

# The Francis Forum



## YOUR PARTNER IN WEALTH CREATION



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## Your behavior today determines your history tomorrow **MONEY MATTERS**

### **Bubbles form in the pot!**

As markets became warmer this winter and as we entered our 4th year of market gains I wrote about the need for rebalancing and the fact that Canada was entering uncharted territory. This is because Canada's stock market had never outperformed its peers four straight years in a row – hence the uncharted territory comment. It reminded me of the frog and the boiling water. If a frog is placed in boiling water – it realizes such and immediately jumps out – saving itself. However, if placed in room temperature water and the burner turned on, the water slowly warms to a boil and our poor friend is cooked! That is what happens to some investors as markets slowly increase over time and their securities become overvalued and ripe for a corrective phase.

Well in May the pot boiled and the frog – namely investors - began to feel the pain. Taking it on the chin was the resource sector whose lofty metals and energy prices had just run too far. When people are stealing the copper pipes out of abandoned homes – you know something is amiss. By mid June declines had certainly surpassed gains and Canada's TSX 60 shed about 10 percent. We were not alone – Europe and especially Emerging Market economies were hit harder still. The evidence was all around us though. The US dollar had been sinking, Interest rates along with energy and commodity prices had been moving up for months, there was uncertainty about inflation, uncertainty about growth, and a

softening US real estate market. And while there has been some rebound, the escalating tensions/conflict in the Middle East does not help. Therefore it is no surprise that risk requires re-pricing. When the markets are rolling, risk was clearly mispriced as investors were willing to overpay for assets. Investors everywhere were loading up on long-term financial assets without adequately taking into account the aforementioned issues or their impact on the economy or corporate earnings. So catch-up time has arrived and investors were demanding compensation for risks that are more clearly visible. With rates on risk free investments (T-bills) moving higher, the prices at which investors are prepared to pay for stocks and bonds is moving lower. It's all pretty basic stuff. Ultimately a new line (level) will be drawn in the sand (charts). The overriding question is: where are we in that process? Many believe the worst is over. However, I feel that there will be additional setbacks before we reach that equilibrium level. The volatility is likely to continue through the summer months and it is certainly possible that continued price adjustments will occur in the short term. However, in the longer term, market indices rise and within them are some real gems – excellent businesses with a history of growing earnings and dividends that will help us reach those medium and long-term goals we all have.

The exciting part of all this (read – opportunity) is that many great businesses are bid lower in the mayhem and offer



great buying opportunities for those with a keen sense of value and time on their side. Consider Dollar Cost Averaging through monthly deposits or lump sum purchases to either lower your average cost or pick up some new holdings that are fairly priced during the downturn. Alternatively, continued rebalancing of account holdings can take advantage of sector management. Keeping lower risk income investments on hand for RRIF payments and using any excess for buying opportunities can add value as well. The main point to all this is that market setbacks or corrections, whatever you may prefer to call them, are a natural and necessary part of investing. To finish off this market commentary, as long as you own quality - and you do through me - this too shall pass. Common sense advice coupled with quality security ownership will reward those with patience.

**Around the branch!**

We are pleased to welcome back front reception assistant Vicki Laymann from her maternity leave. Philippe Chevalier who had been filling in for Vicki has accepted a full time position assisting another advisor in our branch. Congratulations to both of you – we are happy to have you as part of our team. Sadly, Irveen Anand, has left us to explore opportunities in commercial banking/accounting. I know you will join me in thanking Irveen for her dedication and commitment this past 18 months. With the help of a specialized agency, we

have been actively searching for a qualified associate advisor to help us exceed your expectations in the areas of service and advice. I look forward to introducing our new associate to you shortly.

**Housekeeping**

For those of you who hold nominee-registered accounts, the annual trustee fee payment will soon be due. This \$125 fee (plus GST) can be paid via online or telephone banking, cheque or credit card (MC/Visa). You do have the option to make this payment a tax deduction since it can be recorded as a contribution to your RRSP if you have contribution room. The most popular method however is to have the fee automatically debited directly from your RRSP account – this is the default option that most clients prefer. If you wish to pay the trustee fee by credit card, please contact Janet Nunn by August 11th.

**Thank You**

I would like to conclude by stating how much I value our relationship and the trust that comes with it. Many of you have referred a friend, relative or colleague to me these past six months and I am grateful for your confidence and support – in fact referring someone to me is a greatest compliment – thank you! I along with Janet and Vicki look forward to speaking with you in the months ahead. Enjoy the rest of your summer!

*The opinions expressed are those of the author and may not necessarily reflect those of Berkshire*

**After Hours**

**I great big thank you goes out to all of you who participated, sponsored, and were somehow involved in the organization of the 3rd Annual "Let's Take a Swing at Cancer" Golf Tournament held on June 1st, 2006. The day was a HUGE success and it could not have been done without all of your support. The final tally in and the grand total is.....\$16,426.97 raised for the Ottawa Regional Cancer Centre!!!! Again, many thanks!!**

**Thank you again for your support of such a worthwhile cause and I look forward to seeing you all and your friends on the first Thursday in June next year.**

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