

“Find simplicity out of clutter.”

– Albert Einstein

The David Miner
Communiqué
Spring 2012



WELCOME TO SPRING!

Warmest greetings this spring to all of our friends and clients in Western Canada! Our annual ski holiday this March was to Mount Washington on Vancouver Island in British Columbia – a beautiful part of the country.

Dorinda and I had a busy winter putting our house back together after the accidental flood caused by a plumbing problem last year. As I mentioned in a previous Communiqué, this situation has helped me appreciate the value of insurance. The damages were in the tens of thousands of dollars. We had to move into a hotel for several days in January as new floors were installed. We are now slowly getting the house back together. Life does throw curves.

David Miner, BSc, MBA, FCSI

503—1243 Islington Ave.
Toronto, Ontario, Canada. M8X 1Y9

Phone: 647-776-2475
Toll-free: 1-866-93-MINER
Fax: 647-260-1735
Cell: 416-818-4506

davidminer@davidminer.ca
www.davidminer.ca

Licensed in ON, BC, AB.

Retirement Planning

Managed Investment Strategies

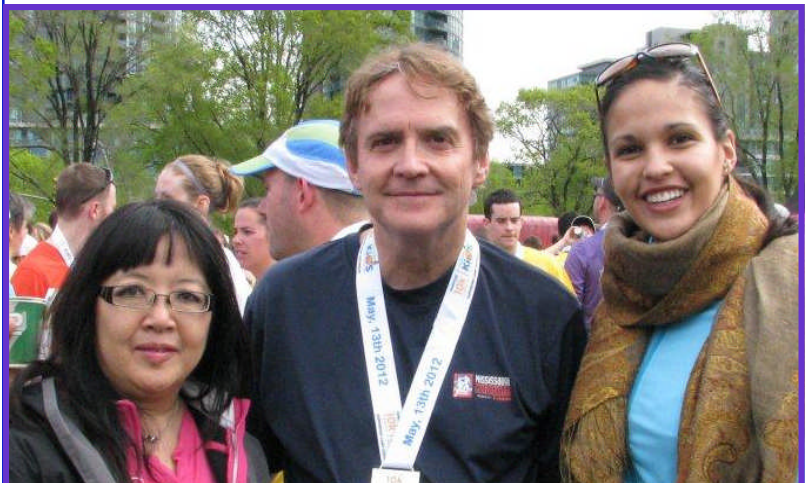
Group Benefits

Life and Disability Insurance

Copyright 2012
David Miner & Associates Inc.
An Equity Associates Inc. Partner

*Most 'load' funds available on a
“no-load” basis*

While I do run throughout the winter, the spring brings with it renewed energy. I did the Toronto GoodLife Half Marathon (21.1 K) on May 6. The following Sunday, I ran the Sporting Life 10K. While very much the amateur, I do credit a running regimen for a calmer and more enjoyable attitude towards life.



Dorinda and Amelia meeting David at the finish of the Sporting Life 10K in Toronto.

Market Comments

After a strong first quarter from world stock markets, the second quarter market performance of 2012 has so far been weaker. Much of the current market softness stems from European politics and the European economy. In Canada, stock markets have further underperformed world equity markets year-to-date, in part due to our market sensitivity to weakening commodity prices. The U.S. market, on the other hand, has been relatively strong, which underscores the importance of portfolio diversification.

Included with this edition of Communiqué is the Franklin Templeton edition of *Why Diversify?*. On one side of *Why Diversify?* is the 20 year chart of various asset classes showing “what was hot” and “what was not” in each year - from Canadian Large Cap stocks to Global High Yield Bonds to Emerging Market Equities and more. What we often see from that chart is that the star performer of one year is the poor performer of the next year and vice versa. Nevertheless, many investors frequently chase what is hot at the moment, thus creating an over concentration in one country, one sector, or one stock. The result is often disappointment. No one has the ability to time the market. Unfortunately, neither reading the business news nor watching business television will help one predict what will happen in the next year. The best solution is to simply stop chasing performance. Instead, **diversify**. Diversification allows investors to profit from trends rather than just following behind everyone else.

On the second page of *Why Diversify?* is an illustration of how diversification will reduce portfolio risk (i.e. reduce volatility). What is also shown, and is a surprise to many, is that diversification *enhances* return over time. While this fact may seem counter-intuitive, when implemented it also reduces investor stress. In other words, diversification translates into better expected returns, lower risk, and peace of mind – not a bad strategy overall.

Fortunately, the fund industry has come up with even better solutions for managing diversified portfolios. In particular, the “wrap” – a package of many asset classes under a single fund - incorporates multiple portfolios wrapped into one fund. The better wrap funds have two layers of management. At the base layer are multiple portfolios (often in the form of funds), each bringing a different asset class and particular management expertise. At the higher level are managers who allocate across each of the underlying portfolios and asset classes with a focus on both managing risk and enhancing returns.

There are few fund companies which offer the depth and breadth of wrap funds as successfully as Franklin Templeton. The Franklin Templeton *Quotential* program is one of the most comprehensive, complete, and cost effective available. And the real benefit is that the suite of *Quotential* portfolios is available under corporate class structure for better tax effectiveness outside of registered plans.



Winter play on the slopes of Mount Washington, Vancouver Island, British Columbia

Out of Chaos Comes Order

Successful investing is often counter-intuitive. Does it feel right to buy into a falling market? To the trained and experienced investing professionals, perhaps yes! A market correction is an opportunity to buy companies cheap. There is a sale going on at the stock market store.

Yet, many investors have difficulty remembering the simple adage “buy low, sell high”. Oddly, it is common for investors do the exact opposite – buying confidently into lofty and euphoric markets and panic selling into falling markets - only to miss the next cycle of gain

Warren Buffett, possibly the most famous investor in the world, and his partner Charles Munger, have made billions of dollars making intelligent, objective, and informed decisions. According to Buffett:

“The beauty of stocks is they sell at a variety of prices. That’s how Charlie and I have gotten so rich. The market is a psychotic drunk, and sometimes Mr. Market does very strange things. It’s built into the system that stocks get mispriced. Don’t behave like the psychotic drunk. The stock market is the most obliging, money-making place in the world.”

DALBAR is a financial services market research firm and have surveyed individual households for over 20 years. They have compared returns of the U.S. S&P 500 index to the actual returns realized by households. Their findings are eye opening. For the 20 year period ending December, 2010 – the S&P500 index annualized returns averaged 9.14%. The average equity investor realized returns of only 3.83%. The difference is attributable to the simple lack of discipline of investors generally to **stay invested**. Over that 20 years, there were several newsworthy “crises”; yet, staying invested was **always** the smart course.

In a nutshell, poor investment returns are typically the results of poor investment behavior. Poor investment behavior is a result of misguided emotional response. Why?

One theory is that people react more strongly to losses than comparable gains. Our feelings about losing are about twice as bad as our feelings about winning are good. When markets go down, people often sell because of emotional pain. Perhaps they should be buying instead.



David and Dorinda with Kathrine Switzer, the first woman to complete The Boston Marathon.

Another factor influencing investor behavior is herd mentality (hence debacles like the money-losing Facebook public offering). Following the herd gives comfort, whether or not the herd is smart. For example, if the herd is buying real estate, human nature pushes us to want to be part of the team and do the same. Unfortunately, that herd mentality is the prime reason why markets get bubbles – like tech bubbles, resource bubbles, real estate bubbles, etc. And all bubbles eventually burst. So going against the herd is often the smarter thing to do.

I am very impressed that the clients with whom we have the pleasure of working do not generally get emotionally caught up in the market noise. That *calm* approach is the *winning* approach.

So investing can be counter-intuitive. For that reason, I like strategies where *real* portfolio managers – not paid media pundits, not stock brokers – make the day-to-day tactical decisions.

The DOW Industrial Index was introduced in 1896 at a starting value of **\$40**. Today the index sits around **\$1,300**. If we include reinvested dividends, that **\$40** investment is worth about **\$1.3 million** today. As Warren Buffet said: **“The stock market is the most obliging, money-making place in the world.”**

Mutual funds are provided through Equity Associates Inc. The opinions offered herein are those of David Miner and unless otherwise indicated, are not the opinions of Equity Associates Inc. or any other party. Mutual fund performances reflect changes in share value and reinvestment of all dividends but do not take into account sales, redemption, distribution, or optional charges or income taxes which may reduce returns. Fees and expenses are associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. Mutual funds are not insured by the Canada Deposit Insurance Corporation or any other deposit insurer and are not guaranteed.