

# Managing investments in a bipolar market

Windsor Club – November 20, 2008

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# The bipolar market

*National Post Sept. 30, 2008*

**-841 -778 23**

TSX dives 6.9%, its biggest percentage drop in eight years. | The Dow suffers its biggest single day point decline. | U.S. lawmakers reject the bailout bill 228-205.

## BAILOUT COLLAPSES, MARKETS IN FREE FALL



*National Post Oct 11, 2008*

**S&P/TSX 16.1%** **DOW 18.2%** **CDNs 7.72¢** **OIL \$16.18**

Ottawa buys into G7 rescue, FPI. Full coverage, FPI-7

## A week of market hell

VOL. 34 NO. 234 SATURDAY, OCTOBER 11, 2008 nationalpost.com

*National Post Oct 1, 2008*

NATIONAL POST, WEDNESDAY, OCTOBER 1, 2008

## MARKETS BOUNCE BACK

Investors jump back in seeking bargains | Ireland insures top bank deposits



TSX GAINS 467.83 | STOCKS LEAP 28%

*National Post Oct 15, 2008*

NATIONAL POST, WEDNESDAY, OCTOBER 15, 2008

### VOLATILITY AT PLAY AS TSX POSTS 18% GAIN IN MINUTES

**10:44 AM YESTERDAY 18.1% OR 1,637 POINTS**

TSX RALLIES TO HIT ONE OF THE BIGGEST SINGLE INTRADAY GAINERS HISTORY

## WILD RIDE ENDS IN 9.8% GAIN

Among signs pointing to sustained rebound

By Aida McMillen

The Toronto Stock Exchange rose as a spectacular rally unfolded in minutes, before closing a robust 18.1% higher as investors emerged from the Thanksgiving holiday to play catch up with a highly volatile global market. The rally was one of a brief set of signs that are increasingly pointing to a recovery that is being seen in a variety of the bear market has hit since late 2007.

The S&P 500 component index closed 1.5% higher on a day that saw 1,637 points (over 18%) in minutes, to 2,995.90 points, or 2.9% off its peak. It has a breadth of fresh up the momentum because it occurred only the sixth day of the rally in the past month. The TSX is above about 20% when it peaked at 1,678.33 in June.

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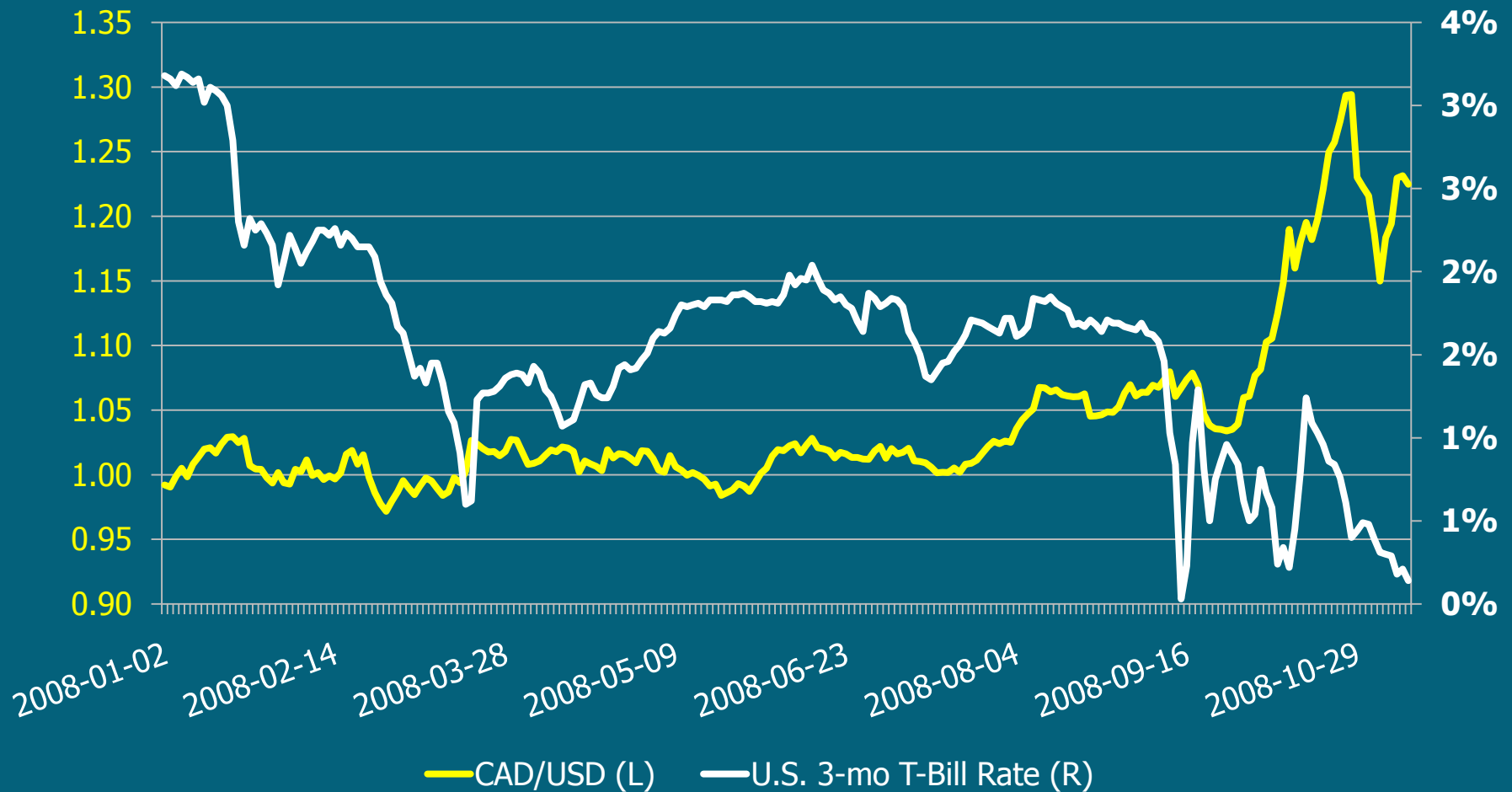
However, a pullback in the global market sent the TSX to 2,995.90 points, or 2.9% off its peak. It has a breadth of fresh up the momentum because it occurred only the sixth day of the rally in the past month. The TSX is above about 20% when it peaked at 1,678.33 in June.

The Dow Jones Industrial average fell 18.2% points, or

**4:00 PM YESTERDAY 9.8% OR 890 POINTS**

TSX CLOSES AT RECORD HIGH FROM MIDDAY HIGH, BUT STILL RECORDS ITS LARGEST SINGLE DAY POINT GAIN

# U.S. dollar rises T-bill yield plummets



# Bear markets are common

Bear Markets (U.S. stocks)		Peak-Trough	Months to	Months to
Start	End	Decline	Trough	Recovery
Averages		-33.23%	15	31
Mar-1876	Feb-1879	-33.11%	15	20
Sep-1882	Nov-1885	-20.76%	21	17
Jan-1893	Aug-1897	-25.12%	4	48
Sep-1902	Nov-1904	-25.79%	13	13
Sep-1906	Dec-1908	-33.97%	14	13
Nov-1916	May-1919	-27.98%	13	17
Oct-1919	Apr-1922	-22.78%	22	10
Aug-1929	Jan-1945	-83.41%	33	151
Nov-1947	Oct-1949	-21.76%	6	35
Jun-1962	Apr-1963	-22.28%	6	10
Dec-1968	Jan-1972	-31.45%	19	19
Jan-1973	Sep-1976	-43.34%	21	24
Sep-1987	Jul-1989	-30.21%	3	20
Sep-2000	Mar-2006	-43.26%	25	42
Oct-2007	?	?	?	?

Raw Data  
Sources:  
Professor Robert  
Schiller, CRSP,  
S&P, Citigroup

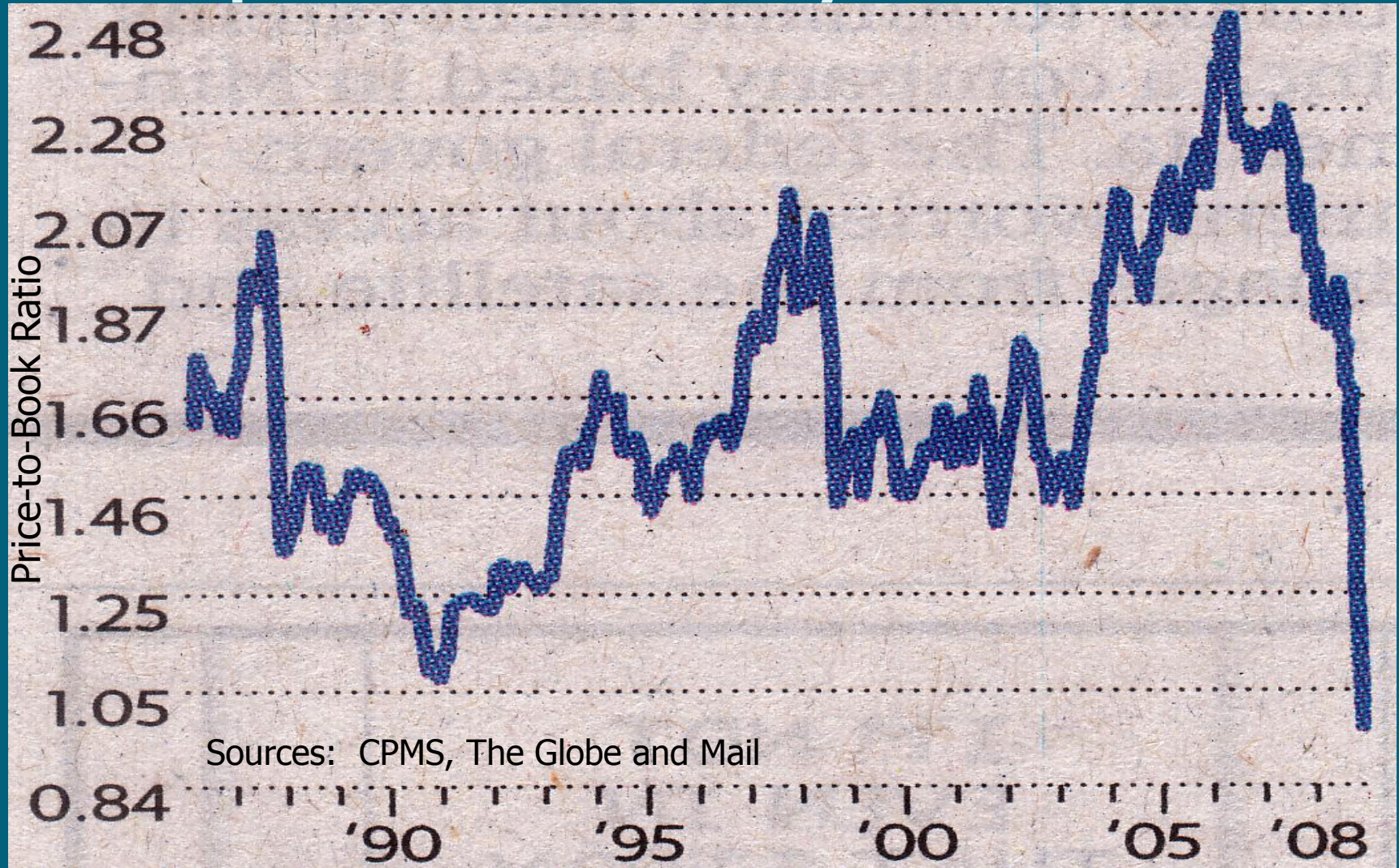
# This bear is severe but not unprecedented

	Decline (through 20-Nov-2008)
Canadian Stocks (TSX)	-48.77%
U.S. Stocks (S&P 500)	-52.26%
Global Stocks (All-World)	-56.54%
Overseas (developed)	-58.69%
Emerging Markets	-67.29%

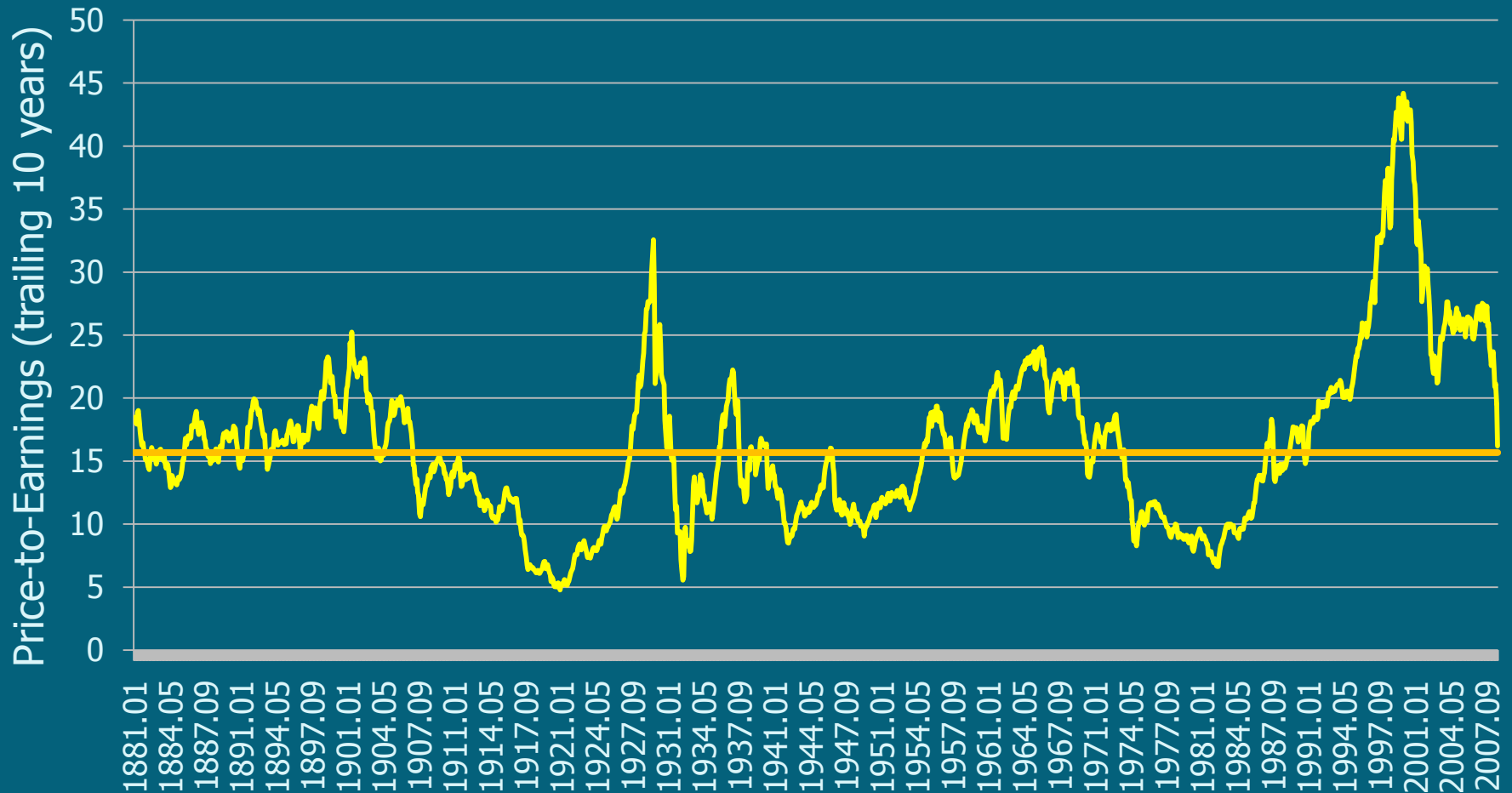
Note: Excludes dividends. U.S. and foreign stocks in U.S. dollars

Source: Yahoo! Finance

# Canadian stocks: cheapest in 20+ years

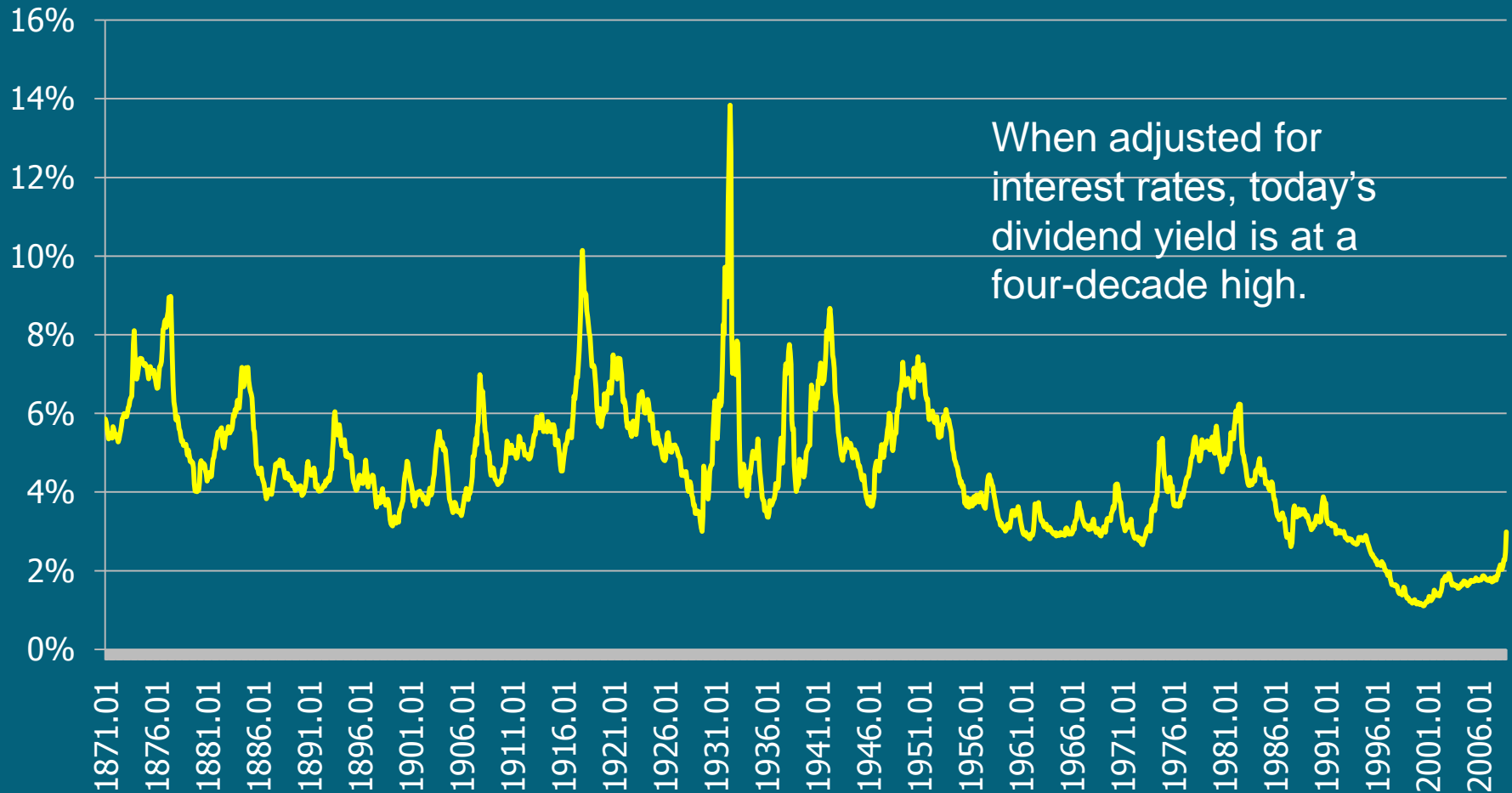


# U.S. Stocks: cheapest since 1990





# S&P 500 Dividend Yield: Highest since Oct 1992

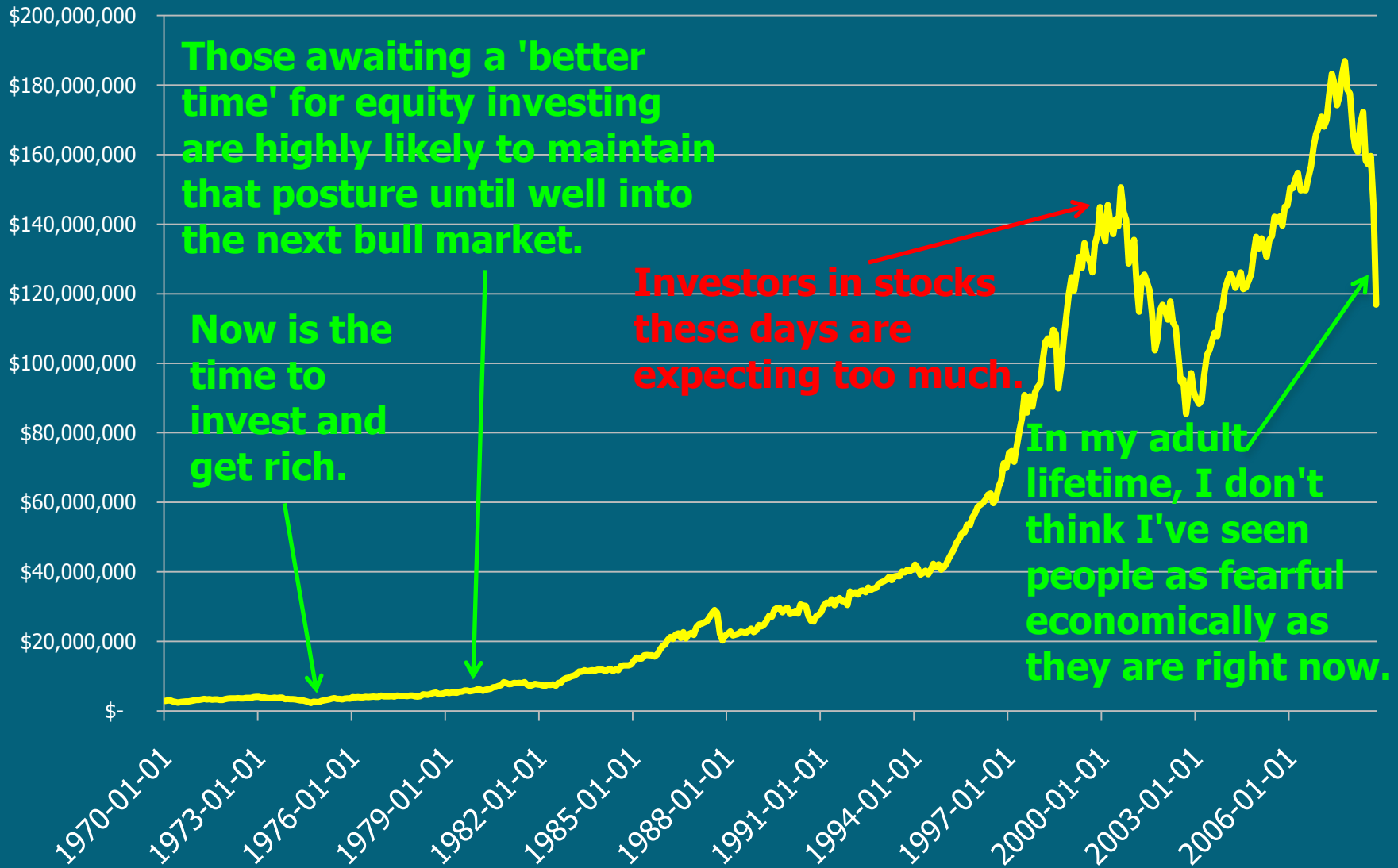


# Buffett Signals - 1970s



Quotation Sources: CNBC, Fortune, Forbes

# Buffett: early but right

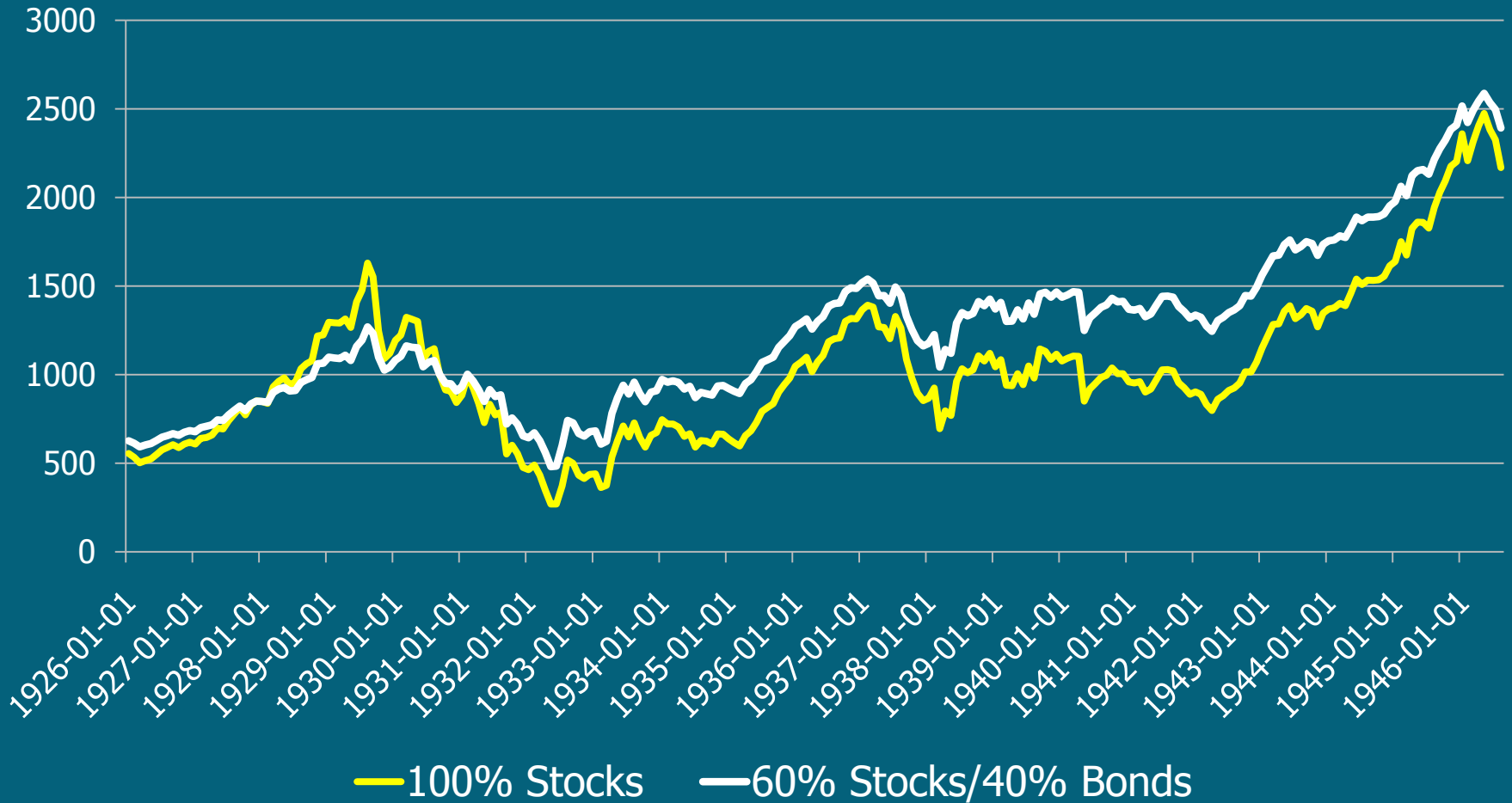


Quotation Sources: CNBC, Fortune, Forbes

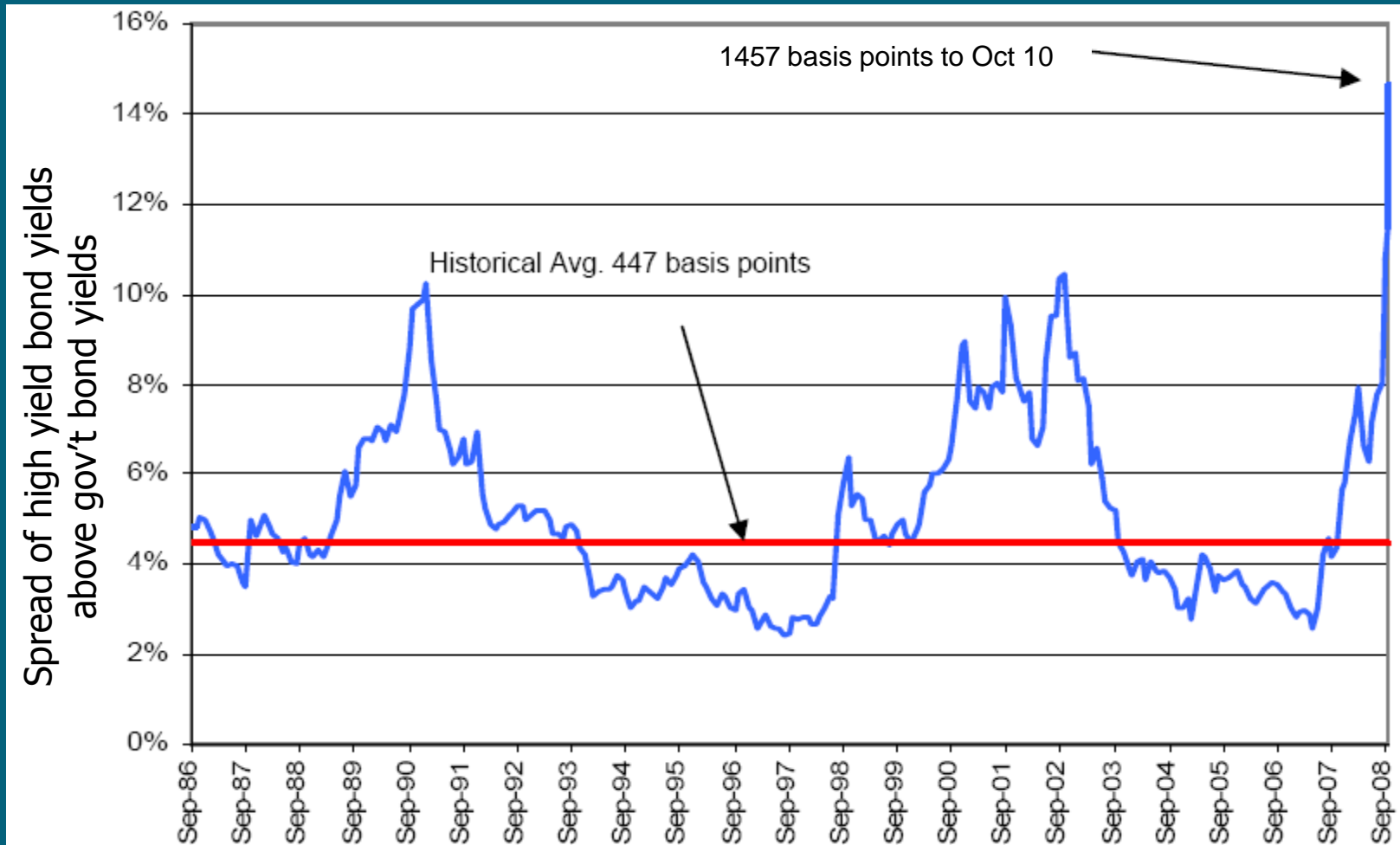
# Should we listen to Buffett?

	<b>1974 buy signal</b>	<b>1979 buy signal</b>	<b>1999 warning</b>
6 mos later	+24%	+12%	0%
1 year later	+31%	+23%	-6%
2 years later	+50%	+47%	-16%
3 years later	+58%	+30%	-29%
5 years later	+110%	+109%	-4%

# Lessons from the Great Depression



# Junk bonds at record low



Source: *Investment Opportunities: High Yield Bonds*, Dundee Securities, October 15, 2008

# Simplistic (long-term) expected return model

	Bonds (Gov't)	Stocks	High Yield Bonds
Yield	3.57%	6.25%	20.00%
+ Growth in Yield	0.00%	5.00%	0.00%
<b>= Baseline Expectation (before price/yield change)</b>	<b>3.57%</b>	<b>11.25%</b>	<b>20.00%</b>
+ Impact of Price/Yield Change	-	+/-	+
= Expected Return	???	???	???

# Wrap-up

- Markets are panic-driven.
- Bear markets have always occurred, and always will.
- Stocks are cheap.
- High yield bonds are at record lows.



# Suggestions

- Focus on longer-term fundamentals.
- Have a balanced portfolio (75/25 rule).
- Diversify, particularly when values are abundant.
- Stocks and high yield bonds are very attractive.