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## Market has long-term potential Look at the stats

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The amount of time spent invested in the stock market and not timing it should be the mantra of all Canadian investors, say some financial experts.

For many investors, the past 2 1/2 years of market turbulence have sent their portfolios into the red and many have switched to guaranteed income certificates or money market mutual funds, or wish they had done so. However, crunching the long-term numbers offers irrefutable proof the stock market is still the place to be to maximize retirement savings.

"I have data on the Toronto Stock Exchange going back to 1956," says Dave Paterson, a chartered financial analyst with Paterson & Associates in Toronto, which specializes in researching mutual funds for Canadian financial planners. "On average, the one-year return has been around 10%."

In the period from 1956 to Nov. 30, 2002, the one-year rate of return has had extreme fluctuations hitting a high of 86.9% and crashing to a low of -39%. However, if rolling 10-year periods are examined, the average rate of return is about 10%, while the extremes are much lower; for example, the high is 19.5% and the low is only 3.3%.

"There were no periods in which over a 10-year span the TSX lost money," Mr. Paterson says.

Believing a long-term investing strategy is the way to go, Mr. Paterson helps financial planners build investment portfolios for their clients by studying the track records of individual funds.

"I look at how a fund has performed on its own during a 60-month period and then I benchmark that to the TSX or S&P [depending on what its benchmark is]," Mr. Paterson says. "It helps give you a feel for that manager's performance; whether you have a manager who can add value over and above the benchmark."

By analyzing the client's portfolio and plotting the existing funds on a risk-and-return graph, he can compare them to other funds offering equal or higher rates of return with less risk.

The ideal strategy is to come up with an asset mix that will cushion the market extremes. For example, during the months high-tech mutual funds were crashing, it would have been good to be in Canadian dividend funds, which did reasonably well.

"You don't want all your cylinders firing at the same time," says Mr. Paterson, using the analogy of a V8 engine. "You want one firing at the top, one firing at the bottom, with the rest in an up-and-down manner. When I'm helping to set up an investment portfolio, I'm trying to find that mix."

Finding the right asset mix and fitting this into a long-term strategy will keep investors focused on the process instead of chasing after the latest red-hot fund.

"We're trying to provide clients with an understanding of how much capital they will need in retirement

and the rate of return they'll have to achieve [with their investments] to get there," says Daryl Charanduk, a certified financial planner with Toronto-based Charanduk Financial Services, an affiliate of CMG World Source Financial Services Inc.

"The lessons learned over the last year and a half are really about eliminating a lot of the volatility [in a portfolio].

"The difficult thing for clients to grasp is that we are talking about expected rates of return [with these investment funds], but we haven't seen those returns during the past three years," he says.

"There's no confidence right now and that becomes much more challenging."

Financial planners stress the need to stay focused on the long-term potential of the market. "We've stressed balance over the last year and a half to make sure we don't have funds taking on too much risk and not giving us back any return or potential return," Mr. Charanduk says.

"We've been weeding out those funds, so when the market turns around, we will be in funds that add value over and above the index. These funds should have a track record of three to five years, preferably five, so we have a sense of what the managers are like and how they've done in good and bad markets."

He says it is his clients' trust that has brought him through the trying times since March, 2000.

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