

Finding Calm in the Eye of the Storm

For anyone who is following or is invested in the financial markets, it is pretty evident that the volatility in the markets has been and continues to be unprecedented.

As the pace of change continues to accelerate, it should come as no surprise that capital markets would reflect this. Interestingly, in 1970, Alvin Toffler wrote a book entitled *Future Shock*, which suggested that the harrowing acceleration of technological progress in the new millennium would cause increased confusion and disorientation within society.

While there is no doubt that the pace of technological change in our world today is creating tremendous opportunities and enhancements to people's lives, it is also leaving even the experts in the investment community scrambling to understand its implications to the financial markets. Bill Sterling, Global Strategist with C.I. Global Advisors has suggested that much of this confusion is related to what he calls the "evolution of evolution." This evolution is still in its infancy, involving multiple revolutions, with each revolution dramatically accelerating. Furthermore, the scope of these revolutions is becoming increasingly global. Technological innovation is not merely about computing power, but about its application to the gamut of how people work, play and live. Examples of areas that have been greatly influenced by technological change include telecommunications, genomics and of course, entertainment.

The increase in market volatility can, in part, be traced to the acceleration of change and people's adoption of this change. Sterling cites the example that it took 50 years after commercial introduction before 25% of households adopted new technologies like electricity and cars, while it has only taken 7 years for 25% of households to adopt the Internet. Effectively, venture companies that would have historically remained venture for years are now going public before they have longer earnings records.

Many investors invest in such companies without an understanding of what they really do, taking on undue stock-specific risks. So, as an investor who is wondering what this all means to your RRSP, what can you do to partake in the opportunities that this storm of innovation is creating? You could throw yourself into the whirlwind, following and responding to every bit of information and opinion by which investors are persistently bombarded. Or, you could attempt to chart a calmer course through the eye of the storm and stay that course for the longer term.

As change drives the markets in which we invest, the more important it is that we remain focused on investment fundamentals.

1. Have a plan

Most of us typically invest with certain goals in mind, be it retirement, children's education or a new home. Charting out a course toward these goals will help you select investments that will meet these goals within your time horizon and risk tolerance.

2. Diversify your investments

Regardless of how you choose to construct a portfolio, be it through direct equity or bond investment or mutual funds, diversify by asset class, investment styles and internationally.



Diversification can help you capture much of the market opportunities, while potentially reducing the risks you are taking.

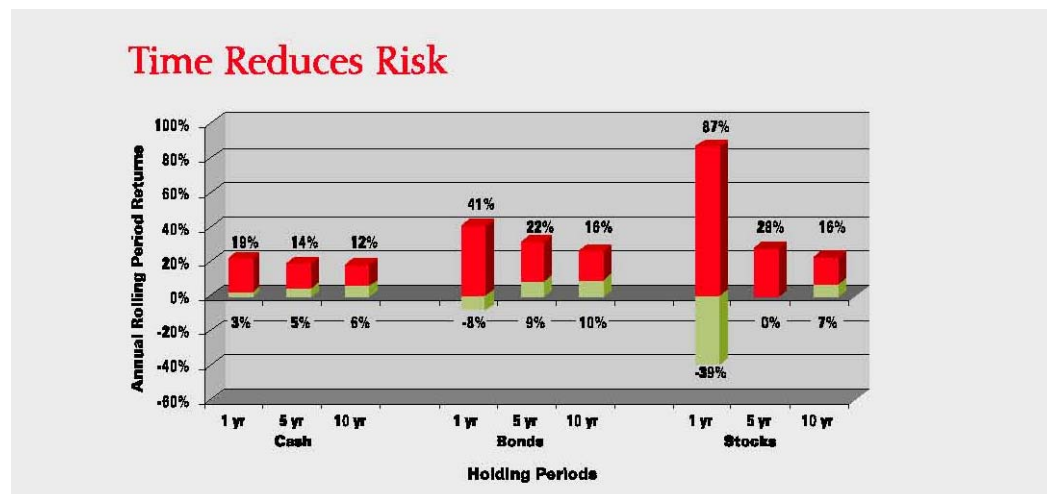
3. Stay invested

Market timing requires that you can successfully time when to get in and out of the market.

With large market moves occurring within shorter and shorter time periods, market timing without missing much of the market's upside is more difficult than ever. For example, during the 5 year period between July 1, 1994 and June 30, 1999, if you had missed the best 30 days for the S&P 500 Index, your returns would have been 8.99% versus the 27.66% you would have had if you had been fully invested through the entire period¹.

4. Invest for the long term

The chart below² illustrates that time invested can significantly reduce risk, particularly for equity investments. With the speed of change accelerating at such an unprecedented rate, the volatility in the financial markets will continue to be a factor with which all investors need to be concerned. However, we feel that the markets will favour those investors who focus less on the whirlwind around them and more on the long-term fundamentals.



- 1 Returns are \$ US annual average returns, assuming reinvestment of dividends. Source: Fidelity Investments, Standard & Poor's and Bloomberg.
- 2 This chart is a graphic representation of the historical, annual rolling 1 year, 5 year and 10 year period returns for the TSE 300 Index (stock proxy), ScotiaMcLeod Bond Universe Index (bond proxy) and ScotiaMcLeod 91-day T-Bill Index (cash proxy) for the period between December 31, 1979 to August 31, 2000. Source: AGF Funds Inc. and Globe HySales.

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