

Each year, at this time, the news media interviews dozens of so called ‘experts’, which include market analysts, portfolio managers, economists and anybody else who has ever written a book on the economy or financial markets. They do so to provide their viewers, listeners and readers, with ‘insights’ into the upcoming year. Typically the experts make predictions on the direction and magnitude of the markets and the economy. However, based on research these ‘experts’ have a very poor track record averaging a score of just 47% accuracy. In other words, you could have flipped a coin 100 times and would have come up with a better accuracy rate in your predictions of the future.

What about the past – does this give us insight into the future? All academic evidence suggests that basing our investment decisions on the performance of the markets, or specific investments in the recent past, typically leads us to ‘buy high’ and ‘sell low’. Today, most investors’ minds are cluttered by the mediocrity of stock market results over the past decade, which have led them to park their money into near zero returning investments such as bank deposits and government bonds. The mantra is, ‘better zero, than losing’. This attitude reflects an emotion called ‘capitulation’ or in plain terms, ‘giving up’.

However, this behaviour, in and of itself, is evidence that the asset that has been abandoned, is about to experience a reversal of fortune. When de-cluttering our minds of historical performance we find today, the following assessment of our investment options:

1. Stocks are trading at significant discounts to historical valuation levels and are paying dividend income at a rate that exceeds the interest rate of 10-year government bonds. They provide a good opportunity for inflation protection and above average returns. For the record, stocks have averaged, over the very long term, 6% annually plus the rate of inflation for a total of about 8-9%.
2. 10-year Government bonds are paying just 2% per year, significantly below the current inflation rate. Bank GIC deposits are paying that or less. Rising interest rates are a major risk.
3. Commodities – speculative at best – they provide no income and therefore are subject to geopolitical supply and demand factors as well as investor sentiment which can change direction rapidly.
4. Corporate Bonds – depending on the credit quality, they yield (income) between 3% and 7% in a professionally managed vehicle. Great alternative to government bonds. Long-term expected returns in the 3-5% range.

***How much you should allocate to these different categories should be based on your objectives, time horizon and risk tolerance – not on predictions by so called ‘experts’ in the media, nor your own personal emotional bias which is heavily, and wrongly, influenced by past results.***

Our service to you is to offer ‘sober second thought’ to place your needs and financial markets into context to allow you to make educated and rational decisions about money.

## **Better Options for your ‘Safe’ money**

The portion of your money required as an emergency reserve and for medium term objectives over 3-year periods, are likely better invested in managed portfolios of **corporate or short-term bonds**. These options

provide you with the opportunity to at least offset inflation which cannot be said about the interest rates offered on current bank deposits.

## Freedom of Choice

I had a conversation recently with a client who was under the mistaken assumption that we only recommend the services of Counsel Portfolio Services. This is not accurate; we continue to have the freedom to recommend products and services from many financial organizations in Canada. In fact, we have access to the same investments and mutual funds that the major Canadian banks offer their customers, with one major difference -we provide a more personal and customized service and have the knowledge base, credentials, and experience that cannot be matched by any banking representative. That said, whose investment product you buy has little to do with investment performance – it is your investment's mixture between stocks and bonds, having a defined savings program, and how much you save annually, that will ultimately determine your success.

## Underfunded Retirement Accounts

It is well known that every major pension fund in North America is underfunded, in other words the value of the current investment portfolio is lower than what is needed to provide the promised income to its pensioners in the future. This has occurred primarily because interest rates on 25 year bonds have collapsed to the 2.5% level. In addition, the vast majority of Canadians and Americans who do not belong to defined benefit pension plans, are also grossly underfunded for their own retirement.

The reasons behind the retirement funding crisis stem from not only historically low interest rates, but also poor performance in the financial markets in the recent past. ***However, the most critical reason why most North Americans are underfunded is because of their propensity to spend too much, and focusing on paying off their houses.*** To replace a \$40,000 annual income today requires a \$1 million investment pool, yet people choose to, instead, accelerate their mortgage payments for a debt in the range of \$300,000 on average. One million dollars is a much larger future obligation than a \$300,000 mortgage which is already on a schedule to be paid off. Therefore, retirement funding should be the higher priority – yet the mainstream media keeps telling people to pay down their mortgages first. The problem with this strategy is you run out of time to save for retirement. You can accomplish both, with some prudent planning, which we can provide.

## Looking Ahead

As already stated, we cannot predict the future, nor can anybody else. Therefore focus on what you CAN control – your rate of savings or conversely your rate of spending. If you start in your mid-20s, you should be able to fund your retirement with a saving rate of 15 to 20% of your earnings with a growth-oriented investment vehicle. If you start at a later age, you'll either have to save even more money, or invest more aggressively, something most people are hesitant to do. Creating a Retirement Roadmap is where we can help.

Sincerely,