



HOW TO KEEP A LID ON INVESTING STRESS

Who would like more stress in their lives?

We are all feeling overwhelmed with the credit crises, de-leveraging crises, housing crises, banking crises, etc. We want to help reduce your stress level, so here are five ways to help reduce your investment stress:

1. STOP TRADING SO MUCH

Overtrading is one of the surest ways to crank up your stress level - and hurt your portfolio returns. If the transaction costs don't kill you, the stress will. In a study conducted by University of California finance professors Barber and Odean, active traders underperformed the market average by nearly seven percentage points. "Our central message is that trading is dangerous to your wealth," they wrote. It is far better - both for your emotional and financial well-being - to buy and hold high quality investments whose earnings and dividends rise over time.

2. STOP CHECKING ACCOUNT EVERY DAY

Watching your portfolio like a hawk may seem like the thing to do, but it is a recipe for stress and disaster. Why? It has to do with basic math, and the way the human brain processes winning and losing. Suppose your portfolio returns 15% with a risk level (or standard deviation ratio) of 10% annually.

- Given these assumptions, your portfolio has a **93%** chance of rising in any given year.
- In any given quarter (three months) for instance, there is a **77%** chance of gains.
- In any given month, the odds fall to **67%**.
- And if you check your portfolio hourly, the probability of it being up is just **51.3%**.

In other words, you will be disappointed roughly half the time if you check your account daily. Now consider this: Research has shown that people experience more emotional pain from a financial loss than joy from a financial gain. So...if you check your portfolio often, you are going to be stressed almost 50% of the time. And in a bear market, you will be downright miserable.

3. FIND A BALANCE

This is the simplest and most powerful investing truism when building portfolios: How much risk can you handle? Once you find the right mix, stick with it. That means re-balancing on a regular basis (suggest yearly) which is less stressful than trying to guess which way the market is

heading. Finding the risk level you can tolerate is almost as stressful as the market itself. Everyone takes a stab at this "risk measurement." We have found the more at stake, the more stressful investors become. After three decades in the financial business, we think we have found the reason why: losing 10% on \$10,000 is one thing but losing 10% on a million may be another thing. So...look at your risk loss limit (in terms of percentage losses and dollar losses) and what loss limit you can tolerate:

10% Loss

- On \$10,000 this is a loss of \$1,000
- On \$1million this is a loss of \$100,000

20% Loss

- On \$10,000 this is a loss of \$2,000
- On \$1million this is a loss of \$200,000

30% Loss

- On \$10,000 this is a loss of \$3,000
- On \$1million this is a loss of \$300,000

40% Loss

- On \$10,000 this is a loss of \$4,000
- On \$1million this is a loss of \$400,000

4. WRITE DOWN YOUR INVESTMENT PLAN

Much like a written blueprint for building a house, a written investment blueprint should be used when building a portfolio. This includes your risk level (see#3), your time period for investing, your income needs, return expected, when you will retire, etc. When markets become volatile, pull out your plan and see if you are following your "blueprint" or if you somehow went off course.



De Thomas
GIC BROKERS

Sample GIC Rates 07-01-09	1 yr	2 yr	3 yr	4 yr	5 yr
RBC Bank	0.4%	1.1%	1.6%	1.7%	1.9%
B2B Trust	0.8	2.1	2.7	3.3	3.6
Canada Life	1.0	2.2	3.0	3.2	3.2
Dundee bank	0.6	2.1	2.7	3.2	3.5
Empire Life	1.0	2.2	3.0	3.5	3.7
Home Trust	1.5	2.0	2.8	3.3	3.6
Manulife Bank	1.0	1.9	2.9	3.5	3.6
Resmor Trust	1.7	1.9	2.2	2.2	2.9

5. INVEST IN INDEXFOLIOS

The easiest way to achieve proper diversification is to create a portfolio using index strategies. What should be in your portfolio? Almost everything. You do not want the stress of missing out; for example not having commodities when they are too hot. You do not want the stress of having all your eggs in one basket; for example investing all in real estate just when the bubble is about to burst.

An “efficient index portfolio” should have all types of asset classes such as cash, bonds, stocks and real estate; in small company stocks as well as in large company stocks; in growth stocks as well as value stocks; and in many, many countries around the world.

Sample asset classes for portfolios.

Income

- Cash
- Government bonds
- Corporate bonds
- Inflation bonds

Canadian

- Preferred shares
- Large cap shares
- Small cap shares
- Growth shares
- Value shares
- Option Overlay

American

- Large cap shares
- Mid cap shares
- Small cap shares
- Growth shares
- Value shares

- Option Overlay

International (EAFE)

- Large cap shares in EAFE
- Small cap shares in EAFE
- Growth shares in EAFE
- Value shares in EAFE
- Option Overlay

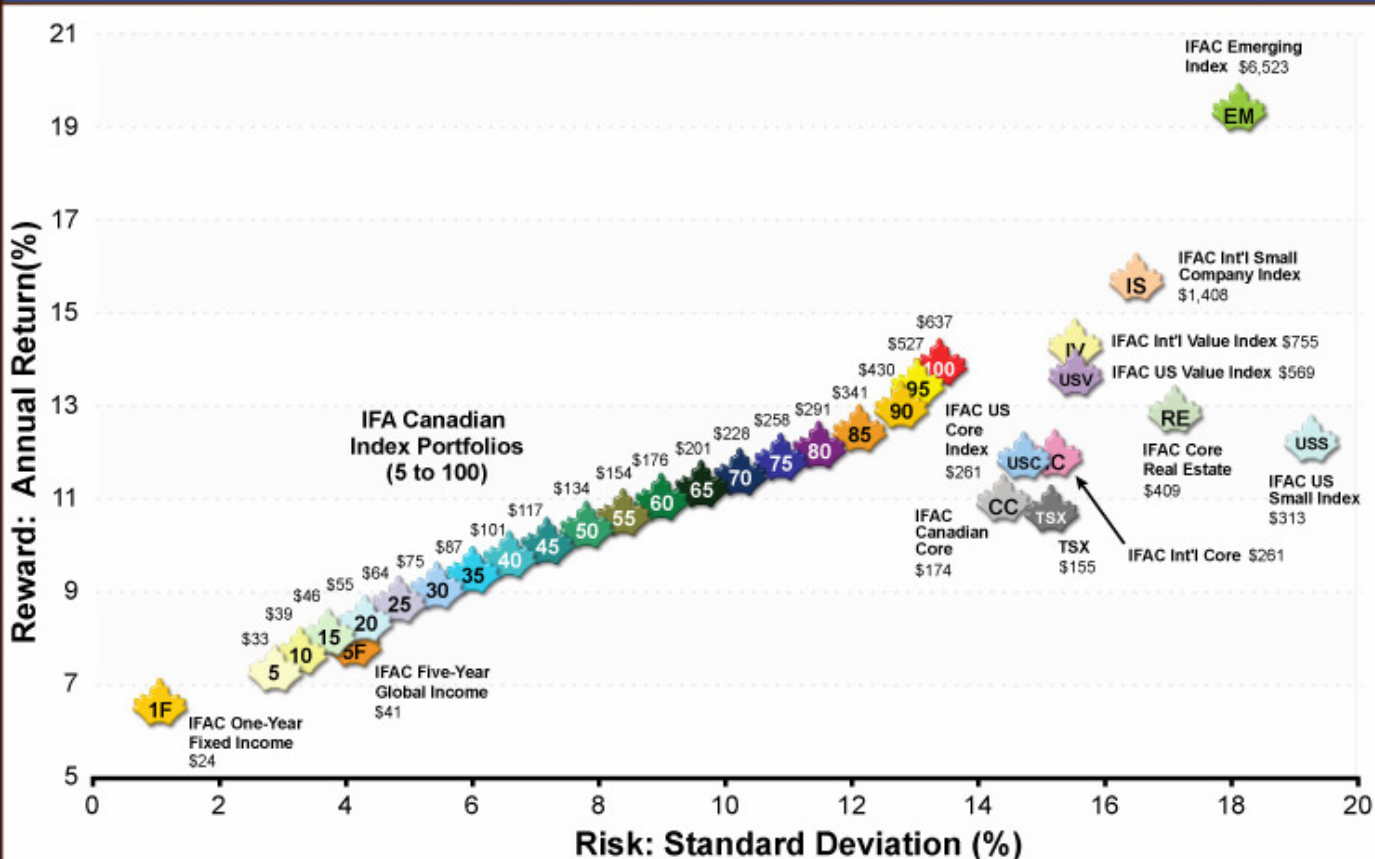
REAL ESTATE & Alternatives

- Canadian real estate (REITS)
- American real estate (REITS)
- Global real estate (REITS)
- Commodities

EMERGING

- Emerging Market EAFE
- BRIC
- China
- Latin America
- Small cap shares in Emerging

Risk Reward Optimization - 20 IFA Canadian Index Portfolios, 11 IFAC Indexes, and TSX 50 years - Jan. 1958 to Dec. 2007 (\$ = Growth of a Dollar)



John Bogle: Investors Are Getting Killed

A new analysis by Vanguard Group founder John Bogle indicates that investors are generally making poor investment decisions when buying and selling exchange traded funds (ETFs are similar to index funds).

During a webinar hosted by the [Journal of Indexes](#) and [IndexUniverse.com](#) on Wednesday June 25, 2009, the indexing pioneer unveiled the results of his recent look into investment tendencies by ETF investors.

Bogle compared the returns of 79 ETFs in a variety of major asset categories over the past five years to the returns of the average dollar invested in those ETFs over the same time period. It's a common statistical practice in mutual fund analysis, allowing investors to see whether they're buying at the bottom and selling at the top, or vice versa.

Bogle expressed surprise at the degree to which investor returns suffered. "Out of 79 ETFs we covered, 68 had investor returns that were...short of the returns earned by the funds themselves."

And by no small margin. The degree of investor-lag ranged from 0.4% per year to -17.9% per year. Investors seemed to do the worst in high-profile and volatile sectors like emerging markets, financials and REITS.

- The results are gross returns before transaction cost, advisor fees and taxes (net would be much lower).

**SOURCE:
MORNINGSTAR**

FIVE-YEAR ETF PERFORMANCE: ETF FUND RETURNS VS. INVESTOR RETURNS

Observations:

The table to the right shows that investors lagged the most in Emerging Markets, REITS and in Financial Markets. It would appear investors traded more in these volatile sectors, probably to try and "outsmart the market."

The table also shows that investors lagged the least in areas that were not as volatile such as the more broad sectors such as in the broad European market (-2.6%), the broad U.S. large cap value (-0.4%) and in such more stable industries like health care and utilities.

- ETFs (in the study) delivered a 1% compounding return over the trailing five years, translating into a cumulative gain of 6%.

Investors, however, earned a -3.5% average compounding return, translating into a total loss of -12%. "When you combine those, you're talking about 18% of investor capital that's been lost by all this trading," said Bogle.

"So we have evidence - strong evidence - that exchange-traded funds, because of the trading misuse that goes on in them, are not acting in the best interest of investors. Or, that investors are not acting in their own best interests, which may be a better way to put it."

These data are telling us something that is worth knowing ... that fund trading is about as valuable as trading individual stocks, which is to say, not valuable at all, and harmful to your returns."

Data for the study were compiled by Morningstar. The study looked at monthly cash flows and monthly fund returns. Bogle noted that this is not a precise format, as daily cash flows into and out of the funds could skew the results.

	Fund Return	Investor Return	Investor Lag
Large-Cap Blend	-1.4%	-5.7%	-4.3%
Large-Cap Growth	-1.7%	-7.7%	-6.0%
Large-Cap Value	-1.8%	-2.2%	-0.4%
Mid-Cap Blend	0.4%	-3.0%	-3.4%
Small-Cap Blend	-0.5%	-6.9%	-6.4%
Europe/Pacific	3.1%	0.5%	-2.6%
Emerging Markets	15.6%	3.8%	-11.8%
Financials	-10.5%	-28.6%	-17.9%
Health Care	-1.3%	-3.1%	-1.8%
Communications	1.9%	-3.7%	-5.7%
Energy	8.6%	4.0%	-4.6%
REITs	-2.5%	-11.8%	-9.3%
Technology	-2.6%	-8.3%	-5.7%
Utilities	5.5%	2.1%	-3.4%
Total & Simple Averages	1.0%	-3.5%	-4.5%

WHAT GOOD ARE ECONOMISTS?

Peter Coy, Business Week April 2009



Economists mostly failed to predict the worst financial crises since the 1930s. Now they can't agree on how to solve it.

People are starting to wonder: What good are economists anyway? A commenter on housing wrote recently that economists did a worse job of forecasting the housing market than either his father who has no formal education or his mother, who got up to second grade.

To be fair, economists can't be expected to predict the future with any kind of exactitude. The world is simply too complicated for that but they ought to know what to do when disaster strikes. People pay attention to economists at times like these precisely because of their bold claim that they know how to prevent the economy from sliding into a repeat of the Great Depression. But seven decades after the Depression, economists still have not reached a consensus on its lessons. The debate of what to do and which way to go has only intensified in 2009.

- A) To fight the downturn, Federal Reserve Chairman Ben Bernanke and Treasury Secretary Timothy Geithner are attempting an unprecedented combination of massive fiscal stimulus and extreme monetary policy. If these measures produce a sustained recovery, they will look like heroes.
- B) It is disturbing that the measures that are being taken have had to be so extreme. The scope and size are way outside what the economics professions had studied or even contemplated in recent years.

The rap on economists, only somewhat exaggerated, is that they are (as a whole) overconfident and unrealistic.

Many claim a precision that neither their raw material nor their skill warrants. Author of the two books *Randomness* and *The Black Swan*, Nassim Taleb says: "We have to build a society that does not depend on forecasts by idiotic economists." Paul Wilmott, quantitative finance expert says: "Economists models are just awful. They completely forget how important the human element is."

It's The Government's Fault

Economist Milton Friedman persuaded virtually the entire profession that the Great Depression was caused by U.S. the Federal Reserve. That seemed to imply that better policy by the Fed, guided by economists, would prevent a recurrence. Bernanke in 2002 told Friedman, "*You are right, we did it. We're sorry. But thanks to you, we won't do it again.*" Famous last words.

What Is The Way Forward?

Taleb (author of the *Black Swan*) a scholar of unpredictability, notes that nature achieves robustness through redundancy that economists would consider wasteful; *two hands, two eyes, and two ears.*



Nobel Prize 1970

Paul Samuelson teaches two generations of students that governments can fight economic downturns by boosting spending and cutting taxes.



Nobel Prize 1976

Milton Friedman convinces most of the economics profession that the Great Depression was mainly the result of actions by the Federal Reserve.



Nobel Prize 1995

Robert Lucas Jr. makes the persuasive case that large-scale government attempts to stimulate the economy are unlikely to succeed over time.



Nobel Prize 2008

Paul Krugman argues for the importance of large-scale government spending to avoid a sustained depression

