

The last quarter was a wild roller coaster ride for investors. Investors must accept the fact that “risk is what provides them with higher return vs bank savings accounts.” Various types of risks are:

- emotional risk - nervousness, panic, fear and/or greed
- market risk - eg tech stocks and now real estate mortgage meltdown
- interest rate risk - increasing loan and mortgage interest rates
- foreign exchange risk – currency changes up or down

Risk, return and time are all intertwined. At www.ifacanada.com there are 20 various portfolios - each with various “risk-return capacities.”

Managing risk leads to proper investing. If done properly, the longer you hold your investment, the more likely you will obtain your expected return. However, because of “unforeseen surprises,” returns are very unpredictable in the short run.

$$\text{Risk} + \text{Time} = \text{Normal Expected Return}$$

For example, you can expect:

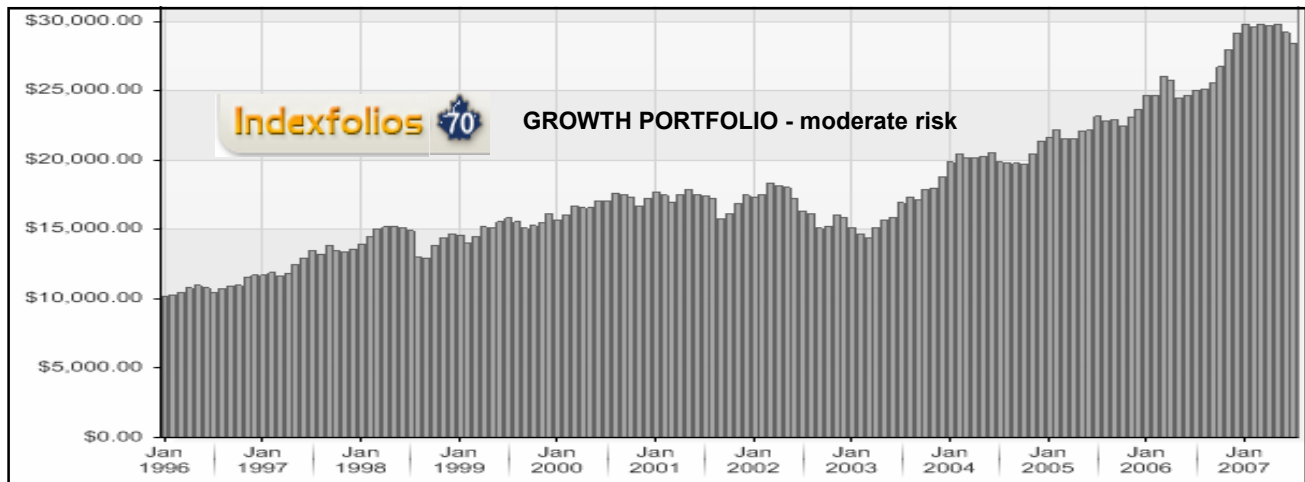
- on average, two negative years every ten years.
- on average, an annual return of 9% - 10% over a ten year cycle.



MUSINGS ON THE JOYS OF BEAR MARKETS, FROM AMERICA'S MOST-ADMIRED, LEAST-IMITATED INVESTOR...

“Even though they are going to be net buyers of stocks for many years to come, (investors) are elated when stock prices rise and depressed when they fall... This reaction makes no sense. Only those who will be sellers in the near future should be happy at seeing stocks rise. Prospective purchasers should much prefer sinking prices.” — WARREN BUFFETT

Following is the Ifacanada #70 PORTFOLIO—please review its growth pattern over the past decade.



READING YOUR INVESTMENT STATEMENT

- Column one** the name of your investment fund
 - Column two** initial date of the first purchase made for that fund
 - Column three** investment value (called market value) as of the date shown
 - Column four** any investment (or money taken out) since date shown on column three
 - Column five** number of shares you currently own in that fund
 - Column six** price per share as of the investment date shown
 - Column seven** current value of the investment fund as of the investment date shown
- ROR** Annualized portfolio rate of return for all investments held for one year or longer. Any deposits-redemptions made in the past twelve months are not included in the ROR.

Putting it in perspective



Stupid Investors Rejoice!

"There are many "smart" investors who are just too smart to make money. There are many "stupid" investors who don't know how they make money, but they do."

Ben Stein, Economist, writer, lawyer

To make money over the past 50 years, all you had to do was to invest globally - invest in global markets like Canada, the U.S., Germany, U.K., Japan, etc., and yes, even in markets in places such as China, Brazil, Russia, India, Korea, etc.

To lose money, pretend that you are really smart, really clever and that by reading financial newspapers and watching such programs like CNBC or Jim Cramer, you think that you can outguess all the other "stupid investors."

For example, over the past few months many smart investors are pouring over the mess the "sub prime loans and mortgages" have created. These smart investors are figuring out what is going on, what they should be selling and how much have they lost over the past few weeks.

The "smart investor" reads the papers each day, starts bailing out, and puts his money into his bank account. He's paid broker fees to sell his investments and will probably also pay capital gains tax on their profits.

He feels that he made a really smart move selling out. He gets a really big charge now reading about all the problems in the press - as he is no longer in the market.

The "smart investor" reads that the federal banks all over the world are injecting money into the system. The smart investor says, *"Aha! The whole world is being vaporized."*

What the smart investor does not know is that the U.S. Federal Bank is always either adding or subtracting liquidity to the U.S. financial system.

With a money supply of over \$12 trillion, adding or liquidating cash of say \$100 billion is only about 1% of the total cash already in the system.

The "stupid investor" only knows a few facts:

- *The US economy (the world's largest) has not had a real bad depression since 1941.*
- *Over any ten year period since the 1940s, a basket of diversified global stocks has never underperformed cash or bonds.*
- *The average return of a diversified global portfolio over any ten year period since the '40s is over 9%.*

The "smart investor" has his money safely in cash.

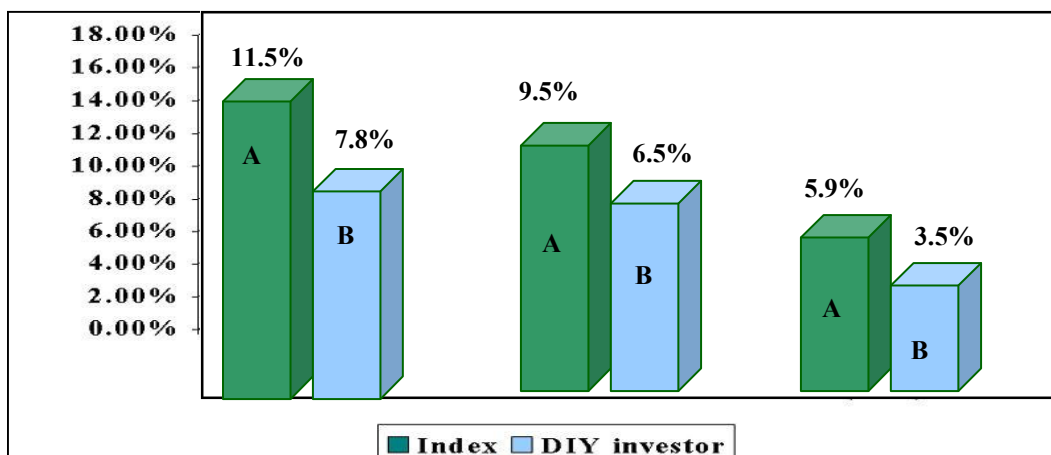
After all, he has read that U.S. home prices are falling in many parts of the country. The smart investor thinks that this will discourage people from spending and this will lead to a severe recession.

The "stupid investor," the guy who doesn't read too much thinks he heard someone once say that the consumer spending did fall (it was in 1980). Our review shows that an average portfolio's return during the ten year period from 1980 to 1989 was over 16% / yr (see page 3).

The "stupid investor" figured that if somehow the consumer kept spending after the bursting of the tech bubble wiped out \$ 7 trillion or so of wealth, maybe they can also keep spending now based on the market having so far lost only 1/2% of the tech bubble market losses.

And, maybe he knows that, even if there is a recession, recessions barely last more than two quarters (six months) and that buying stocks in a recession is a good idea, not a bad idea based on past experiences (review charts on page 2).

Now, the alert reader may at this point be saying, "Hey, that stupid investor is a long term "smart investor."



Period 1980 - 2004

A - long term "stupid" investor
B - active "smart" investor

Observation

In all three asset classes, the long term, passive investor did better on average, than the short term, active investor.

If investors can remain focused (and be called a stupid investor like we state on page 2) what would be the results from some of the biggest market declines since the 1960s? These charts and tables highlight some of these steep market declines and the returns of five portfolios after the steep declines occurred.

Biggest stock market declines over the past fifty years & the 10 year average returns following the declines!

Lowest Period	Portfolio # 70 Time Period	Average Return	Portfolio #70 10 yr Average	Portfolio #70 Long Term Average
For 1 yr period	10/1973 - 9/1974	-27%	1973 - 1983 12.4%	1973 - 2007 11.6%
For 5 yr period	11/1969 - 10/1974	-0.4%	1969 - 1979 7.8%	1969 - 2007 10.8%
For 10 yr period	1/1965 - 12/1974	5.6%	1965 - 1975 5.6%	1965 - 2007 11.2%

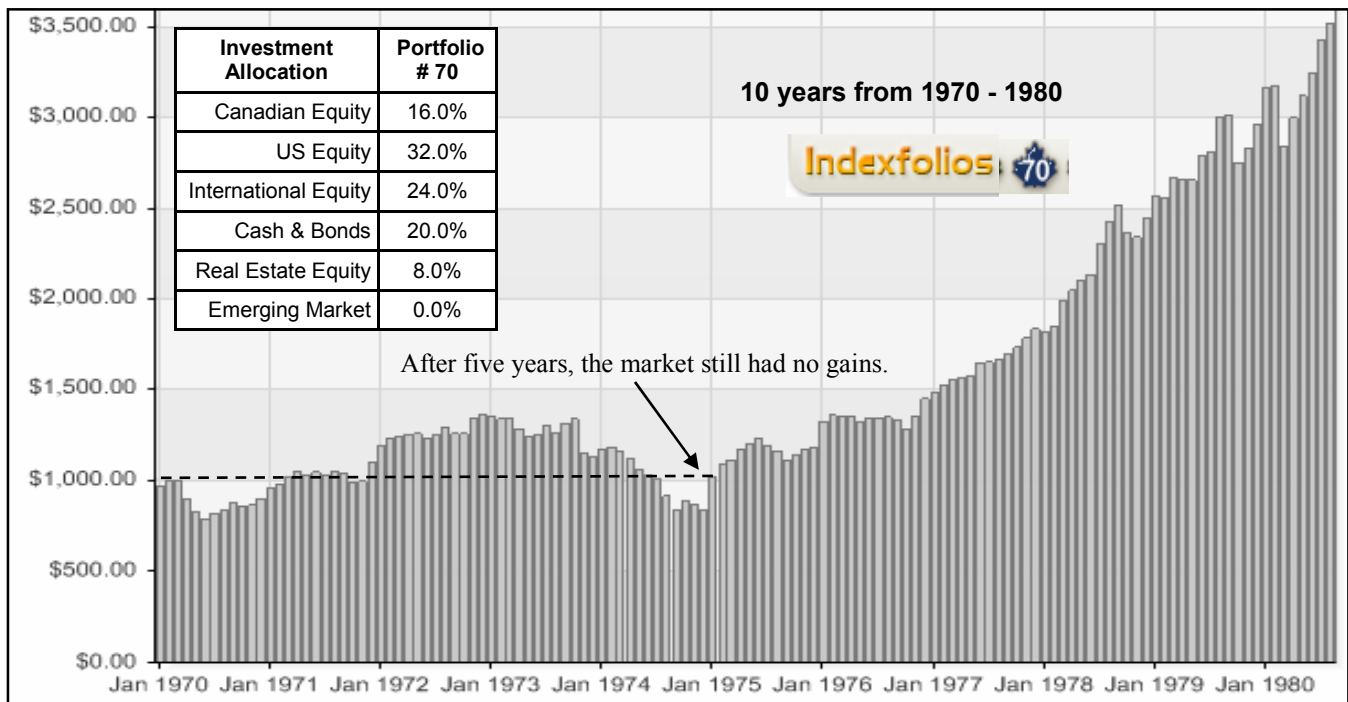
In the long run, it really did not matter which date the investments were started, the long term average returns were all above 10%.

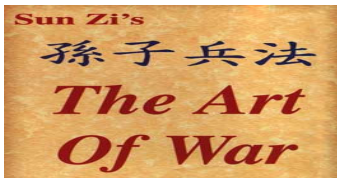
Portfolio Name	50 Yr Average 1957-2007	Lowest 1 Yr Period	Lowest 5 yr Period	Lowest 10 Yr period
IFA #90	13.5%	-34%	-2.4%	5.1%
IFA #70	12.2%	-27%	-0.4%	5.6%
IFA #50	10.7%	-19%	1.5%	5.7%
IFA #30	9.1%	-11%	2.9%	5.5%
IFA #10	7.4%	-4%	3.3%	4.5%

Comparison of five risk-adjusted portfolios over 50 years for the:

- Lowest 1 year period
- Lowest 5 year period
- Lowest 10 year period
- Average return from 1957-2007

The period of the early 1970s was one of the most volatile on record since the 1930s. This was mainly due to the huge surge in oil/gas prices from \$2.00 a barrel to over \$12 a barrel. But the markets, over time went back to their average annual expected rate of return of 9% to 10%.





Sun Tzu, who lived from 544 to 496 BC, authored *The Art of War*, an immensely influential ancient Chinese book on military strategy. This book has had a huge influence on business tactics. Investors can benefit from its wisdom particularly from the theme of *“every battle is won before it is ever fought.”*

On July 19, 2007 the S&P 500 (the American Stock market index) closed at 1553. By August 15, 2007 it closed at 1407, a drop of almost 10% in less than one month. Headlines from around the world reported huge losses in hedge funds - investors got spooked.

These events have occurred in the past, and have done so with a fair amount of frequency. In fact, we had a very similar event take place in the summer of 1998, with the hedge fund Long-Term Capital Mgmt (LTCM).

LTCM had amazing early results, 40+% per year. Then in 1998, the fund lost \$4.6 billion in less than four months. In early 2000, the fund folded and would have caused a market meltdown if it were not for the fact the US government stepped in to help stem the losses.

As Spanish philosopher Santayana (1863–1952) warned, *“Those that cannot remember the past, are doomed to repeat it.”* What history shows is that investing in stocks is risky business if not done properly. The stock market produced better returns than cash or bonds over the past 81 years. Investors got compensated for their risk.

Can investors successfully avoid the inevitable periods of market downturns by timing the market?

The evidence on efforts to successfully time the market is very discouraging.

A study of one hundred large pension funds and their experience with market timing found that while they all had engaged in at least some form of market timing, not one single plan had improved its rate of return.

Over 70% of the time after the markets had experienced a negative quarter (three months), the markets actually rose.

That is why famous investor/money manager Peter Lynch wrote, *“far more money has been lost by investors preparing for corrections, than has been lost by investors in corrections.”*

Famous money manager, Warren Buffet’s favourite line is *“when I invest, I can go away for five years and not worry about my investments. I plan for long term success.”*

Napoleon, perhaps one of the greatest generals stated, *“Most battles are won or lost in the preparation stage, long before the first shot is fired.”*

For investors, the battle is also won in the planning stage. Successful investors build “bridges in their plan.” They begin by determining their risk capacity. Life is too short to spend time worrying about portfolios.

Prudent investors stay disciplined and rebalance, buying low and selling high, clearly adhering to a strict strategy.

In closing, Professor Stephen Gould wrote: *“No one has yet come close to consistently beating the markets, despite intense efforts of some of the smartest people in the world.”*

Conclusion

We agree 100% with Professor Gould. At ifacanada.com, there are twenty portfolios illustrated - each one based on a different “risk capacity.”

Visit www.ifacanada.com.

Once you are there, take the risk capacity survey - start preparing your battle plan.



Canadian MDs worried

Survey Sept. 13, 2007

Mark Noble

Many of Canada's doctors admit their financial health is not being taken care of and they feel unprepared for retirement, a survey conducted by *The Medical Post* finds.

Of the 642 medical doctors who responded to *The Medical Post's* online survey, 73% say they use the services of some sort of financial advisor, but only 35% feel their advisors have created a comprehensive retirement plan for them. Only a slight majority (54%) think they'll have an adequate retirement income.

“There are a number of physician agreements [with provincial governments] coming up in the next while, and I think doctors are very concerned about their financial health,” says Rick Campbell, editor and associate publisher of *The Medical Post*.

The survey started out as just one question about whether doctors needed government-sponsored pensions. Campbell says *The Medical Post's* website - received such an overwhelming response from its readers that it decided to conduct a broader survey.

Pensions remain atop the list of doctors' financial concerns. Campbell says other major issues came to light, as well. *The Medical Post* reports that many doctors plan to postpone their retirement in order to build a larger nest egg. Forty per cent of the respondents say they'll work past age 65.

“I find there are unexpected financial pressures, not unique to us, such as dependant children, separated children and aging parents that have created a financial burden so that I need to continue working despite my semi-retired status,” wrote one 60-year-old doctor who answered the survey.

When doctors do seek investment advice, it's usually not from their banks; less than a quarter (22%) of the respondents say they have an advisor with a bank-owned firm. Fifty-one per cent of respondents have an advisor either at a non-bank-owned brokerage or at a financial planning firm.

All of the respondents were either active or retired medical doctors, who voluntarily responded to the survey and for this reason the margin of error is unknown.

It should also be noted that 51% of the respondents were from Ontario.