Darrell Nordstrom

Financial Advisor,
Regency Advisory Corporation
Assante Wealth Management Ltd.

Stocks for the long run

Take a long-term view when it comes to investments

What a difference 10 months makes. All stock market discussions in the spring of 2009 were despondently negative. The entire world's markets were all down -30 to -60 per cent. The "culprit," for the most part, was the credit fiasco rather than the actual value of the stocks. As investor confidence starts to creep back into the marketplace it is worthwhile to re-think perspectives on "Where should we go from here?"

Professor of finance Dr. Jeremy Siegel of the Wharton School of Business, a leading school of finance, makes some very interesting comments. Siegel recognizes that stocks have more short term volatility, and therefore risk, than bonds. However, he states that equities have outperformed inflation by approximately 7 per cent over the long term. During this same period, bonds barely kept ahead of inflation. Based on this review, his conclusion is that bonds have more long term risk in meeting clients' future income needs due to their underperformance relative to inflation.

> As investor confidence starts to creep back into the marketplace, it is worthwhile to re-think perspectives on "where should we go from here?"

Over a lifetime of investing money, it's interesting to think back to "Black Monday" on October 19, 1987. The Dow Jones began that year at 1,897 and peaked at 2,722 on August 25, 1987. On Black Monday, the Dow Jones index lost 22 per cent in one day, which still holds the record as the worst single day loss in market history. The Dow Jones was below the 2,000 level on August 19, 1987. In January 2010, after suffering the huge huge losses of 2008-2009, the Dow is at 10,850. The 22 years of growth from less than 2,000 to 10,850 represents an 8 per cent average rate of return. These results appear to confirm Siegel's long-term view. Maybe even more importantly, The Dow finished 1987 at 1,939, making 1987 a positive year. It's interesting that most people remember the 22 per cent single largest one-day drop, but fail to recognize that 1987 was a positive year.

Siegel makes several other significant observations. His historical comparative analysis of stocks that pay no dividends, stocks that pay minimum dividends and stocks that pay the largest dividends produced the definitive result that the best businesses to buy and hold are those that pay the biggest dividends over extended periods of time. Warren Buffet always invests and purchases companies that have strong dividend histories.

Historically most investors prefer to stay at home, notes Siegel. But the world is a changing place. Forty years ago, the US represented more than 80 per cent of the world's capital markets and now it represents less than 50 per cent. Even if the broader-based US S&P 500 is considered, the businesses in that index do more than half of their sales outside the North American market. The emerging markets tend to be more volatile, but they too are changing. Previously they were almost entirely dependant on foreign trade, whereas they now have developed a strong domestic market because of their growing middle class. This has added both stability and growth and that has produced very strong results in the latest cycle. The conclusion is that global investing is a necessity.

Another caution is to avoid the "growth trap." Investors typically have chased the fastest-growing industries because they got mesmerized by fabulous quick results. The problem is that they often pay too much for these stocks based on growth potential that does not materialize. Back in the late 1990s, prices of the tech stocks were commonly 100 times earnings or more. To justify this price a company would have to increase earnings by a 20 per cent compound annual rate for 3 to 4 years to justify the price paid. Unfortunately this rarely happens as companies such as Nortel went from $123 per share to no value.

The debacle of 2008-2009 makes it difficult to be objective. Clearly the problem of too much leverage resulting in gigantic credit problems was promoted by many CEO's and central bankers. At the same time today's world economies are relatively stable and the value of the businesses that complete the various stock markets are strong and fairly priced. Buying stable businesses that have strong earnings, good debt/equity ratios, strong management, and high, long-term dividend paying histories and paying moderate to low prices has and should continue to make good sense. This strategy should produce enviable results. We need to do more of the same.

This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources however no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please make sure to see me for individual financial advice based on your personal circumstances. The opinions expressed are those of the author and not necessarily those of Assante Financial Management Ltd. Clients of Assante Financial Management Ltd. Advisors may access equity markets through investment in equity mutual funds. Mutual funds are offered through Assante Financial Management Ltd.

Darrell Nordstrom, CFP, RFP, CLU, CHFC, is a Financial Advisor with Assante Financial Management Ltd.