

“Why is the equity market the only marketplace in the world in which when somebody yells out, ‘we’re having a sale,’ everyone runs for the exits? — Hugh Innes, business development manager, Foster & Associates

## THE ADVANCED INVESTOR

For those who are active in the market and either through working with an advisor or on their own through a discount broker, have experience in and an understanding of the investment markets

# Opportunity knocks

Thomas Caldwell loves bad news, because it makes for great bargains. And it can be a positive signal for the seasoned, savvy investors who know their way around the markets.

“If there’s enough negativity out there still, it means prices aren’t too high,” says the chairman and chief executive officer of Caldwell Securities Ltd. “Negativity will put a cap on excess prices, [so] this year should be a fairly good year.”

His thoughts are echoed by Hugh Innes, business development manager at Toronto’s Foster & Associates. “Why is the equity market the only marketplace in the world in which when somebody yells out, ‘We’re having a sale!’ everybody runs for the exits?” he asks.

“If you’re standing around at The Bay or Sears and somebody says ‘We’re having a sale,’ people flock to the counter. In the equity market ... if somebody says we just brought the price down 50%, people panic.”

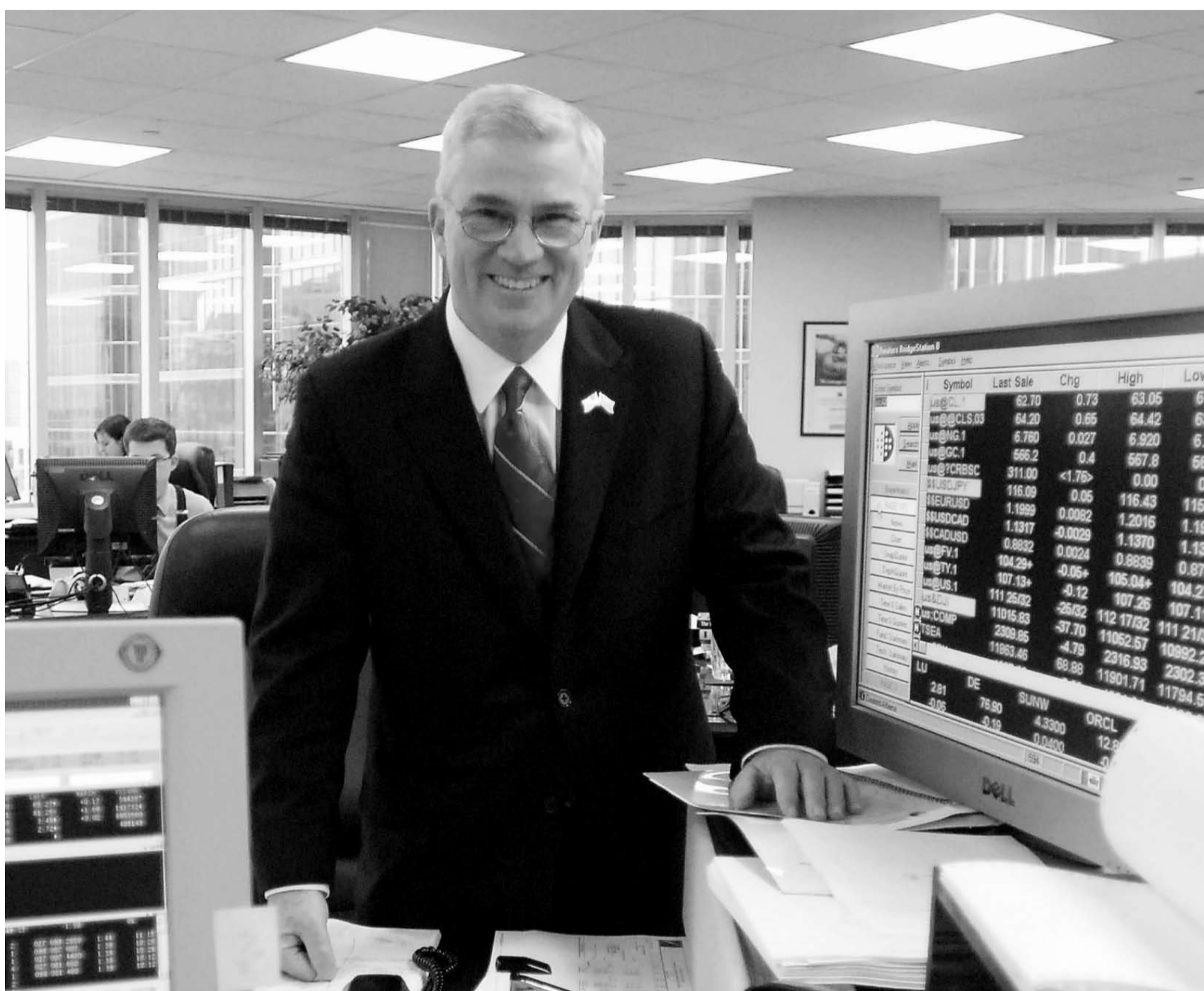
Instead, says Mr. Innes, March, 2009, should have been a time for buying — though he admits that would have taken “nerves of steel and great courage as well as a fairly hefty bank roll to take what could have been more losses.”

He’s not surprised that people get spooked by severe market sell-offs, a rise in unemployment and governments throwing off large deficits so they quickly pull in their horns. In the most recent economic downturn, he says panic ensued because there was no liquidity, “so a lot of people got very burned.”

So what’s a seasoned investor to do now that the market has rebounded and moods are on the upswing? The good news is that interest rates and inflation are low, there is good economic and corporate growth, and banks are starting to lend again.

For those who disengaged themselves from the stock market when times got tough, experts say it’s time to get back in. The key, though, is for would-be investors to be honest about their risk tolerance and act accordingly.

“We all want to make money but we don’t want to take risk for losing money,” explains Mr. Innes. “Those investors who panicked and got out at the bottom of ‘08/’09 got burned [and swore] they’re never going to come back into the stock market. That’s too bad, and certain investors will be lost to the business of investing in equities for their generation.”



Investment expert Thomas Caldwell says savvy investors are able to read the positive signals that show now is a good time to be active in the market.

But for those who can’t live on GICs, treasury bills and short-term bonds alone and are only comfy with several million dollars in their portfolio so they can retire in style, Mr. Innes says they must be willing to take some degree of risk and should be clear with their advisor as to how much they can realistically afford.

“Any financial advisor, any thinking person, would say to you: ‘Always keep some capital aside and liquid and safe,’” he explains. “Whether you prefer bank deposits, GICs, treasury bills, short-term bonds, [make sure you] have things that you know are going to be there regardless of what happens. Once you’re satisfied you’ve got enough money to see your way clear and through the next year or two or whatever your immediate time horizon is, then say, ‘How much of this am I investing to try and generate income? Is income important to me? Or am I investing for capital gains? And what kind of return expectations would I care for and what level of risk am I pre-

pared to take?”

Jolene Laing, associate portfolio manager and branch manager at ScotiaMcLeod in White Rock, B.C., says those who pulled out in March ’09 are likely still out and have missed out on what she calls “the lion’s share of the recovery.” Their best bet, she says, is to develop a re-entry strategy so they can get back in over

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the next 12 months.

“Don’t dump all of your money into the market on one day,” she cautions. “Use a dollar cost-averaging approach — in a sense, you put a certain amount of money into the market on set days at set times.”

For those who can afford to take less risk, Ms. Laing says they should do that.

“People need to have realis-

tic return expectations based on their situation,” she says. “If you can afford to live off of a 5% return on your portfolio, don’t aim for 10% or 12% because then you’re taking on far too much risk based on the fact that you just don’t need it.”

With all the turmoil, financial advisors appear to be the real winners. Mr. Caldwell

For those still unsure, think about the time horizon. Those who aren’t prepared to take on any risk and potentially lose capital should put it in the bank, “because that’s what banks are there for,” says Mr. Innes.

There’s nothing wrong with holding a portion of a portfolio in bonds, he says, but be aware that inflation affects long-term bonds.

And when volatility hits the stock market again, as it likely will, remember that it’s a good thing.

“You have to understand the cyclical nature of the equity market and the need to be somewhat contrarian,” he says. “When everybody’s screaming that they want to get into the market, you should be heading for the exits. And when everybody is running around screaming in fear that the world is going to come to an end and it will be shortly, be brave enough to step up and work with your advisor to acquire good quality things at a knock-down price.”

As for the bad news, Mr.

Caldwell says the Dodd-Frank Wall Street Reform and Consumer Protection Act is causing some uncertainty, as are the low U.S. dollar and continuing mergers and acquisitions. While some worry about the European markets, particularly Spain, Italy and Portugal, he thinks they “have the economic impact of Mississauga, for Pete’s sake.”

The Germans will bail them out, he says, or perhaps 90-year-old Mississauga, Ont., Mayor Hazel McCallion can take them under her wing (“By BlackBerry she can do a better job,” he quips.)

“There’s enough negativity to keep a cap on prices for a while,” Mr. Caldwell says. “America is in a great sense of angst and negativity. Washington is broken, the country senses that. There’s great hostility, whether you’re left wing or right wing. Everybody’s so polarized down there. ... The housing crisis still exists. There’s a sense of anxiety, anger, frustration, fear — and that’s not a bad background to be a buyer in.”