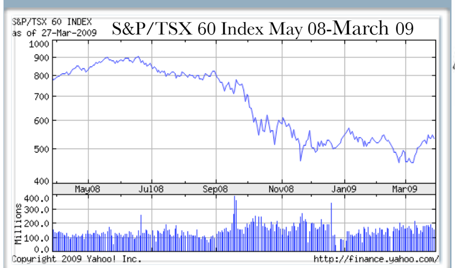
Market Uncertainity: Lessons From 2003

2009 SPRING UPDATE

Thank God the credit crisis ended last fall! Yes, ended! Christians joined the *greed chase* and ended deep in debt! Today, gone are daily temptations to spend using available credit to buy what we don't need and can't afford! Indeed, Amex are paying their *bad credit* cardholders $300 to pay off their balances and cancel their cards!



3-BAD REASONS TO SELL INVESTMENTS

Don't sell just because:

- You have an *unrealized* loss : remember you lose only when you sell below cost
- You have an *unrealized* gain
- You need money: Before investing, separate *emergency funds* and *asset replacement funds* from *investment funds*

4-GOOD REASONS TO SELL

- You reached your goals
- Your investment goals change
- Conditions you expected no longer exists
- You made a mistake

For more on investing, refer to chapter 6, The *New* Managing God's Money-The Basics by Michel A. Bell

http://managinggodsmoney.com

AFTER REVIEWING SPRING 2003'S QUARTERLY LETTER, I BELIEVE COMMENTS THEN FIT TODAY'S SITUATION PERFECTLY. AND SO, I REPEAT THEM UNEDITED

In this edition, I will discuss the potential impact of current uncertainties on financial assets and suggest issues to consider as you decide on a path forward. To assist your decision-making, get independent advice from someone knowledgeable that you can trust.

Uncertainty and Financial Markets

At the end of 1999, eighty percent of Canadian households where the major income recipient was 45 to 64 held pension-related financial assets. Ninety-one percent of this group, also held non-pension related financial assets, mainly deposits.[1] In January 2003, an Ipsos-Reid poll reported that 67% of Canadians approaching retirement felt their retirement plans have been impacted by the market: 60% of this group say their retirement plans have been set back up to five years.

Daily we hear about stock prices[2] rising and falling: mainly falling over the past three years. Many folks are worried about their investments; some are so nervous they switched their investments into ostensibly more secure instruments, but without considering the cost and implications. Folks, we need a time-out! First to **understand** where we are, and second, to **develop action plans** to deal with specific situations.

The chart on page two truly is amazing! It shows how the Dow Jones Industrial Average (DJIA)[3] performed before and during the initial days of the Iraq war. The huge eight-session market rally during this period was the largest such streak in more than 10 years!

Here is an important lesson: Nobody **knows** the future, even if he uses sophisticated financial models! **During this period of uncertainty**, your view about **market direction** is as good as any so called expert!

One popular method financial folks use to value stocks is to estimate today's value of future cash flows of the business. In other words, investors look at the firm's long-term ability to generate cash to

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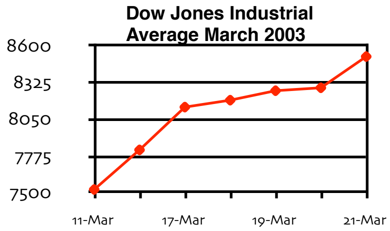
[1] The Dreams and Reality, Assets, Debts and Net Worth of Canadian Households, by Roger Sauvé, People Patterns Consulting (2002)

[2] I am using stocks in my example. However, bonds are similar provided you hold them until they mature. A bond merely is a long-term loan that you make. Generally, the return is fixed and predicable. Mutual funds may include stocks, bonds and other instruments.

[3] The DJIA is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including, stocks that trade on the New York Stock Exchange.



reinvest and grow its businesses, and, or to pay dividends to its shareholders. Financial people call this the Present Value (PV) of future cash flows.

Between 11 March and 21 March, players in the market assumed the war would be over quickly, thereby removing uncertainty swiftly: Demand for companies' goods and services would pick-up, businesses would grow, and value created for shareholders. Consequently, the Dow reflected the market-view that the PV of future earnings of specific businesses would increase from where it was before 11 March: The market sentiment changed and the Dow closed at 7992 on 31 March 2003.

Let us look quickly at the dot-com and technology bubble years for another lesson. Then, individuals displayed tremendous greed, driven by the herd mentality:[4] People made huge gains from Nortel, Yahoo! and other stocks. Many individuals joined the bandwagon without regard to reality: For example, in February 2000, the shares of Yahoo! traded at US$ 360 per share. Yahoo! would have had to increase its earnings 63% yearly for the present value of its earnings to equal $360 per share! And its 2020 sales would constitute 64% of the USA's economy![5]

Now it is time for a reality check, not for panic responses. The market is not inherently bad; it's how we perceive it. Different people use it to achieve different goals: Some speculate or gamble, while others invest. The differences in the two approaches represent various attitudes to risk, diversity in the nature and timing of expected rewards, and differences in the ultimate use of funds. What are your motives?

Issues to Consider before Acting

Now you are holding stocks, mutual funds or bonds you bought several years ago. They are worth significantly less than your initial investment. You are frustrated; should you sell? Where should you put the funds after selling? I hear these questions repeatedly. Here is a process you might wish to follow:

1. Understand and Acknowledge the GAS Principle[6] and its implications.
   - i. God owns everything – Psalms 24:1-2.
   - ii. Accept what you have – Hebrews 13:5
   - iii. Seek first His Kingdom & submit your requests to Him – Matthew 6:33, Proverbs 19:21.
2. Understand thoroughly, your present circumstances by reflecting on these questions:
   - i. Why did you buy this investment initially? Mainly for interest or dividend, or for capital gain? Have your circumstances changed?
   - ii. How long have you held the investment? How close are you to retirement?
   - iii. What is the market value if sold now? What costs will you incur? What is the tax impact?
   - iv. What will you do with the funds if sold now? Why?
3. Understand that the key to managing any resource is your attitude.
   - i. Your worldview or Attitude determines how you Behave based on a range of acceptable options from which you Choose.
   - ii. Develop the mind-set of Jesus Christ. Get to know Him as Lord and Saviour. Lean on Him during this process. He will never let you down.
4. Understand the Players, the Process and some key Principles about investing: Apply changes only after you understand your options. You are the ultimate decision-maker.
   - i. Some key questions to consider and to ask your advisor about individual stocks:

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[4] The Financial Post of 11 October 2000 reported: "Markets are subject to a herd mentality and the herd became so big and the concentration of buying became so big, especially in the tech sector, that valuations were carried too far into the future," said Paul Cherney, market analyst at S&P MarketScope in New York. "Now it's payback time."

[5] Timothy Vick, How to Pick Stock Like Warren Buffet (USA, McGraw-Hill, 2000), pp. 161

[6] Michel A. Bell, Managing God's Money-The Basics (Belleville, Ontario, 2000) pp. 25-27

   i. **Business model**: Is it good and sustainable? What is the nature of the business? What do you think about it?
   ii. **Markets:** What is the company's position in key markets and how adaptable to changes is it likely to be?
   iii. **Management:** Does one person dominate? Will the business likely survive a management change? Does it have a good team?
   iv. **Earnings:** Are growth prospects realistic?

   If uncomfortable with some answers, perhaps you shouldn't invest in the company.

ii. Some key questions to ask about mutual funds:
   i. Type, risk, performance history, and prospects?
   ii. Management's record of accomplishment?
   iii. Management Expense Ratio: Amount and comparison to similar funds? Is it reasonable? Entry and exit costs?

5. Understand that "attractive, sure deals" will not "fix" the problem.
   i. If it sounds too good to be true, it is too good to be true.
   ii. Focus on the Eternal – this will pass; be patient.
   iii. Set goals: The closer you are to retirement, the more secure your investments ought to be. Remember that tax benefits received in RRSP accounts may produce significant returns, depending on your marginal tax rate. Do not expose them to too much market risk.
   iv. Do not borrow to get out of this situation.
   v. Investment values might never recover. The key issue is this: Are **current investments** likely to provide returns in line with **current goals**?
   vi. Work within a realistic budget for your on-going expenses: Plan and estimate the cost of regular activities. Compare actual results with plan and execute changes as necessary.
6. Understand what Jesus said about greed in Luke 12:15[7] then Decide to act based on priorities: God first, your spouse next.
   i. Remember, financial issues are major causes of marital problems.
   ii. Both parties should be involved in this decision process.

Most important, perform the SLEEP TEST: If either party will worry and cannot sleep because of the choice of an investment vehicle, probably you should revisit the decision.

Spring 2009 Commentary

I believe, more than ever, today we need to look in the Bible for answers, tune out negatively skewed news, tune in realism. Many consumers are adjusting to new realities, but the media reports their behaviour negatively. For example, consumers are spending more carefully, paying down debt, saving again, and most of all, stopped using credit recklessly. Falling housing prices is positive too. But the media's negative presentation feeds fear and traps many folks in a negative cycle. So the stock market continues downward, propelled by fear!How might the Christian respond to this "bad" news stream that results from responsible consumer behaviour?

First, pray continually:"Is any one of you in trouble? He should pray ... pray for each other ... The prayer of a righteous man is powerful and effective ..." (James 5:13-16). **Jesus withdrew to pray:** "Very early in the morning, while it was still dark, Jesus got up, left the house and went off to a solitary place, where he prayed." **(Mark 1:35).** God knows the answers, keep praying.

Next, persevere: "So do not throw away your confidence; it will be richly rewarded. You need to persevere so that when you have done the will of God, you will receive what he has promised. For in just a very little while, "He who is coming will come and will not delay." (**Hebrews 10:35-37). Accept the effects of past actions.** And remember, "If [when] we confess our sins, he is faithful and just and will forgive us our sins and purify us from all unrighteousness." (1 John 1:9).

[7] "...Take care! Be on your guard against all kinds of greed; for one's life does not consist in the abundance of possessions."

