

Market Commentary - December 2008

Most global stock markets were down by more than forty percent in 2008. The U.S. stock market, represented by the S&P 500 Index, had its worst year since 1931. In Canada, it's difficult to believe that our stock market hit a record high of 15,073 points on June 18, 2008, thanks to strong commodity prices pushing up the shares of Canadian resource companies. It ended the year down 4845 points to 8988 or -35%.

Virtually all market watchers have been stunned by the extent of these most recent market declines and by how quickly they occurred. The problems began over a year ago as the U.S. housing market began to turn down and homeowners began to default on their mortgages – especially “sub-prime” mortgages. These mortgages were used to back billions of dollars’ worth of securities held by banks, hedge funds and a multitude of other financial institutions and investors.

The crisis gradually deepened throughout 2008, reaching a climax in September, as the losses led to the failure of a number of major U.S. and European financial institutions. The failures created a new crisis of confidence in the financial system, freezing credit markets and compounding concerns about the impact on the broader economy. This set the stage for the dramatic drop in commodity prices and global stock markets from September to November.

Certainly, this has been a painful period. So, where do we go from here?

In spite of all the bad news, there are many reasons to remain optimistic about the future. Here are just a few. Governments and central banks have taken coordinated and substantive action to support the financial system, increase the flow of credit and stimulate the economy. Inflation remains low. Technological innovation and development continue to drive productivity gains. And, we are seeing continued growth in emerging markets such as China and India, as these countries become more integrated into the world economy and millions of their citizens advance to the middle class.

Together we made a decision to invest a portion of your portfolio in equities to share in the growth achieved by companies and the economy. Over the long term, equities have provided superior returns when compared to bonds and cash – though not without short-term volatility. It's important to remember that the rationale for investing in equities has not changed.

Despite today's gloomy news, history has shown time and again that the recession will end, corporate profits will grow, employment will increase, and the stock market will recover and go on to new highs. Though no one can say for certain when the bottom will be reached, it makes sense to stay invested.

In fact, some of the world's best-known and most successful investors, including Warren Buffet, see value in the market and are putting new money into stocks now. Investors who sell their equity holdings now not only lock in their losses, but risk missing the inevitable turnaround. In Mr. Buffet's words, “I haven't the faintest idea as to whether stocks will be higher or lower a month – or a year – from now. What is likely, however, is that the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over.”

Consider 1990, when there was a collapse in real estate prices, a severe recession, the failure of hundreds of U.S. savings and loan companies, and the threat of war looming in the Persian Gulf. However, the stock market turned around months before the recession ended and went on to post an increase of over 400% in the following bull market.

At difficult times like these, it is only natural to ask questions about your investments. We would be pleased to meet with you to discuss your portfolio and whether any adjustments are required for your investment plan.