

# Viewpoints Viewpoints Viewpoints Viewpoints

## Winter 2002

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From Marguerite Paulsen, Vice President and Senior Investment Advisor with BMO Nesbitt Burns

## Stick With a Long-Term Investment Strategy

### Zoo News

As a member of the Calgary Zoo's Board of Trustees, I'm pleased to announce the zoo's \$31.5-million Destination Africa is now fully funded and will open on schedule in January, 2003. This ambitious project, covering 20% of Zoo Island, features the steamy, seven-storey TransAlta Rainforest Building, complete with a lowland gorilla amphitheatre. The nearby Bushlands Building will house intermingling zebras, giraffes and ostriches and include a huge tank with the world's first indoor underwater viewing of river hippos.



### Yearly Checkup

We try to meet with every client once a year to review her or his portfolio and investment objectives. If we've missed you, please call Cynthia at 260-9371 to set up an appointment.

### RRSP Contribution Reminder

The deadline for 2001 RRSP contributions is March 1, 2002. If possible, you should consider making some or all of your 2002 contribution early, and thus have that money invested up to 12 months longer.

To put it mildly, 2001 was a tumultuous year for investors. The collapse of the technology sector and an accompanying economic nosedive were punctuated by the aftershocks of the terrorist attacks. Not surprisingly, the bottom line at year's end wasn't pretty. The Toronto Stock Exchange 300 fell 12.6%, the Standard and Poor 500 dropped 11.9% and the Morgan Stanley Capital International World Equity Index plummeted 16.5% – gloomy numbers that would have been worse but for a fourth-quarter rally.

So what happens next? Despite lingering pessimism in many quarters, the North American and other major economies are quietly showing signs of emerging from their doldrums. Interest rates are at historic lows and unlikely to rise in the near term. Inventories are shrinking, orders and shipments are increasing and energy prices remain much lower than a year ago. The U.S. Leading Economic Indicator has already risen significantly into positive territory, signaling an upcoming expansion.

Still, given last year's history of earnings projections being consistently and badly missed, corporate executives are understandably gun shy about making positive forecasts for the remainder of this year. And investors are nervous about committing to the market for longer than short-term profit taking after any up-tick in stock prices. Indeed, U.S. Federal Reserve Board Chairman Alan Greenspan recently found himself in the unusual position of telling the investment community that the economic outlook was rosier than many were predicting.

"The grinding equity environment will persist" over the near term, the Bank Credit Analyst (BCA) said in a recent bulletin. "The economic recovery will probably have to be highly visible (i.e. a few months of decisively good data and a lift in the job market), before investors are willing to commit to the market."

The burning question is when will there be enough good economic news to push markets consistently upward? No one knows for sure. The most prudent advice for investors is to put away the crystal ball and forget market timing. Instead, they should stick with a sound long-term investment strategy, which is the only proven method of riding out the inevitable storms ahead and meeting your goals over the long haul.

"Investors who pursue a well thought-out, structured approach to investing can expect to achieve their long-term investment objectives, whether the next 12 months brings a continued economic downturn or robust economic activity," BMO Nesbitt Burns's Red Book advised last fall. To ensure this long-term strategy is on track, investors should adopt the following four-step approach:

1. Accept the risk in equity markets and develop realistic long-term return expectations that reflect your appetite for risk.
2. Have an explicit asset mix strategy.
3. Employ true diversification within equity portfolios.
4. Recognize that tactical decisions are less important than strategic decisions.

The alternative tactic of anticipating what the stock market is going to do over the short term is usually a fool's game. For example, those who panicked and bailed out of the market following the post-September 11 low missed out on a 16% rise over the ensuing three months. Even investment guru Warren Buffet, in a recent Fortune article, wrote: "I never have the faintest idea what the stock market is going to do in the next six months, or the next year, or the next two. But I think it is very easy to see what is likely to happen over the long term."

# Stocks are the Investment of Choice

Over the long term, one strong likelihood is stocks will outperform all alternatives. "While investing in the certainty of government bonds and treasury bills is comfortable, returns from these instruments have not kept pace with inflation on an after-tax basis," the BMO Nesbitt Burns Red Book noted following the September 11 attacks. "With capital gains increasingly tax advantaged and with the credits on dividends from Canadian companies, history suggests that only stocks will build wealth on an after-tax, inflation-adjusted basis."

In the current climate, the Bank Credit Analyst advises a similar approach. It favours stocks over bonds, corporate bonds over treasuries, and non-tech, economic-sensitive stocks over defensive shares. "The extreme overvaluation of tech and large-cap market indexes warrants maintaining low expectations for the major indexes and a continued focus on "value" mid- and small caps (the latter remain near record highs)," it said in its bulletin.

While stocks may be king over the long term, investors shouldn't expect the double-digit returns they have come to expect over the past two decades. Warren Buffet, who accurately predicted the last, sustained stock market boom, now expects equity returns of about 7% a year, after costs such as investment fees, over the next decade or two. Similarly, Mike Miller, BMO Nesbitt Burns's Director of Research, believes investors should expect pre-tax, after-cost returns of 7-9%.

"In today's lower interest rate environment, stocks look like an attractive investment asset class," Miller wrote in a recent market analysis. "This is especially true for taxable investors. Canadian dividend tax credits and increasingly low capital gains tax rates make stocks returning 7-9% pre-tax extremely attractive relative to bonds providing pre-tax interest income of 2-6%. This implies after-tax returns for stocks of 5-7% versus fixed income returns of 1-3% for investors at the higher tax brackets."

## Investment Seminars

Over the next few months, I will be offering several free investment and planning seminars for my clients.

Topic: Estate Planning

Speakers: Sharon Dalton – Lawyer  
Lynda Hartley – Chartered accountant  
Robert Eagleson – Insurance specialist

Date: February 26

Time: 4:00 to 5:30 p.m.

Location: Bankers Hall Auditorium

Please call my administrative assistant, Cynthia Wright, at 260-9371 before February 21 to reserve

a seat at this seminar. We'd be happy to have your family members or friends also attend.

### Upcoming seminars include:

*Planning Retirement Activities* – What to do when you stop working

*Investment Basics* – An introduction for clients new to investing.

The speakers and dates for these seminars will be announced later.



## Tax Time

BMO Nesbitt Burns will mail your 2001 income tax reporting forms by the following dates:

### January 31

1049 DIV/INT – Dividend/Interest

### February 28

T5 – Statement of investment income  
T4RSP/T4RIF – Withdrawals from registered accounts  
T4A – RESP withdrawals

### March 31

T3 – Statement of trust income  
TS013 – Statement of partnership income.

BMO Nesbitt Burns does not issue mutual fund receipts. These are issued directly by the mutual fund companies. BMO Nesbitt Burns also does not report capital gains. While the "trading summary" sent with your T5 indicates all your dispositions for the tax year, you are responsible for reporting any capital gains or losses on your tax return. If necessary, you should seek professional tax advice to interpret the values of your capital gains or losses.

### How to Reach Me

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One of the most enjoyable aspects of my job is meeting your friends and family and helping them achieve their financial goals. If you know of anyone who'd like to receive this newsletter or appreciate financial help, please contact me.

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