

Fall 2008

“**A**t least 7 million shareholders have defected from the stock market. If the institutions, who control the bulk of the nation’s wealth, now withdrew millions from both the stock and bond

The Death of Equities

markets, the implications for the U.S. economy could not be worse. Until now, the flight of institutional money from the financial markets has been merely a trickle. But it could turn into a torrent. On Wall Street, the flight from stocks has forced firms to push alternative investments hard- thereby drawing still more money from the stock market. Further, this ‘death of equity[jies]’ can no longer be seen as

something a stock market rally- however strong- will check. To bring equities back to life now, accounting policies would have to be made more realistic and tax laws rewritten. But these steps may not be enough.”

“Even if the economic climate could be made right again for equity investment, it would take another massive campaign to bring people back into the market. **For better or for worse, then, the US economy probably has to regard the death of equities as a near permanent condition-**reversible some day, but not soon. Says Alan B. Coleman, dean of SMU’s business school, ‘We have entered a new financial age. The old rules no longer apply.’”

“Today, the old attitude of buying solid stocks as a cornerstone for one’s life savings and retirement has simply disappeared. The stock market is just not where the action is at.”

At this point it would not surprise me if you had stopped reading and were rushing to find a way to hide either yourself or all your assets under the couch. — Before you jump to any



Inside this Issue

Page

The “Death of Equities”

1

Questions and Answers

4

The New Tax Free Savings Account

4

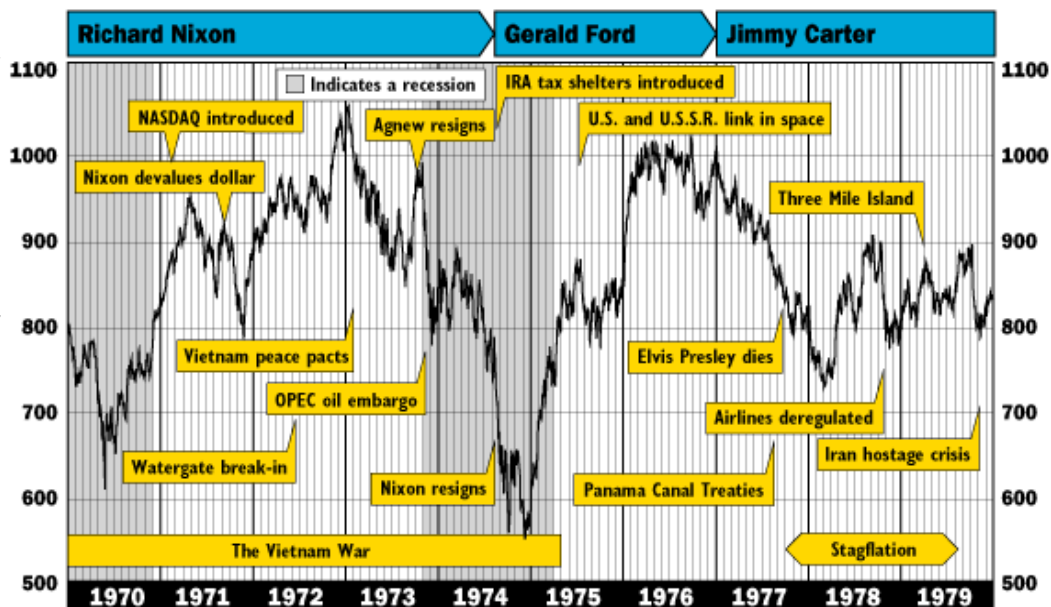
conclusions or windows for that matter consider that even though the article paints a very bleak picture of the world climate, especially in the USA, the zeitgeist (spirit) of the article must be placed in the proper context; this article from which I am quoting from was written and published in Business Weeks **August 13, 1979** issue. That is right, 1979!

That day the Dow Jones Index closed at 875.26. Today, it stands close to 11,000 equating to an 1157% total return over the past 29 years or 8.8% annually including the current market sell off of September 2008. This one article from Business Week should have almost single-handedly shot off the flare that told smart investors it was time to jump on the “bull.” You could consider it the shot heard through the markets. Of course, what it initially did was scare and panic a lot of investors who were not deeply rooted in their belief of the long-term nature of the markets.

1979 was an is very similar to current conditions we see today. Markets are in turmoil, interest rates are low, but are rising, banks and brokerage companies are failing and people are very nervous, but for those who are students of history, remember, back in the ‘70s we were dealing with a host of issues that were just as scary and potentially devastating as the issues we face today. Investors were faced with runaway inflation, terrorism (don’t forget the USA had 52 hostages being held in Iran in 1980), the Cold War, numerous accounting scandals, a rush to gold, and platform shoes.

Today, we have potential inflation, world-wide-terrorism and its resulting war, accounting scandals, a rush to gold, and, you guessed it, platform shoes again.

Many will of course think that I am too academic, too much a person who looks back to see what occurred and then tries to use this



knowledge to look forward, but if we do not learn from the past, we are doomed to make the same mistakes again. For all those long term investors who believed in the “Death of Equities” they lost much more. Since 1979 even including the crazy high GIC rates of the early 1980’s the average has been only 7.2% Although this seems close the difference over the 29 years a an astounding 58% yes 58%!

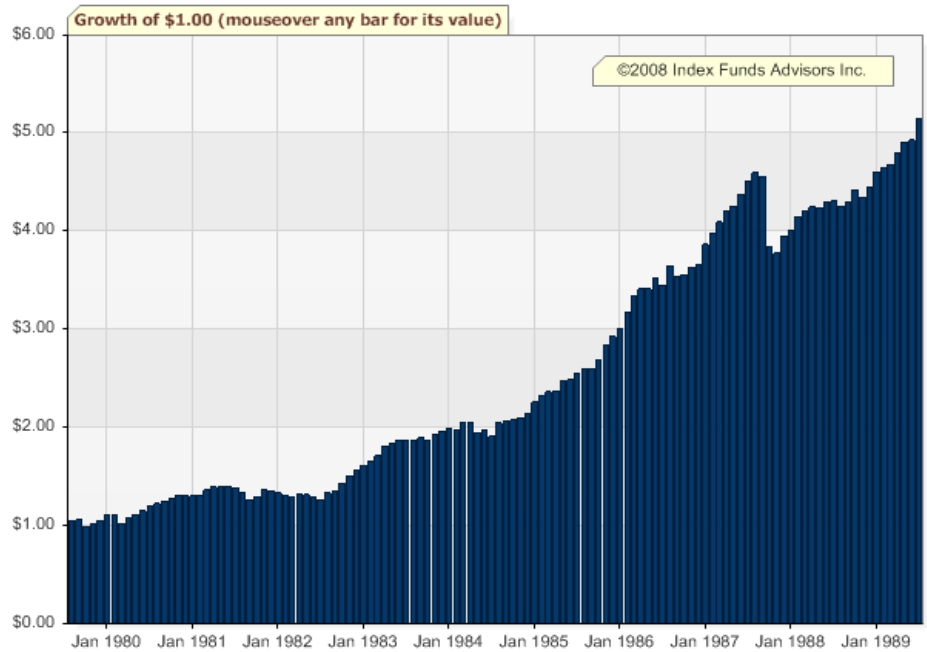
In contrast to any death sentence we may think is occurring now, we also know that the market “came back to life”, it’s the “when that plagues us. The problem is since we cannot know we cannot time when to do this– we think we can but we cannot. If timing when to get in or out of the market were even a remote possibility, then some manager of a pension fund, mutual fund, endowment or investment would have been able to do it. No one has.

Why am I such an academic when it comes to this type of work– because my job is to help you do well and understand, and understand now that these types of movements, for good or bad are the price ones pays to earn rates of return of 8.8% instead of 7.2% over time.

At the top of this page is a chart of the Dow Jones Industrial average from 1970 to 1980, during the time of the Business Week article “The Death of Equities” Although it shows a huge drop in the period from 1973 to 1975 it also shows a tremendous movement up during 1975 to 1979 bringing the Dow Jones back to

the same level it was in 1973, but more importantly there are almost uncanny parallels to our current time and this chart shows this clearly.

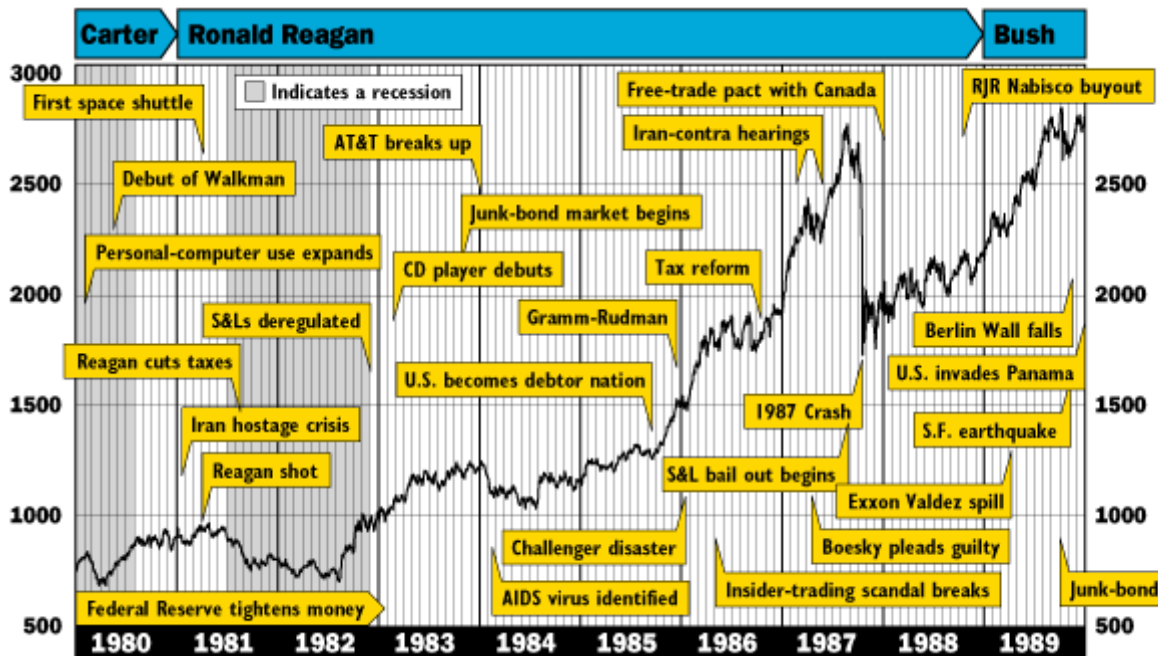
There was a very unpopular war (the Vietnam War) a very unpopular president (Nixon then Ford) the price of oil rose from \$10.00 to \$30.00 per barrel and all of the world was embroiled in a stagnant economy with inflationary pressures— much like today’s current situation, yet look what a balanced, diversified portfolio did during this turbulent time as seen to the left. Even after the problems of the seventies and including the worst one day drop in the markets in recorded in history, October 1987, investment accounts rose by over 5 times, yes 5 times— even after Business Week predicted “The Death of Equities” the end of the stock market. In fact as shown below, even the Dow Jones Industrial average jumped from a low of 550 at the start of the 1980’s to over 2700 a jump of over— you guessed it 5 times. This is no coincidence, this is how markets work. Given this and seeing below that as of 1990 the Dow Jones average was at 2750 where is it today? Markets do work even when it seems they do not. Right now advisors, investors,



pension managers and fund managers are cautious, but they do know that the long term future— five years out will be much better than today.

While we still expect continued volatility and temporary setbacks along the way in our investing futures, remember we are in this for the long haul. As the Business Week article reaffirms, “Be careful what you read.” Remember, the majority of financial articles and television shows are meant to drive you to either fear or greed, both of which prove beneficial to their advertisers but deadly to your

long-term financial success.



Questions & Answers

Starting January 1, 2009, Canadians will have a new way to save money with the introduction of the **Tax-Free Savings Account (TFSA)**. A new registered savings account introduced by The Federal Government in the 2008 Budget, the TFSA will help Canadians from all walks of life save for their financial goals. The plan offers great flexibility; funds grow tax free, can be withdrawn at any time on a tax-free basis, and can be used for any purpose.

Examples of How to use a TFSA

Saving for a financial goal

Michael and Carol will both contribute to a TFSA for eight years; together they will have accumulated \$98,200. To pay for a home renovation, they each withdraw \$40,000 from their TFSA, tax free, for a total of \$80,000. The contribution room of both Michael and Carol's TFSA's will increase by \$40,000 and they will be able to re-contribute this amount in the future, meaning they can bump up their contribution amounts.

Senior over age 71

Brian Li is 72 years old, and can no longer contribute to an RRSP (after age 71, investors must convert their RRSPs to an annuity or RRIF and draw down a minimum amount of taxable income per year). Mr. Li has converted his RRSP to a RRIF and is withdrawing the mandatory minimum, although he doesn't require all of the income for living expenses. Each year, Mr. Li can contribute up to \$5,000 of his RRIF withdrawal to a TFSA for continued growth and tax savings and any interest or growth earned.

How the TFSA works

- Starting in 2009, Canadian residents age 18 and over can save up to \$5,000 a year in a TFSA
- Contributions are not tax deductible, but investment returns (capital gains, interest and dividends) earned in a TFSA are not taxed, even when withdrawn
- Withdrawals are tax free and funds can be used for any purpose

- Unused contribution room can be carried forward to future years. As well, any amount withdrawn from a TFSA can be re-contributed in a future year without reducing contribution room



- Neither income earned in a TFSA nor withdrawals will affect eligibility for federal tax credits or income-tested benefits such as the Canada Child Tax Benefit, Old Age Security (OAS) or the Guaranteed Income Supplement (GIS)

Investments eligible for an RRSP can generally be held in a TFSA meaning one can use savings accounts, mutual funds and or Canada Savings Bonds.

Everyone who has any extra cash should consider the TFSA especially those who earn less than \$35,000 per year and would want to contribute to an RRSP, but the tax breaks are too small to make it worthwhile.

I'll be devoting more space to the TFSA in the next newsletter. If you want more information right away go to our website www.dethomaswindsor.com and click on the library tab or call and we can talk more of this.

De Thomas Financial Corp

The Financial Solutions Specialists

Please share this newsletter with a friend.
Call Now for More Free Copies
300 Giles Blvd. East Suite "C"
Windsor, Ontario N9A 4C4
Phone (519) 973-5719 Fax (519) 973-1845