



Excerpt from Speech by John C. Bogle
Founder and Former Chairman, Vanguard Group
"The Money Show" Las Vegas, NV May 15, 2006

What's Ahead For Stocks & Bonds?

"My assignment was to talk about what's ahead for stocks and bonds, and I'll do exactly that. But I sense among investors (and advisors) considerable overconfidence about their ability to earn outsized rewards, as well as a certain unreality about their ability to capture whatever returns our financial markets may be generous enough to deliver, so I'll also try to bridge that gap and discuss the only way that I know how to assure that you'll earn your fair share of those returns. I'm going to use a lot of numbers - fairly simple ones, I think - in my talk today. But please don't be intimidated.

My numbers, however, will not include a forecast of what stocks will do during the remainder of this year, nor even for the next two or three years. I have no ability to do so with any accuracy, and even if I could it would be useful only to short-term speculators.

In fact, I'm constantly amazed by how many pundits, gurus, and Wall Street strategists regularly predict what the stock market will do during the following year, and how badly they do at it. Those who present their predictions to *Barron's* each year, for example, are almost invariably optimistic, usually forecasting a stock return that is (of course!) a few percentage points higher than the long-term average of 9 ½ percent.

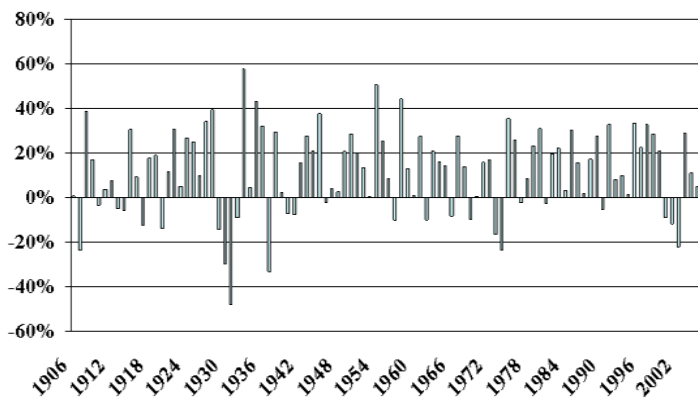
The fact is that stock returns are rarely "average." Over the past 100 years, the S&P 500 Index has generated returns in the 9.5 percent range but with unpredictable yearly results"

After almost 55 years in the business, however, Mr. Bogle still states he has *absolutely no idea* how to forecast short term swings in investor *emotions*.



Many market strategists are making their predictions - or guesses - largely upon whether the mood of investors will be more or less optimistic (or more or less pessimistic) at the end of the year then at the beginning.

Annual Returns of the S&P 500, 1906 - 2005



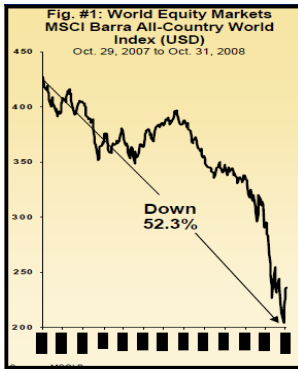
What Do We Know?

The chart above shows the annual return of the U.S. market since 1906.

There were 26 years of negative returns and 76 years of positive returns (28 years with returns of more than 25 percent). Yes, the route to long-term investment success is a bumpy one, filled with dangerous turns and giant potholes.

When the annual returns on stocks depart materially from the long-term norm, it is rarely because of the *economics* of investing. The fact is that the annual dividend yield is *always* a plus, and that corporate earnings growth has been positive in every moving decade since 1937—almost 70 years!

The reason that annual stock returns are so volatile is largely because of the *emotions of investing*, simply represented by the number of dollars investors are willing to pay for each dollar of earnings, reflecting to a greater or lesser extent swings in emotion from greed to hope, to fear, and back and forth, over and over again.



Is The Worst Behind?

By Wilfred Hahn

The Challenges & Opportunities Ahead

In less than one year - between Oct. 29, 2007 to Oct. 27, 2008 global stock markets (represented by the MSCI All Country World Index in USD) declined 52.3%.

Such an experience again proves that the expectations of investors can be spectacularly wrong. Earlier in the decade, the S&P500 index also collapsed by a similar ratio but if there is any good news at this point it is that equity markets today are nearer reasonable values than they were in 2000. It has taken two brutal equity bear markets to squeeze out the stock bubble of the late 1990s.

The months of September, October and November have been particularly difficult. If there was ever much doubt, the steep declines have swept away all uncertainty. Many questions have now been answered decisively. Was globalization so advanced that no nation could uncouple from the downdraft? Was a global recession in the offing?

The answers are now much clearer.

- Now that the worst has happened, what next? Most likely, not what the consensus now thinks. For one, it doesn't necessarily follow that more great crashes still lie ahead. That has already happened. Lower stock market levels are still possible at some point in various countries... perhaps early next year. But in the main, the horses have already bolted the gate and a new global investment environment is already beginning to take shape.

Huge initiatives and behavioral changes are now underway, both at the domestic and international levels.

We are now definitely leaning towards optimism for the long-term.

That may sound cavalier given the obvious economic deterioration at present and yet ahead.

- *Most financial trends still continue to be shaped by fear, even though tentative signs of an unfreezing of banking systems are appearing.*

Such frights are warranted to an extent. But a new paradigm will be sure to unfold. Let's next review the possible scenarios that may unfold globally over the next 3 to 5 years:

- #1. Global Purgatory - Like Japan's market.
- #2. New World - Global Infrastructure Cycle.
- #3. Global Boom - Inflationary Infrastructure Boom.

1. **Japanese Scenario:** Right now, we are still in economic purgatory - much like Japan was. The main difference is that unlike Japan, the rest of world does not have negative population growth, nor does it have the aging demographics as Japan - which has a very highest percentage of its population over the age of 60.
2. **A New Global Wealth Order.** The distribution of wealth creation around the world may be tilted away from the high-income deficit countries like America. Other deficit countries will face a stagflationary environment, where deleveraging (paying off debt) on the household balance sheet must first occur. This will be a good thing - like taking cod liver oil by spoon. Most of the world's future growth may be found in industrializing/globalizing countries such as China, India, Brazil and others where there is less household debt.
3. **Global Infrastructure Spending Boom.** This is a category everybody will love and endorse over the next few years. For developed countries, such as the US, this is a spending that carries a high stimulus punch. Spending will be directed to new roads, electric transmission and transportation systems. MoodysEconomy.com recently estimated that for every \$1 increase in infrastructure spending, overall GDP growth is boosted by \$1.59. That would represent very effective stimulus spending for governments, especially so in the US where infrastructure generally is considered in poor disrepair. Developing nations, too, all still have high infrastructure needs. *Alternative energy development also* remains a high priority. The stock market sectors that stand to benefit from the above trends can now be bought at reasonable and even inexpensive levels.
4. **Emerging Markets:** Although one needs to be selective, these have also been marked down enormously ... as much as 60% or more. Good values can now be found here as well.

A balanced investment approach is best suited to long-term growth. Not all losses will be avoided, but neither will up-sides be missed and the mistakes of emotional investing compounded. Our longer-term outlook does not depend entirely upon what happens in the US. It will be a global story. And, if anything, our longer-term outlook for global growth is becoming cautiously more optimistic given the radical adjustments that are now occurring.

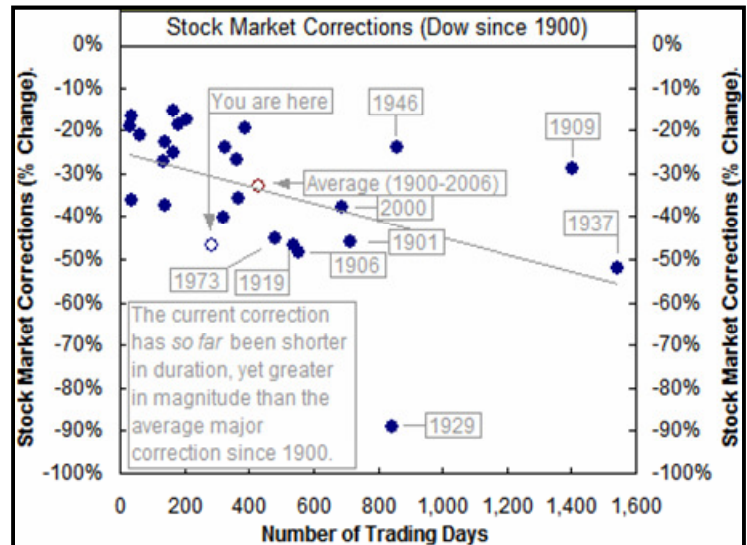
All in all, there are hopeful signs that the road to recovery has begun. And, negative investment sentiment is now vulnerable to improving expectations.

Without a doubt, we believe it is time to reinvest cash and position portfolios for a long-term global rebound.

The stock market continues in its volatile ways. For some perspective on the situation, this chart illustrates all major stock market corrections (15% loss or greater) of the last 108 years.

- Each dot represents a major correction of the Dow. Example, the bear market that began in 1973 lasted 481 trading days and declined 45%. As it stands now, the current correction (from the October 2007 peak) would measure slightly below average in duration but above average in magnitude.

In fact, of the 26 major stock market correction since 1900, the current stock market correction currently ranks as the fourth largest in magnitude (only the corrections in 1906, 1929, and 1937 were greater) and is the most severe stock market correction of the post-World War II era.



HISTORICAL STOCK MARKET CORRECTIONS

Has today's 24 hour news services such as CNN's 24 hour business channel helped in this environment of fast moving and constant information? It is possible that the past market drops took longer to achieve bottom due to the slower pace of receiving information?

DON'T SPEND YOUR RETIREMENT WATCHING THE MARKETS

Investors today have access to more (and faster) business information data than at any other point in history, but are investors any better off?

- Every day, investors are inundated with economic statistics, earnings reports and opinions from company chief executives, economists and Wall Street brokers. How much of what is said or reported is relevant to long-term investors and how much is what is often *just noise*?

If legendary value investor Ben Graham were alive today, I wonder what he would say of all the hype and hoopla on Wall Street. I wonder what sage advice he'd have for hard-working folks busy saving and investing.

- Is 24-hour financial news services turning long-term investors into dangerous day traders?
- Do investors need to know every economic or earnings data point the minute it occurs to make decisions about their future finances?
- I remember reading an article back in 2000 in the New York Times that talked about a retired history professor who was obsessed with monitoring his stocks. He was addicted to CNBC and checked his stocks every 10 minutes. He was pathological about it.

Make yourself a promise not to spend the better part of your retirement sitting in front of the TV or computer watching your investments - *that's not investing*.

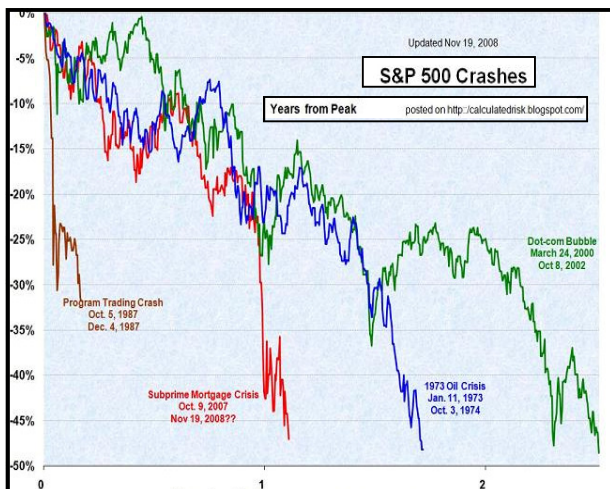
Proper investing is developing a comprehensive long-term plan designed to meet your needs, reviewing it once a year and go out and *enjoy life*. Don't sabotage your retirement with needless anxiety about daily fluctuations in the stock market. Markets fluctuate; if you can't stomach the volatility, then maybe you should not participate.

There's also peer pressure. One of the biggest topics among retirees is how well they are doing in the market. When their friends of 30 years tell them they're making money or losing money, many jump on last year's winners and get burned again in the next cycle (remember Nortel? gold going to \$3,000? oil going to \$180b?).

My advice is listen but don't worry about how others are investing. If you have questions about products or strategy, consult your adviser. If you already have a financial plan, and a diversified portfolio, then you're probably on the right track.

If you don't, then I encourage you to give us a call and do a portfolio review. If you are about to retire or already retired, I offer you the following advice:

- **There are no short cuts when it comes to building wealth:** Short-term investment strategies frequently end in disappointment and can upset your long-term plans.
- **Successful results come from successful planning:** More retirement and investment plans fail from the lack of strategic planning and proper execution than for any other reason.



If we picked various major market drops in history, how would a well-diversified portfolio have performed after each major drop?

At ifacanada.com, there are 20 different portfolios for investors to review - based on risk and return.

Let's review how a moderate risk portfolio (ifa#75) would have performed five years after each major market drop from the U.S. chart on the left.

ifacanada Portfolio #75

INDEX	% Allocation
IFA Canada	17%
IFA US Core	12.5%
IFA US Value	8.5%
IFA US Small	8.5%
IFA Int'l Core	8.75%
IFA Int'l Value	8.5%
IFA Int'l Small	8.5%
IFA Real Estate	8.5%
IFA Emerging	8.5%
IFA 1 yr Fixed	7.5%
IFA 5 yr Fixed	7.5%

CRASH OF 1932 Oct 1932 - Oct 1937

Results for Indexfolio™ 75*	
from October 1, 1932 to October 31, 1937:	
Annualized Return:	12.74%
Annualized Standard Deviation:	38.92%
Growth of \$100,000.00:	\$183,935.87

CRASH 1987 Oct 1987 - Oct 1992

Results for Indexfolio™ 75*	
from October 1, 1987 to October 31, 1992:	
Annualized Return:	5.14%
Annualized Standard Deviation:	12.64%
Growth of \$100,000.00:	\$129,028.58

OIL CRISES 1974 Oct 1974 - Oct 1979

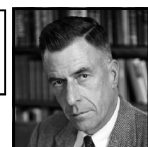
Results for Indexfolio™ 75*	
from October 1, 1974 to October 31, 1979:	
Annualized Return:	23.44%
Annualized Standard Deviation:	12.94%
Growth of \$100,000.00:	\$291,620.26

TECH CRASH 2001 Oct 2002 - OCT 2007

Results for Indexfolio™ 75*	
from October 1, 2002 to October 31, 2007:	
Annualized Return:	12.73%
Annualized Standard Deviation:	8.52%
Growth of \$100,000.00:	\$183,892.50

Disregard Short-Term Forecasts and Predictions

“The function of economic forecasting is to make astrology look respectable.” *John K. Galbraith, Economist, Author*



Six Month Average Forecasted Direction vs. Actual Direction of Interest Rates

The Wall Street Journal Survey of Economists (12/82–6/08)

Date	Forecast	Actual	Result	Date	Forecast	Actual	Result	Date	Forecast	Actual	Result
12/82	▼	▼	Right	12/91	▼	▼	Right	12/00	▲	▼	Wrong
6/83	▼	▲	Wrong	6/92	▼	▲	Wrong	6/01	▼	▲	Wrong
12/83	▼	▲	Wrong	12/92	▼	▼	Right	12/01	▼	▼	Right
6/84	▼	▲	Wrong	6/93	▲	▼	Wrong	6/02*	▲	▲	Right
12/84	▲	▼	Wrong	12/93	▲	▼	Wrong	12/02	▲	▼	Wrong
6/85	▲	▼	Wrong	6/94	▼	▲	Wrong	6/03	▲	▼	Wrong
12/85	▲	▼	Wrong	12/94	▼	▲	Wrong	12/03	▲	▲	Right
6/86	▲	▼	Wrong	6/95	▲	▼	Wrong	6/04	▲	▲	Right
12/86	▲	▲	Right	12/95	▼	▼	Right	12/04	▲	▼	Wrong
6/87	▼	▲	Wrong	6/96	▲	▲	Right	6/05	▲	▼	Wrong
12/87	▼	▲	Wrong	12/96	▼	▼	Right	12/05	▲	▲	Right
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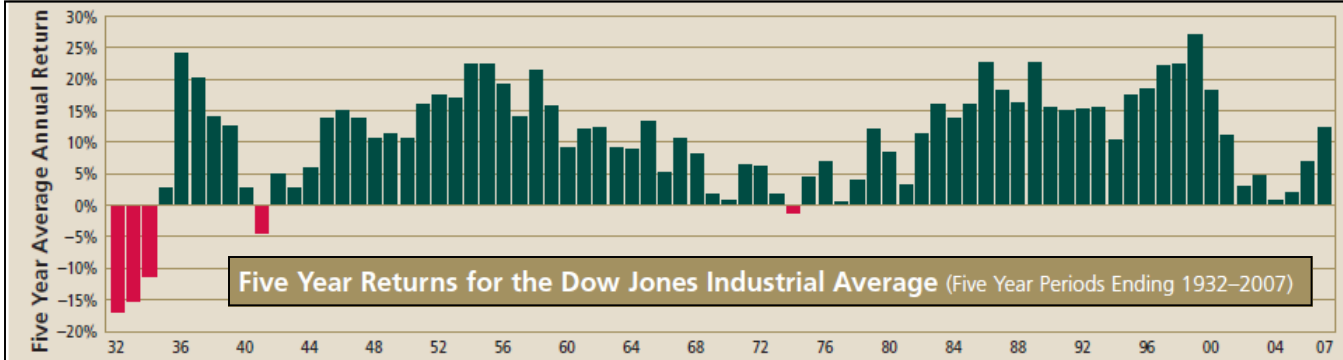
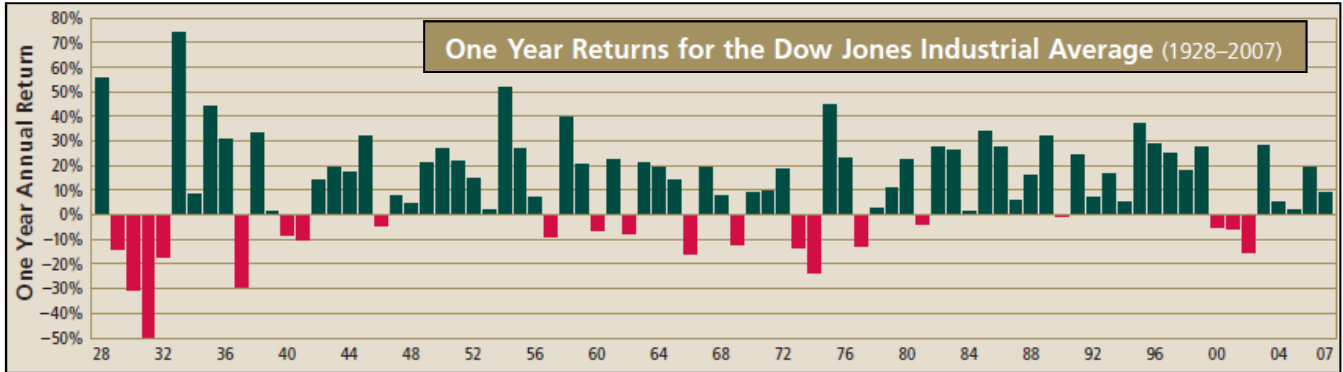
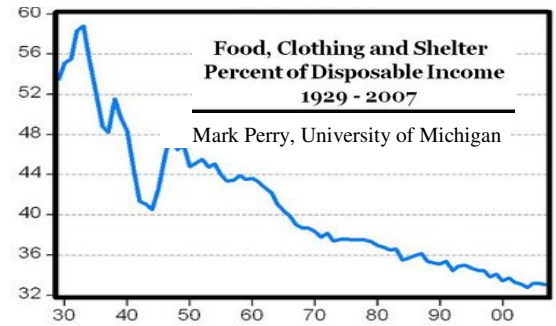
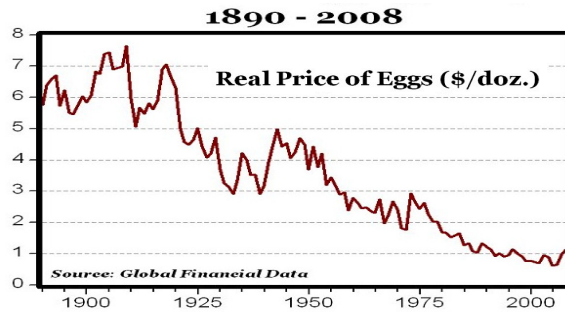
Source: Legg Mason and The Wall Street Journal Survey of Economists. This is a semi-annual survey by The Wall Street Journal last updated June 30, 2008. *Benchmark changed to 10 Year Treasury. Past performance is not a guarantee of future results.

During periods of uncertainty, investors often gravitate to the investment media for insights into how to position their portfolios.

One study tracked the average interest rate forecast from *The Wall Street Journal* Survey of Economists from December 1982–June 2008. The forecasts were then compared to the actual direction of interest rates. Overall, the economists' forecasts were wrong in 35 of the 52 time periods—67% of the time!

Do not waste time and energy focusing on variables that are unknowable and uncontrollable over the short term.

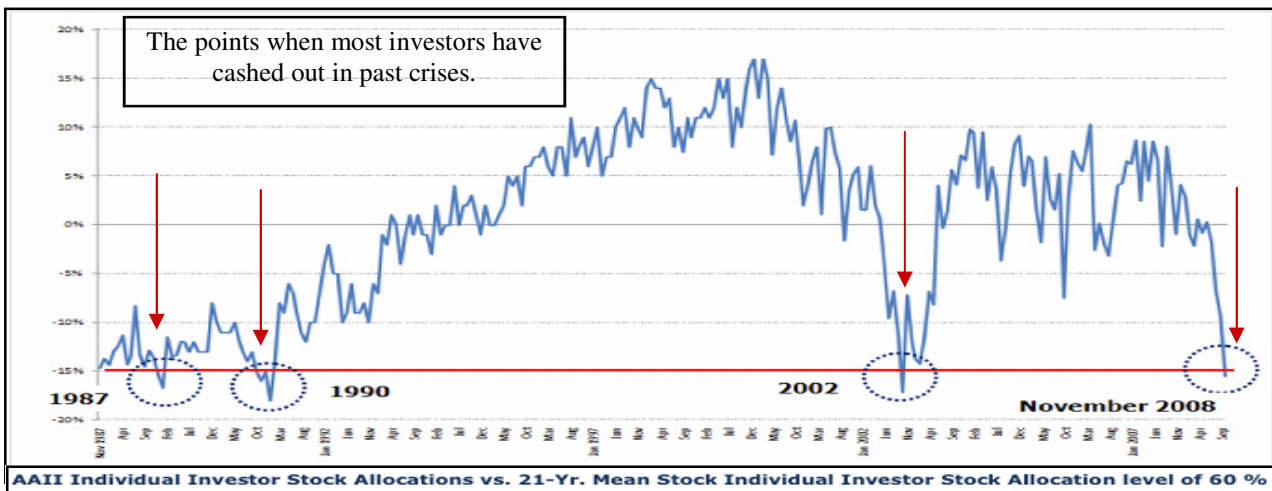
**The good old days?
Think again...**



Source: The performance was obtained from a combination of sources, including, but not limited to, Thomson Financial, Lipper and index websites. Returns are annualized total returns. **Past performance is not a guarantee of future results.**

The above five year return chart shows what the returns were every five year period since 1927. The first five year period shown ends in 1932 with a five year average return of -15%. But...if you had invested money in 1932, the five year average return up to 1938 would have been approx. 20%. Since the 1929-1932 correction, there has been only two other 5 years periods when the returns would have been negative (1936-1941 and 1969-1974). But 75 of the five year periods had positive returns and many of the better five year positive returns were after previous poor five year periods.

Example: Review previous page for ifa#75 portfolio over various five year periods.



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