

# The Bottom Line

Volume X Number 1

March 2001

*America's real competitive advantage isn't our workers, our technology or our ideas ...  
it's our ability to lose our heads over the latest mania.*

Fortune Magazine, December 2000

## Spring 2001

Historically, we have provided you a newsletter as of each calendar quarter however, for several reasons, we have not prepared a December 31, 2000 issue and here it is already March 20, 2001. How time flies! We are going to combine issues this time and will get back on schedule effective June 30, 2001

## 4th Quarter Review

As of this writing, the tech laden NASDAQ index closed below 2000 for the first time since 1998 and our beloved Vancouver Canucks sit in 5th place in the western conference. Compare this to last year at this time ... the NASDAQ was at 5048 and the Canucks were crawling out of the basement. Who'd have thought we would see such a reversal of fortunes?!

There were many lessons to be learned in the year 2000, none more important than "there is no free lunch". Day traders, mutual fund managers, company executives, cab drivers, stock brokers and domestic engineers were all seduced by the allure of easy money and the seemingly risk-free growth of tech stocks through 1999 and the first quarter of 2000.

The internet, the stock market boom and CNN all led people to believe that wealth creation was easy and everyone could do it cheaply and effortlessly. The truth is, there is no easy way to accumulate assets and there is no "new paradigm" that eliminates the possibility of a recession or stock market crash.

Under-performing managers like Trimark and Templeton were vilified in the press as recently as early September 2000, only to be vindicated by the precipitous drop in the world stock markets in late September 2000. Markets around the world have fallen anywhere from 12% (Canada) to 60% (NASDAQ). The good news is that Alan Greenspan, of the US Federal Reserve, has taken quick and decisive action by dropping interest a full percentage point so far this year, with more cuts likely to come in the weeks ahead. Lower interest rates encourage consumers to buy big ticket items like cars and refrigerators, which in turn make companies more profitable.

Changes in interest rates take some time to work their way through the economy, however, it does appear the US economy in particular, should pick up speed in the 3rd or 4th quarter of this year.

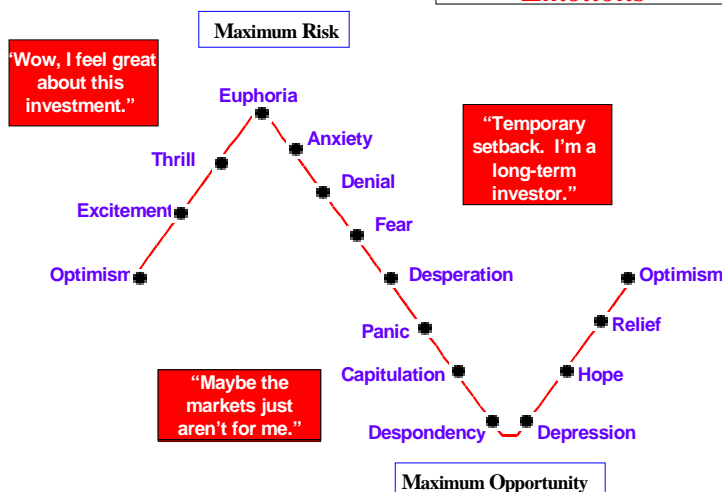
This would seem to indicate that we are now very near the bottom of the stock market cycle. Although predictions of this nature are a fool's game at best, we feel the worst is behind us as far as stock markets go and expect that virtually all world stock markets will finish the year up from their current lows.

In any case, through all of the turmoil, we have rediscovered that **time in the markets** is the way to success - not timing the markets. And we will continue to recant this mantra with renewed fervor!

*This chart shows the cycle of emotions people go through when investing in the markets. Long term thinking is key!*

*Understanding not only the cycle but the emotions that go with it can help equip investors to tolerate and benefit from market fluctuations.*

### The Cycle of Market Emotions



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## Altara Securities

Now that we have had TD Correspondent Services running our back office for over a year, we have had a better opportunity to assess our costs and revenues. A minimum stock trade commission of \$100 was instituted last year and we now find that amount to be inadequate to compensate for the level of service provided. Effective immediately, we will now charge 1% of the trade value, subject to a minimum of \$100, for all stock exchange transactions.

## Office News

Mark Richards has just celebrated his 1st year anniversary with Team Forman and we are delighted that he came on board, as he gave us added depth in an advisory capacity. Mark has all the credentials and is very capable of assisting all of our clients with their investment choices. He is even named as co-advisor on all Altara accounts and we encourage you to contact him if you have any questions about your specific investments or investments in general. Mark can be reached at mrichards@altara.net or via his direct line at 484-4559.

As always, if you have any administrative questions, Ann is ready and willing to jump into the fray on your behalf and she can be reached at athorne@altara.net or via her direct line at 484-4558.

## Web Page

In keeping with our goal to be innovative and technically competent, we are pleased to announce our web page at [www.financialforman.com](http://www.financialforman.com). Please click in for a look and let us know what you think!

This is our first effort and as with any technology, it is a dynamic piece of work and we expect to add some very useful features in the months ahead. All comments, good, bad and indifferent will be greatly appreciated.

## Exempt Products

If you own PEG '97 Limited Partnership, you will have received your notice of intent to reassess. Canada Customs and Revenue Agency (formerly Revenue Canada) have three years to reassess a taxpayer. In this case, CC&RA have requested you authorize a letter that allows them to come back and reassess you in the future, pending the results of the outstanding court case. If you refuse, they will simply reassess you now. Therefore, we suggest you sign the letter and send it back to them within the 30 days requested.

For those of you own the Briar Forest Graoch Limited Partnership, be advised that Graoch are actively looking to sell this project and we hope to have more info for you in the months ahead.

## Manulife Changes

Clients who are members of the Manulife "Woodward's" RSP Plan, please be advised that Manulife have notified us they are changing administrative systems effective immediately. This change will not impact your investments in any fundamental way, however, some funds may experience a name change. The new system will make more investment choices available, have new & clearer member statements and provide significantly better member access through the 1 800# and the internet. We will keep you posted as we learn more and should you have any comments or questions, please feel free to contact us.

## BOX SCORES

### GIC Interest Rates 2001 (%)

	Jan.	Feb.	Mar.
1 Year	4.9	4.75	4.25
3 Year	5.0	4.9	4.5
5 Year	5.25	5.0	4.75

### Average Trust Company Rates

### Annualized Rates of Return to February 28, 2001 (%)

	1 Year	3 Year	5 Year
TSE 300	-10.47	5.93	12.14
S&P 500	-2.71	9.84	18.58
SCMU Bond	9.70	5.95	8.40
EAFE*	-12.55	5.44	7.74

### \* Europe, Australia & Far East Index

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Information in this newsletter is of a general nature and should not be acted upon without the appropriate professional advice.

# The Bottom Line

Volume X Number 3

October 2001

**“Imagine all the people, living life in peace...”**

**John Lennon**

## Humanity's Sad State

Although everything that can be said has been said, we wish to express our sorrow and grief to our American cousins in this time of mourning and chaos. We can only hope the human race is able to resolve these derisive issues before our children inherit the earth.



## The Knockout Punch?

In the past, catastrophic events have caused panic in the marketplace and the shock waves born of the September 11<sup>th</sup> terrorist attacks have reverberated throughout the US and global markets. Although, world stock markets remained open, the European and Asian exchanges were hit by panic selling. On the day of the attacks, Western European markets immediately slumped an average 7%, but managed to rally back the next day. The already jittery Asian markets were hit harder, with declines ranging from 7% in Japan, to 12% in Singapore.

The morning of the attacks, Canadian markets were open for about 45 minutes and the TSE quickly fell, led by the mass sell off of insurance companies and banks. Canadian markets reopened two days later and continued to drop, while US markets remained closed. On Monday, September 17<sup>th</sup>, the usually leading US market opened and had to play catch up with other major markets. Airlines, banks, brokerages, insurance companies, and blue chips were all pummeled. A select few stocks, primarily in the defence/military sector gained (ie: Lockheed Martin) but on the whole, it was just like Black Monday in 1987.

In order to prop up the markets and investor confidence, the US Federal Reserve dropped interest rates by 50 basis points and flooded the markets with cash. It was not enough to stem the tide of selling and the markets kept dropping for the remainder of the week. By Friday's close, the US markets had shed 13% of their value!

The last time there was such a huge loss was 1933, in the midst of the Depression. The feeling seems to be similar now.

Before the attacks, the North American, European, and Asian markets were all substantially lower than they had been a year and half previous. There was some debate whether or not the US could ride the interest rate cuts out of its slump and avoid triggering a global recession. After the events of September 11<sup>th</sup> and the subsequent economic fallout, there was little dissension that the US could no longer avoid falling into recession. The attacks seemed to take the legs out from under an already staggering and wobbly economy.

## Don't Despair

What does the future hold? No one knows for sure what will happen, but if we look back at other shock events that rocked markets, we can get an idea. The Nixon Resignation in 1974, the 1987 Financial Panic, the Invasion of Kuwait in 1990, and the Asian Flu in 1998 all caused the US markets to drop, on average, about 19% over roughly four or five weeks. Six months later however, the markets had regained those losses. A year later, the US markets were up an average of 23%.

Will the markets post strong gains a year from now? With the US spending billions on infrastructure, disaster relief, and defence, combined with low interest rates (which are now less than half the level they were nine months ago), positive growth could be achieved. It is usually a dramatic event, like the terrorist attacks, that stop the slow decline and bring us to the bottom in one fell swoop.

When do things turn around? Sadly, markets turn around when exasperated investors ultimately give-up in despair, throw in the towel and liquidate everything. With nobody left to sell anything, the downward forces stop and markets begin their recovery.

The good news is that interest rates have fallen to historically low levels and, in the words of the sage Warren Buffet, “Interest rates in the economy are the most important factor in the valuation of stocks”. Low interest rates mean higher stock valuations and we know that over the months ahead, as the impact of these lower rates filter through the economy, stock markets will respond positively.

# The Bottom Line

## Too Afraid To Look

The events over the past month have dramatically impacted investment values. While bonds have risen, the broad majority of stocks have substantially fallen, with markets at three-year lows.



As such, performance numbers to the end of September will be quite poor for equity mutual funds and stocks, however, one should not be too overwhelmed by short-term numbers. The long-term potential of investments are still sound. The key to successful investing is to not make decisions based upon short-term criteria or shock events. **If you were comfortable with an investment on September 10<sup>th</sup>, you should still be comfortable with it now.**



In times like these, it can be psychologically difficult to stick with your investment plan, but the trick is not to make knee-jerk decisions based upon the panic of others.

These are short-term events and many portfolios and investments have longer-term investment horizons. Just as it wouldn't be prudent to sell a five-year bond that temporarily declined in value prior to its maturity date, it is equally unwise to sell equities that have declined in value before their long term appreciation can be realized.

The boat may rock but it won't tip over!

## Simple Advice

Unless you are lucky enough to get all six numbers on the 6/49 or to inherit Uncle Fester's vast fortune, you will have to *plan* to accumulate wealth and achieve your financial goals. There is no secret strategy to achieving financial security and independence, however, there are a few basic steps you should follow:

- 1) Spend less, invest more.
- 2) Reduce your debt, starting with high interest bearing balances (i.e. credit cards)
- 3) Don't be swayed by short-term events. Invest for the long-term.
- 4) *Plan* to take advantage of penalty-free mortgage payment opportunities.
- 5) Investment returns are taxed differently. Find out which type will work best for you.
- 6) Seek professional advice ... this is perhaps the single most important step you can take.

And remember, wealth accumulation is a gradual process. You do not have to live an austere life for the sake of saving money, but you should have a basic plan in place and a goal to work towards.

The end of the year provides a practical opportunity to review your personal financial situation and lifestyle. By determining where you are now and where you want to go, you can set goals for the upcoming year and develop a plan to suit your needs. Financing a trip, buying a car, maximizing your RSP contribution or simply planning to save ... these and any other goals you may have are all achieved faster & easier with a clear plan in place.

Don't delay ... it's your own future you're putting off!

## BOX SCORES

### GIC Interest Rates 2001 (%)

	July	Aug	Sept.
1 Year	3.10	2.80	2.00
3 Year	3.70	3.40	3.25
5 Year	4.30	4.00	3.85

Average Trust Company Rates

### Annualized Rates of Return to September 30, 2001 (%)

	1 Year	3 Year	5 Year
TSE 300	-33.12	8.33	6.89
S&P 500	-23.17	3.17	13.5
SCMU Bond	8.94	5.56	7.76
EAFE*	-25.12	0.03	2.85

\* Europe, Australia & Far East Index

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