

September 5, 2001

## "These are the times that try men's souls."

- *Thomas Paine (1737 - 1809)*

Paine issued these words as a rallying cry to the American Revolution. His problems were big problems, and his stirring words live on to be misapplied by the likes of me. We live in times where the problems of the world's stock markets are indeed trying the patience of investors. But the problems are temporary, hopefully not so severe as to imperil a soul, and as is so often the case, serve to disguise great opportunity.

The declines experienced by the world's markets beginning as early as March of 2000 have been extraordinary both in terms of their degree and duration. A great many investors have not experienced the like of this before, and even the most seasoned of market participants cannot help but be affected by the scope of the erosion in wealth, nor the extremes of valuations brought about by the euphoric heights and depressive depths of the markets in the past 18 months.

"It is said an Eastern monarch once charged his wise men to invent him a sentence to be ever in view, and which should be true and appropriate in all times and situations. They presented him the words: '**And this, too, shall pass away.**' How much it expresses! How chastening in the hour of pride! How consoling in the depths of affliction!" - Abraham Lincoln.

And pass it shall. Nothing could be more important for investors right now than to remember that the markets have faced some truly horrific problems in the past – and prospered nonetheless. As our markets toy with the *possibility* of recession, we should remember the severity of recessions past and the tremendous gains in markets since. As our markets concern themselves with such mighty problems as excess inventory in the tech sector and reduced telecom spending, we would do well to remember the Cuban Missile Crisis, several wars in the Middle East, assassinations, coups, Watergate, oil embargoes, famine, disease, cold wars, hot wars, and Monica. Markets have faced true problems in the past. In many cases they reacted just as frightfully as they have this past year and in every other case have survived and prospered. If there is a compelling reason why it should be any different this time I haven't heard it.

While the extremes of volatility and emotion present in the markets may be on the rise, the fundamental purpose and consequence of investing has not changed. Patient, rational, long-term investing has always, and I believe *will always* be rewarded. Emotional, reactive and shortsighted behaviour is rarely rewarded in any endeavour, least of all investing.

A great many people have professed over the past decade to be long-term investors. Now we will see. These are indeed trying times, and a test to the resolve of any "long-term" investor. But how long is long? I have certainly encountered many over the past year for whom twelve months must be defined as long. Their behaviour would indicate so. For others, perhaps it is three years. The TSE 300 now sits below its levels of April 1998 and the S&P500 from the U.S. now sits at levels it first broached in June of 1998. For those who believe three years is long enough, history has been unkind. Market history is spattered with three-year-periods of negative performance. However, it may interest long-term investors to know that the TSE 300 averaged

11.0% annually for the five years ending July 31, 2001, and 10.4% annually for the ten-year period. After a period of decline as severe and prolonged as we have experienced, the figures are even more encouraging. Long-term investors would wisely consider adding to their investment portfolios at this time, but certainly should not be reducing their holdings.

Currently, money market funds are the hottest selling of all mutual funds. It is a result of concerned investors and speculators reducing their weightings to the equity markets. In July of 2001, Canadians' net investment to money market funds exceeded \$1.1 billion. Their investment to all other types of funds was less than half that. The previous July, as markets were just a month from their peak values, Canadians invested *73 times* more money in other funds than the \$16 million net invested in money markets. Regardless of your philosophy elsewhere in life, in investing I can say **DO NOT GO WITH THE FLOW**. For long-term investors there exists today a short-term opportunity to buy assets at very attractive prices. When people are fearful and panicked, they will sell good assets at low prices, often taking a loss in the process. In time, those sellers may come to regret their decision, but that is not my concern, and it is good investing to be a buyer now.

As always, diversification is required. Both great fortunes and great bankruptcies are the result of great risks. Since I am much more concerned with avoiding great loss than I am with amassing great fortune, I am not suggesting that now is the time to mortgage the family home to load up on Nortel stock (currently trading at C\$8.80, down rather substantially from its peak of C\$124). I am suggesting that with a properly diversified portfolio designed to minimize risk, that buying now will be seen in hindsight as a rare opportunity in the years to come.

I started with the wisdom of Paine. I will end with it too in the hopes that my thoughts will be viewed more favourably when so well framed.

"Time makes more converts than reason."

- Thomas Paine

If I have not yet appealed to your reason, give it time.

- Alan Cameron