

Portfolio advisor

www.chriscriswick.com

Winter 2009



Chris Criswick CFP, PFP, FMA, FCSI

260 East Beaver Creek Road
Richmond Hill, Ontario
L4B 3M3

Phone:- 905-764 3302

Toll Free:- 1 800 268 6959

E-Mail:- chris.criswick@rbc.com

A proven strategy for success

Get the latest insights from our leading economists, research analysts and portfolio strategists on today's financial markets. Please call today for your complimentary copy of *Portfolio Strategy Quarterly*.

Surviving stormy markets

Seven things you can do now to weather the storm

It has been a tumultuous time for investors, with stock markets around the world declining in the wake of the financial crisis in the U.S. and Europe.

When stock markets get this volatile, investors often think there's nothing they can do except watch hopelessly. But while you can't control the markets, you can control how you react to them. Here are seven things you can do now to survive today's volatile markets.

1. Stay calm

It can be extremely difficult to stay calm when you're watching your investments go down day after day with no end seemingly in sight. But, as history shows, the market volatility will eventually end and markets will resume their upward advance.

Unfortunately, many investors get caught up in the emotions of the moment when the markets go down. Fearing further losses, they sell their investments, which helps send the markets even lower. This in turn prompts other investors to sell, sending the markets lower still... and so on.

This self-reinforcing cycle of panic selling tends to be very indiscriminate, taking down both good and bad stocks. So if you decide to simply sell everything, you could be selling high-quality stocks with solid fundamentals that will be among the leaders when the markets come back. Instead of simply dumping all your stocks, fearing the worst, it's better to stay calm, take a rational look at your investments, then make any adjustments that may be appropriate.

2. Keep your sense of perspective

When you're in the middle of a painful market correction, it can certainly feel like it's somehow different – and more serious – than previous corrections. Unquestionably, the current correction has been very sharp. It also has some serious underlying causes, particularly the credit crisis in the U.S. and Europe and its impact on global economies.

But while it may seem especially severe, the current correction is actually in line with previous corrections, including those in 1973/74 (-48.2%), 1980/81 (-27.1%), 1987 (-33.5%) and, most recently, 2000/2001 (-49.1%), as the table below shows. In each case, there was a serious underlying cause, which helped stoke fears of a more serious economic collapse: the oil crisis in 1973/74, run-away inflation and interest rates in 1980/81, inadequate market controls in 1987 and a massive equity bubble in 2000/2001.

Although each of these corrections were painful – and may have felt like the worst ever at the time – the economy didn't collapse and the markets went on to reach new highs, as they have always done.

History of U.S. bear markets (S&P 500 Index)

Start	Decline	Duration (months)	One-year return from end	Two-year return
July 1, 1956	-19.0%	17	38.1%	49.8%
Dec. 12, 1961	-24.6%	6	26.7%	5.9%
Jan. 18, 1966	-22.1%	9	26.3%	34.1%
Nov. 14, 1968	-36.1%	19	37.1%	47.3%
Jan. 11, 1973	-48.2%	21	32.0%	65.6%
Sept. 21, 1976	-19.4%	18	10.6%	31.0%
Feb. 13, 1980	-17.1%	1	33.2%	40.7%
Nov. 28, 1980	-27.1%	21	51.8%	50.2%
Aug. 25, 1987	-33.5%	3	18.8%	37.7%
July 16, 1990	-19.9%	3	29.1%	58.5%
July 17, 1998	-19.3%	2	37.9%	36.7%
March 24, 2000	-49.1%	31	22.2%	17.7%
Average	-28.0%	13	30.3%	39.6%
Oct. 9, 2007	-26.1%	11		

Source: RBC Asset Management

3. Avoid the temptation of market timing

Some investors – thinking they can wait out the worst of the market storm – sell all their stocks, sit on cash until they feel the market has bottomed, then buy back in. The problem with this strategy – as good as it sounds in theory – is that you can never

accurately predict when the market has bottomed. If you wait too long, you could miss the recovery altogether and end up worse off than if you'd simply held onto your investments.

Not even the most successful professional investors can consistently predict when the markets will go up or down – at least in the short term. As the world's most famous investor, the legendary Warren Buffett, recently wrote in the *New York Times*, “Let me be clear on one point: I can't predict the short-term movements of the stock market. 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.”

Waiting for “the robins” as Buffett puts it can be very costly, as market recoveries tend to happen very quickly, with the highest returns concentrated in just a handful of trading days. For example, if you invested \$100,000 in the Dow Jones index at the beginning of 1990, it would have grown to \$453,000 by the end of 2006. But if you missed out on just the 10 best days – out of nearly 6,000 – your \$100,000 investment would have grown to only \$281,000. If you missed the best 100 days, you would actually be down 72%. This shows that it is time in the market – not market timing – that matters most.

4. Take a rational look at your investments

Staying calm doesn't mean you shouldn't do anything about your investments. While you don't want to sell everything in a panic, you should take a rational look at your investments to determine if any changes should be made. Market corrections can expose weaknesses in certain stocks, which you may want to sell. They can also reveal compelling opportunities to purchase solid stocks at temporarily depressed prices.

Look for stocks with strong underlying fundamentals, including a strong management team, consistent profitability and history of rising dividends. Having solid, dividend-paying stocks in your portfolio helps take some of the sting out of declining share prices – they still pay a dividend while you wait for the market to recover. These high-quality stocks are also typically the leaders when the market recovers.

5. Turn lemons into lemonade

After reviewing your investments, you may decide to sell some of them, possibly for a loss. While no one likes selling at a loss, you can use this loss to reduce your taxes – and turn your “lemons” into “lemonade.” In fact, at the top marginal tax rate, you can recover 20-25% of any capital loss simply by applying it against taxable capital gains.

First you need to apply any capital losses against capital gains realized in the same year to reduce your current year’s tax liability. If you have any leftover capital losses, you can apply them against capital gains from any of the three previous years, which could result in a refund of some or all of the capital gains taxes you paid in those years. You can also apply unused capital losses against taxable capital gains at any time in the future.

To claim a capital loss, you must ensure that it is not a “superficial loss”. Generally, this means you can’t repurchase the same investment you sold at a loss within a certain timeframe if you wish to claim the capital loss.

6. Stay diversified

It’s one of the fundamental laws of successful investing – but unfortunately it’s one that’s often forgotten during stormy markets. To help minimize the impact of market volatility, your investment portfolio should be diversified in several different ways: by individual investment, asset class, geographic area and industry sector, to name a few. The basic idea is that when one investment goes down, another goes up, reducing your portfolio’s volatility and smoothing out your returns.

Diversification is not a one-time thing: it changes as your needs change, attitudes towards risk change, and also as the markets change. With the current volatility, it may make sense to rebalance your portfolio’s diversification – possibly in favour of some more conservative investments – but it most likely doesn’t make sense to throw it out the window entirely.

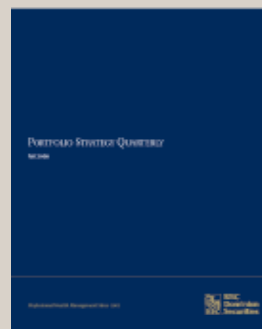
7. Reassess your comfort level with risk

Like many investors, you may have found your risk tolerance drifting upwards with the markets between 2002 and 2007. When the markets keep on going up for so long, it’s easy to forget that risk is a normal part of investing, and that market corrections happen regularly. Now is a good time to review your risk tolerance and asset mix to ensure they remain appropriate given your long-term goals.



During periods of intense stock market volatility, it can be very difficult to know what, if anything, you should do. If you have any questions about your investments, or the markets in general, please do not hesitate to contact us. If you have any friends, family members or colleagues who are also wondering about their investments, we would be pleased to assist them as well.

Where do we go from here?



Find out where we think the markets and economy are going – ask us for the latest issue of *Portfolio Strategy Quarterly*. This in-depth report reveals:

- › Our outlook for the global economy, financial markets, corporate earnings, inflation, currencies and interest rates.
- › Our “focus list” of Canadian equities, which has outperformed the benchmark S&P/TSX Index 18.6% to 10.9% since 1984.[†]
- › Our recommended asset allocation between stocks, bonds and cash.



How to build wealth – even in volatile markets

When the stock markets are volatile, you may think there's little you can do to build wealth. However, there are several strategies that can help you build and protect your family's wealth – regardless of what the markets are doing.

Reducing taxes through income splitting

You can realize significant tax savings by transferring income from a higher-income family member to a lower-income family member. This is due to Canada's "progressive" tax system, which taxes higher-income earners at a higher rate. There are several ways you can transfer income to lower-income family members:

- ▶ Contribute to a Spousal Retirement Savings Plan (RSP) to equalize you and your spouse's income during retirement, putting you into similar tax brackets, and thereby reducing your combined taxes.
- ▶ Establish a family trust, naming your children or grandchildren as beneficiaries. When the trust is properly structured, each beneficiary can earn up to \$19,200 in tax-free capital gains annually, assuming they have no other income.
- ▶ If you are a business owner, you can establish an "estate freeze" that transfers some or all of the future growth of your business to family members. Once the freeze is in place, depending on the province, you can pay up to \$30,000 in tax-free dividends to your spouse and adult children annually.
- ▶ Transfer ownership of your operating company to a family trust, with your family members named as beneficiaries. When you sell the company, the resulting capital gains are allocated to each family member, so that they can each claim the \$750,000 capital gains tax exemption.

Transferring capital losses to your spouse

Capital losses realized on the sale of investments can be used to offset taxable capital gains realized on the sale of other investments. If you have investments with unrealized capital losses that you can't personally use in the foreseeable future – but your spouse could – it is possible to transfer these unrealized losses to your spouse. Even if you can use the losses personally, it may still make sense to transfer them to your spouse if your spouse is in a higher tax bracket.

Enhanced retirement planning

The recent market volatility has battered retirement plans and left many people either approaching retirement or already retired wondering what to do. Following are several enhanced retirement planning strategies you may wish to consider:

- ▶ Tax-exempt insurance, which can provide tax-deferred growth like your registered retirement plan, tax-free income during retirement, and a tax-free benefit for your beneficiaries.
- ▶ Retirement Compensation Arrangements (RCAs) suitable for high-income executives seeking greater retirement benefits than what a regular pension can provide due to hard contribution limits.
- ▶ Individual Pension Plans (IPPs) ideal for self-incorporated professionals who want to make greater contributions compared to an RSP, which are tax-deductible to their corporation.

Please contact us for more information about building and protecting wealth in volatile markets.



*The Strategy Focus List is a list of recommended securities that may form the basis for an investment portfolio strategy. The Strategy Focus List is not a mutual fund. The indicated rate of return is the historical annual compounded total return since Dec. 31, 1984, as of August 31, 2008 but does not reflect applicable taxes, account and transaction fees, which would lower actual returns. The indicated rate of return assumes additions and deletions from the list are priced using previous day closing values. As a result, the beginning and ending prices used in the Strategy Focus List model are not subject to actual market fluctuations and your portfolio return may vary from our results. Past performance may not be repeated. This publication is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor

its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member CIPF. Insurance products are offered through RBC DS Financial Services Inc., a subsidiary of RBC Dominion Securities Inc. When providing life insurance products in all provinces except Quebec, Investment Advisors are acting as Insurance Representatives of RBC DS Financial Services Inc. In Quebec, Investment Advisors are acting as Financial Security Advisors of RBC DS Financial Services Inc. RBC DS Financial Services Inc. is licensed as a financial services firm in the province of Quebec. ®Registered trademark of Royal Bank of Canada. Used under licence. RBC Dominion Securities is a registered trademark of Royal Bank of Canada. Used under licence. ©Copyright 2008. All rights reserved. VPS49635