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To: mike@signaturefs.ca

Subject: The Signature Line - your Q3 Update and ... a Beauty Contest?



The Signature Line

Your Quarterly Update on the Markets and how it Affects You!

October 2009

IN THIS ISSUE

THE BEAUTY CONTEST WITHIN THE STOCK MARKET

3RD QUARTER UPDATE ON THE MARKETS AND THE ECONOMY

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Dear Michael,

The 2008 bear market was one of the worst we have ever experienced in our lifetime and I know that right when things were looking their most bleak, for many people it was a terrifying experience. You built up a nice nest egg and then 2008 came along and blew it up. I've never seen fear in people's face like I did last year and it was a fear that led to paralysis. People were afraid to even look at their portfolio, let alone make any adjustments.

But here we are today and the economy seems to be on the mend and markets have certainly responded well since hitting lows back in March. **Now it's time to rebuild** and it's time to look at your investment strategy and wonder if that's the strategy that got you here, will it be one to help you rebuild? Will it be the strategy to help you the next time there's a downturn in the market (which there is sure to be)?

Perhaps it would be worth the time to sit down for a cup of coffee with an expert who specializes in working with self-employed people like you. I develop plans that get you where you want to be while managing the unique complexities you have as someone who owns their own business. No cost. No obligation. Let's just have a coffee and see if you are on track to rebuild, protect your risks and manage all the other aspects of being a business owner.

Check me out on my website at www.signaturefs.ca, call me at (403) 226-0321 or e-mail me at mike@signaturefs.ca.

The Beauty Contest within the Stock Market

My investments are up 30% this year. Should I sell?

With the huge bounce in share prices since early March, this question has become very topical and a real dilemma for many investors. You may be thinking *"I've seen some of my positions recover and I kind of want out but I don't want to sell something that might go up further. I'm getting close to breaking even from before the crash -should I get out now?"*

To get his take on this question I asked Henry Hudek, CFA, Director of Research at Value Partners Investments. His response was fantastic. [Click here for a PDF of his response "Beauty Contest vs. Track Record."](#)

Q3 Update: An eventful year so far!

As you read this report, it's been just over one year since the weekend that shook the foundations of Wall Street and of the global financial system - when Lehman Brothers collapsed, Merrill Lynch vanished as an independent entity and AIG was taken over by the U.S. government. In light of that, I thought it might be worthwhile to briefly summarize where we've been this year, where we are today and the prospects for the period ahead - and also to highlight some lessons from last year's financial collapse.

Where we've been

Seven months ago, in early March, it truly did feel like the world might be coming to an end with talk of a return to a Great Depression-like economy all over radio, television and newspaper. Understandably, fear was rampant, and stocks responded to these nightmarish scenarios by hitting the lowest levels in years, with financials (banks, insurance companies, etc.) especially hard hit.

Although no one knew it at the time, that turned out to be the bottom. Since then, we've seen the economy move back from the precipice and there is a general consensus that we'll return to economic growth in the second half of this year. As a result, we've had a strong recovery in markets - from their bottom in the beginning of March, stock markets are up 50%, retracing a good portion of the losses since last fall. The second quarter of this year, from March to June, was especially strong - since 1956 the Canadian market has only had three quarters that rose more than this one.

What lessons did we, as investors, learn from the last twelve months? We were reminded of just how volatile stocks can be -and of the importance of true diversification. We were reminded of the bear market of 2001/2002 and many investors realized that they are less comfortable with risk and volatility in their portfolio than they had believed, or had been tolerant of in the past. Investors were also reminded of the need to focus on what they can control, such as understanding income needs and thinking through how much risk they can live

with to fund those needs. In many cases investors realized that their financial plan, rather than their investment portfolio, is more important than ever in helping them reach their financial goals.

Where we are today

A year ago, the market was characterized by rampant optimism. The Canadian market had hit a new high in June of 2008 and any concerns were set aside as minor annoyances. By contrast, six months ago the market was overwhelmed by absolute pessimism - there was no sign of hope anywhere.

Today, the market is somewhere between those two extremes and many investors can be characterized as extremely nervous. As a general rule, I think a certain level of healthy anxiety is positive - what gets investors in trouble is an excess of either optimism or pessimism. While today's mood may be erring on the side of being a bit too pessimistic, I think being cautious in the current market makes sense ... provided that prudent caution doesn't cross the line into panicked inertia or paralysis. It is time to start looking at rebuilding and considering whether or not the portfolio that put you in this position is the one to get you out, or the one to protect you from the next market downturn.

The good news is that there are still excellent opportunities for investors who are prepared for short term volatility. I spend a lot of time talking with our Private Investment Counselors, which are some of the best market minds who have lived through multiple cycles. I am reassured that they tell me that they are still finding very good value - not to the extent that they did earlier this year, but still well ahead of what they would have seen a year ago. They continue to buy into top quality businesses with strong management, a profitable business model and one that pays that profitability back to the owners of the company -the shareholders.

The outlook going forward

There are pundits everywhere and they are all giving opposing views and it's hard to determine who to listen to. The reality is that nobody knows for sure where the market is going. What we do know is that so far the recovery in the market is taking a very classic form of "climbing the wall of worry." It is likely that we are about seven months into a new bull market that will continue on slowly for the next several months to as much as a couple years. During that time, however, it is only reasonable to expect corrections of 5 to 10 percent as we climb that wall of worry.

After eleven years in the business I've learned that no matter how much time I devote to analyzing the stock market I have absolutely no knowledge of where it's going in the short term and absolute certainty in where it's going in the long term. I know that if I buy into good quality businesses that have strong, trustworthy management, strong profitability that translates into dividends to me as the shareholder, and with a business model to grow that profitability, I will prosper in the long run. Owning a share of the great businesses of North America and the world has proven to be the most successful investment strategy in history. Just ask that guy in Omaha, Nebraska.

Over the past while, I've talked to most clients about their portfolios. If I missed you

for some reason or you would like to discuss your investments in more detail, I am always delighted to have that conversation. My team and I are constantly looking for opportunities to realign portfolios to give our clients the best tradeoff between risk and return. Given the current uncertainty and volatility we are continuing to focus on the great businesses of North America and the world and are maintaining a healthy fixed income (bond) weighting.

Thank you for the continued opportunity to work together - remember, my team and I are always here should you have any questions or wish to talk about anything related to your portfolio or your finances.

Mike Robinson

P.S. I invite you to learn a bit more about me and my work by visiting [my website](#). The [home page](#) provides an outline of who would value my services, the ['about us'](#) page provides information on my background and the ['resources'](#) page has a few reports that I authored that may be of interest to you.

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Mike Robinson is an investment representative of Quadrus Investment Services Ltd.

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