



Value for Money Investing by Gordon Stockman, CA, CFP Be Patient!

Boy, what a fall. Fall, meaning either autumn or the direction of the stock markets, your choice. The TSX peaked at 15154 in May and then began running downhill until reaching a low of 7724, for a correction of almost 50% in under 6 months, the worst of it in September and October. A shock to the system for sure.

So what does it mean for you? Well for some of you it is a reward for your great patience. One of Warren Buffet's best quotes (considered one of the world's greatest investors) is that, "The stock market is designed to transfer money from the active to the patient. The best returns come from those who wait for the best opportunity to show itself before making a commitment". This sentiment fits well with our desire to preserve capital first and seek returns commensurate with the risk.

For the last 3 years you have certainly needed patience to avoid destroying your wealth. So what went wrong? Well, success can only come if you buy low and sell high. Buy high and sell low is not nearly as successful a strategy. If you purchased the markets in the last 3 years you know with hindsight the truth of this. However, faced with a rising market, your patience would have been stretched. Keeping large quantities of cash or near cash and buying few or no equities was extremely difficult, with media reports constantly about markets hitting new highs every day. You might have thus been a buyer, all while the markets kept climbing for the sky.

So if you are going to be in the market, and you should, how should you act to ensure success. Well start with the basics and do not buy high. At our company, we did not know that the market would peak and then fall like a stone (heck we thought the Canadian market might be close to a peak in April 2006 and how wrong was that; it peaked in May 2008). But for the past 3 years, we did know some things with some certainty. We knew, beyond a shadow of a doubt, that the stock markets were not low. If they are not low, don't buy. Remember, buy low sell high. You do not need a crystal ball. Take the market as it comes, forget the hype, forget the rules of thumb and remember the basic rules. Most of all, remain patient.

Two and a half years ago, I had a heated argument with a broker. He accused me of destroying clients' chances for a good retirement because of my refusal to recommend that they put new money in

the stock market at that time. His mantra of course was "time in the market, not timing the market" is what makes you successful. If it was only that simple! See, he was failing to understand that being prudent was not the same as being stupid and that all rules of thumb serve no particular individual but represent an average of all positions. It is quite true that if you are always adding money to the market, then over time you will have received the average price and it will be possible to receive an average expected return over time. The problem is, we are describing someone that puts money in the market in even amounts over 20 to 40 years. If that is you (and it may have been you in the past or it should be you if you are in your 20s or 30s) then "time in the market, not timing the market" is applicable.

So here we are. Due to your patience, you were positioned as best as possible for this type of market correction or due to your lack of patience you are in trouble. If you were patient, markets are now low and you have sustained the possible setback that was embedded in your planning. If you were impatient you have no cash to take advantage of the downturn. We do not know if the markets are as low as they can go, but we certainly know, beyond a shadow of a doubt, that the stock markets are currently not high. So if you remember buy low sell high, your action today is squarely in front of you. You should be a buyer. Those equities are now on sale and are definitely not high. Patience though. There is a credit crisis moving through the world's financial markets that is causing extreme volatility in the stock markets. This is only the first of three related problems. The second problem is that a slowing global economy is pushing many countries toward recession. Thirdly, currency markets are gyrating like never before. We believe that February may bring surprises and unresolved issues from the September thru November corrections and gyrations. So please continue to be patient. In the meantime, use the time to document your actual current asset allocation, comparing it to your target allocation and planning your next necessary action.

Remember, almost all of the dissatisfaction today has been caused by the purchase of equities at a time when the markets were at values above their long term averages. Those individuals that avoided buying equities in 1998 through 2001 and then again would not buy during 2005 to 2008 are not unhappy with their long term returns. Examine your own actions. If you were a buyer during those years you now know the source of your distress. Stay in the markets. The markets do not destroy wealth, untimely actions do. Swear to buy only low and never high and keep the commitment. Be patient during periods of rising markets. Wealth is built by buying right not jumping in when it is exciting to do so.

Most of all, remember that it took us a while to get here and it is going to take us some time to get back on the road to growing your wealth.



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COSTS DO MATTER

Look at the chart and determine how much more you could keep in your pocket after a 20-year period, if you could reduce the overall fees in your portfolio by just 1%

| START VALUE | RETURN OF %7 | RETURN OF %8 | YOUR SAVINGS |
|-------------|--------------|--------------|--------------|
| \$100,000 | \$386,000 | \$466,000 | \$80,000 |
| \$250,000 | \$967,000 | \$1,165,000 | \$198,000 |
| \$700,000 | \$2,700,000 | \$3,262,000 | \$562,000 |

Call us. We Can Help!

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Gordon is the Vice President – Financial Planning at Efficient Wealth Management Inc. a leader in cost efficient financial planning. He teaches at George Brown College in their Financial Services and Accounting area. He is also a frequent guest on television and has written numerous articles on investing and financial planning.