

TIME IS ON YOUR SIDE

IN THE LONG RUN, RISK IS NOT WHAT YOU THINK

Special points of interest:

- When the market bottoms is irrelevant over the long term.
- The Third Quarter of 2002 was a horrific one for investors. The TSX was off by 13%, while the S&P 500 sank by over 17% .
- Over the long term, the likelihood of losing money approaches zero.
- The average return for the TSX Composite Index has been between 10 and 11%.
- In any one year period, based on historic returns, an investor has a 27% of losing money, yet for a 10 year period, that probability falls to virtually zero
- In the long term, the risk becomes missed returns as a result of not being invested in the markets.
- Corporate Capital spending appears to be returning. In Q3, non defense capital goods orders rose by 43.5% over Q2
- The best defense against the markets is a well balanced, diversified portfolio. Timing the market is a fools game

*** - CBS MarketWatch, August 29, 2002, David Callaway

“People are deterred from buying good stocks and bonds right now because of an unwanted terror. Almost everyone says that prices are still going lower.

“All sorts of bugaboos are paraded to destroy the last vestige of confidence. Stories of disaster, which are incredible and untrue, are told to foolish and credulous listeners, who appear willing to believe the worst.”***

How true. Today, we live with the threat of another terrorist attack. Almost daily, it seems that another corporate scandal surfaces. A war with Iraq seems to be more of a question of when, not if. The troubles in other regions of the Middle East continue to flare. The US economy is showing no solid signs of recovery. Market analysts are constantly telling us how stocks and bonds are still overvalued despite a 28 month bear market.

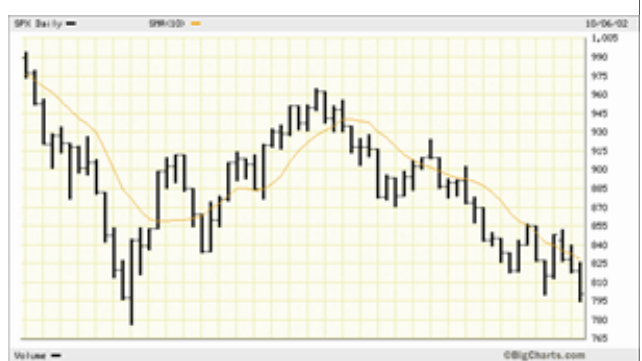
However, those opening paragraphs weren't written recently. Those words were written on May 6, 1932 by Dean Witter, the San Francisco broker and founder of Dean Witter, now part of Morgan Stanley.

In his memo, he scolded his staff for being too focused on when the market would bottom rather than focusing on the longer term opportunities of being invested today. That sentiment is as

TSX Composite - Q3 02 Performance



S&P 500 - Q3 02 Performance



Source: BigCharts.com

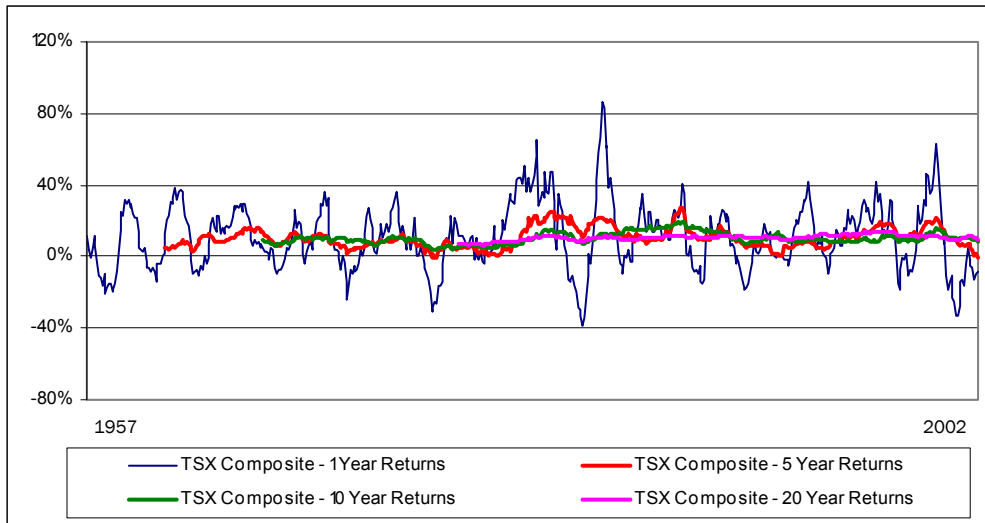
true today as it was back in 1932. Just as markets rebounded from the depths of the Great Depression, markets too will rebound from today's turbulent environment.

This past quarter was not one of the kinder quarters for investors. The TSX fell by over 13%; the S&P 500 fell by over 17% in US dollar terms, while the Morgan Stanley EAFE index plummeted nearly 20%. The only bright spot was the bond

market, where the Scotia Capital Markets Bond Universe rose 4.3% for the quarter.

Things don't look a whole lot brighter when you look at the past two years. The TSX is off nearly 40%, the S&P 500 is down nearly 35%, while the Morgan Stanley EAFE index is off 35%. Again, the bright spot is the bond market, which has shown a jump of nearly 17% over the past 24 months.

TSX COMPOSITE ROLLING RETURN HISTORY - TIME IS ON YOUR SIDE



Source: TSX, BMO, TD

With returns like these, it's little wonder that investor interest appears to be waning and mutual fund redemptions are at all time highs. Many people feel that they can earn a better return investing in GIC's or even putting their money under their mattress. In the short term, perhaps they are right.

However, if we are continually focusing on the short term, we can always find reasons on why we shouldn't invest. Back in the early 1970s, people avoided investing because of the US military action in South East Asia. In 1980s, people stayed away from investing because of the recession. In the early 1990s people were worried about the Gulf War. More recently, we had the Asian Contagion and failure of Long Term Capital Management. There is always one reason or another why people are worried about investing. However, since 1966, the S&P 500 has earned an annual compound return of 10.5%. This means that a \$100 dollar investment in the S&P 500 made in September 1966 would be worth roughly \$3,040 today.

For many investors, the thought of committing new

money into the investment markets is a frightening proposition. They are crippled with the fear that they may lose more money. In the short term, that may be the case. However, for the majority of investors who are saving for their retirement, their time horizons are often 10 years or more. With a longer time horizon, the risk becomes not losing money from investment losses, but losing out on potential investment returns as a result of not being invested.

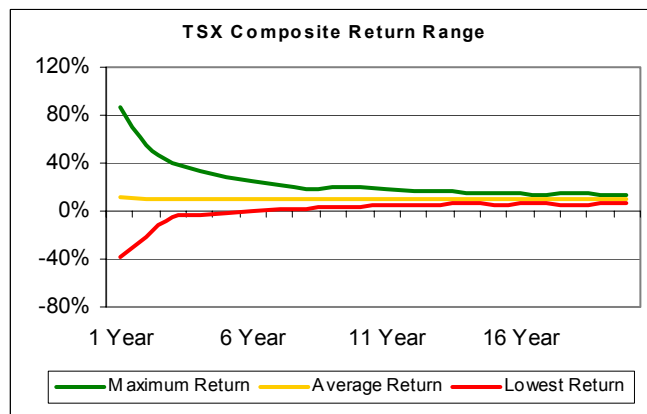
If we take a look at the TSX Composite Index, the average one year return from January 1956 to September 2002 has been 10.9%. The highest one year return was 86.9% for the one year period ending June 1983. The

lowest one year return was a decline of 39.1% for the one year period ending in June 1982. To the individual investor, out of the 549 yearly returns, there were 150 which were negative. This translates into a loss in 27.3% of the years.

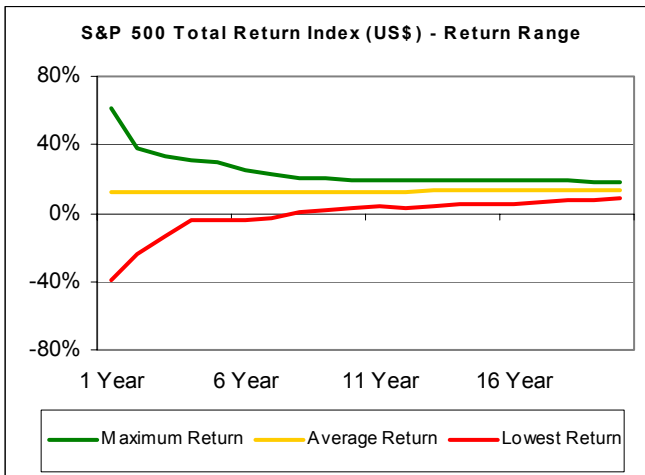
Now, if we take a longer term view, things begin to change. Looking at a 5 year time horizon, the highest 5 year return was a 27.8% compounded annual growth rate (CAGR). The lowest 5 year return was -1.1% CAGR. Out of the 501 5 year periods studied, there were only 4 periods in which the investor would have lost money. This translates to a less than 1% chance of losing money, if you can remain invested

The Chart to the right shows the Rolling Returns for the TSX Composite for 1, 5, 10 and 20 Year periods. As you can see, the 1 year return show a great deal of volatility. However, as your time horizon lengthens, the fluctuation in the return streams lessens. Note how the 20 year line is almost flat, showing little movement at all. This indicates that the longer your time horizon, the more likely you are to benefit from being invested in the markets.

"If we are continually focusing on the short term, we can always find a reason not to invest."



Source: TSX, BMO, TD Bank



Source: BMO, TD, S&P

for more than 5 years. The longer an investor's time horizon, the more the returns tend to converge around the average return and the less likely an investor will lose money. This trend is virtually identical for each of the major indices.

So while history comforts us in the longer term, many questions remain about today; the short term, the present. Will these markets move upwards again? The simple answer is yes. Unfortunately, nobody can be certain when things will begin to turnaround.

Economically, things in Canada are good. We have strong employment and an economy that is posting very solid growth. According to Tim O'Neill, Chief Economist with the Bank of Montreal, GDP growth in Canada for next year will be 4.7% and 4.1% in the US. The employment rates in both countries is stable. Consumer spending is starting to show some signs of weakness, as is housing, but overall, by historical standards things remain relatively strong.

The Middle East, namely the conflict with Iraq is also casting a shadow over the markets. The biggest fear is the uncertainty. How much will it cost? How long will it take? How many lives will be lost? What if any impact will there

be on the price of oil? Unfortunately, nobody knows the answer to these questions with certainty. We can only hope that a conflict can be avoided, or if there is one, it is swift and effective.

The effects on the price of oil may cause some short term impact on the US economy. Any disruption in oil supply will cause an increase in price, which will effectively act as a tax on consumers, thereby slowing consumer spending in other areas.

Some say that oil prices have been increasing over the past few months in anticipation of this conflict so any impact will be minimal. We disagree. However, a positive note is that the dependence on oil both here

and the US has shrunk steadily over the past few decades, which may help to mitigate some of the damage from a short term price shock.

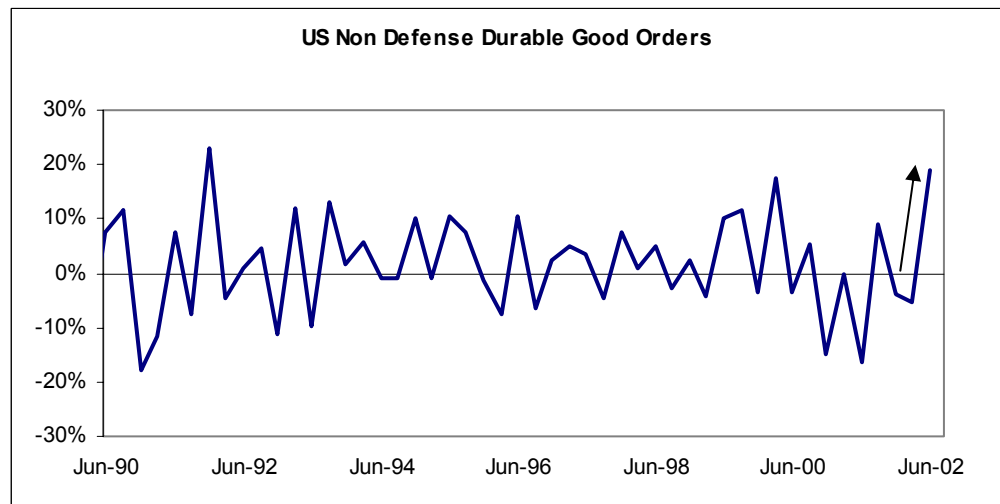
The biggest issues holding back the markets are the level and quality of corporate earnings. According to many, the catalyst needed to bring back the profitability for many companies would be the return of corporate capital spending.

In a report dated September 26, 2002, Stefane Marion, an economist with National Bank Financial (NBF) discusses how business investment in equipment and software and new orders of non defense capital goods are rising. According to NBF non defense capital goods orders in Q3 are up a whopping 43.5% over Q2. This suggests that business investment is beginning to return, which should in time result in a return of corporate earnings for many companies.

As the earnings return to these companies, so too will investor confidence and ultimately, stock price appreciation.

After suffering through the past 30 months, the return to profitability cannot come soon enough.

"Many believe Capital Spending to be the key to the return of corporate profitability. In Q3, non defense capital goods orders are up 43.5%"



Source: US Census Bureau

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TOP RANKED FUNDS (SEPTEMBER 2002)

1	Talvest Global Health Care	Healthcare
2	Sprott Canadian Equity	Canadian Equity
3	Fidelity Cdn Disc Equity	Canadian Equity
4	Elliott & Page Monthly High Income	Income
5	CI Signature Select Canadian	Canadian Equity
6	PH & N Dividend Income	Dividend
7	Mac Cundill Canadian Security	Canadian Equity
8	Trimark Canadian Resources	Resource
9	Fidelity Small Cap America	US Small Cap
10	Scotia Canadian Dividend	Dividend

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