going back almost 200 years, over the long run, a well-diversified portfolio of quality stocks overwhelmingly outperforms every other alternative. In fact, for taxable investors, it is one of the few alternatives that has outperformed inflation.

Warren Buffett put it best when he said: "Be fearful when others are greedy and be greedy when others are fearful." Ultimately, what makes investors successful is the ability to look past short-term headlines to long-term opportunity. Today, negative sentiment has driven down stocks to the point that they represent exceptional value by almost every conventional measure. There are opportunities available with quality companies that have strong balance sheets, solid dividends and excellent growth prospects.

We want to take this time to thank all of our clients for the continued opportunity to work with you through the toughest year in memory.

Our best wishes go out to you and your families for a happy, healthy, and ***prosperous*** 2009!

Jolene, Morgan & Danielle

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Did you know…

- *That we post weekly market commentaries to our website?*
- *That our newsletter is available online, with a host of other educational information?*

Please let us know if you'd rather receive your newsletter via email!

Danielle's Administrative Solutions

2008 RRSP Contribution Deadline is March 2nd, 2009

Reminder: The annual contribution limit for 2008 is the lesser of 18% of 2007 earned income, up to a maximum of $20,000, less the Pension Adjustment for 2007. The 2007 Notice of Assessment will indicate the allowable amount along with any unused amounts from prior years.

Tax Free Savings Accounts (TFSA)- We sent out detailed information on this new account type with our last newsletter. If you have any questions about the accounts, or how they work, please give us a call!

Have you checked out our website yet? Up to date market information and much more…

www.financialpeaceofmind.ca

What's new? Team Accomplishments 2008…

We've done it again! All of our team members have improved themselves in 2008.

Jolene – Became a Certified Life Underwriter, enabling her to sell life, accident and disability insurance.

Morgan – Completed the Wealth Management Techniques Course, and obtained her Financial Management Advisor (FMA) designation.

Danielle – Became licensed with the BC Securities commission after completion of the Canadian Securities Course, and Conduct & Practices Handbook.

Both ***Morgan & Jolene*** were also honoured as members of ScotiaMcLeod's Executive Council. Way to go team!

Some Lessons from 2008

As we close the chapter on 2008, few tears will be shed as we leave a truly dreadful year behind us. Before we consign the year to the garbage can, here are 10 lessons we can take from 2008 to help guide us going forward. In a few cases, these were new lessons – in most, however, they were reminders of things we had learned in the past but perhaps forgotten.

1. ***Mispricing of risk*** – Arguably, the root of the market downturn was the dramatic mispricing of risk by companies in the financial sector. Going forward there will be much greater focus on the level of risk that companies assume, and also a greater emphasis on transparency.
2. ***A sub-prime mortgage bubble*** – It's now evident that the trillion dollar sub-prime mortgage industry built around the run up in US real estate prices was just as much a bubble as the high tech sector in 1999. A good reminder of the truth that "if something seems too good to be true, it probably is."
3. ***Lessons about owning stocks*** – The lesson was reinforced that stocks are not the place to be unless you have a time horizon of at least 5 years. There is no such thing as a truly "safe" stock in the short term.
4. ***The impact of leverage*** – Borrowing to invest cuts both ways – boosting return during rising markets, but dramatically increasing losses and risk in downturns.
5. ***A new level of volatility*** – With the continuing presence of hyper short-term oriented hedge funds, it appears that we're going to have to get used to historically high levels of volatility.
6. ***An interconnected world*** – No matter what anyone says, all countries around the world continue to be very much interconnected. There's no escaping major financial downturns in leading economies such as the US and Europe.
7. ***What it means to be truly diversified*** – If protecting ourselves from market declines is a priority, while it is important to own stocks across different sectors and markets, true diversification only comes by also owning high quality bonds and cash.
8. ***Maintaining discipline*** – When it comes to asset allocation, it's critical that we stick to our guns and maintain our discipline – even when tempted to chase hot sectors or boost equity weightings after periods of strong returns.
9. ***"It's different this time"*** – Some of the hedge funds whose performance seemed to defy gravity over the past 5 years were greatly humbled. Again, a reiteration of the dangerous words "it's different this time."
10. ***The key role of confidence*** – Even when it seems we've entered a new world, the old truths still apply. The most important element for economies and markets to work is trust and fundamental confidence. We are unlikely to see a strong economic recovery until we see a return of confidence – confidence by banks in lending to consumers, businesses and each other; confidence by businesses in hiring and investing; confidence by consumers in spending and investing.

Important Upcoming Dates

February 2009

14 – Valentine's Day

16 – Family Day in Ontario, Alberta & Saskatchewan – TSX Closed

March 2009

2 – 2008 RRSP Contribution Deadline

3 – Bank of Canada Interest Rate Announcement

17 – US Federal Reserve Announcement

April 2009

10 – Good Friday, office and TSX are closed

13 – Easter Monday, office is closed

21 – Bank of Canada Interest Rate Announcement

28-29 – US Federal Reserve Announcement

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