

Great Gains Come in Spurts

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Capital market returns are there for the taking, but short-term discipline and a long-term perspective are required to capture them because market gains often come in short and unpredictable spurts.

98% of the growth of wealth from investing in Canadian and US stocks over the last 53 years came from the best month each year.

Forecasting Interest Rates

It seemed so obvious. With the economy slowly recovering last year from the worst recession in decades and the federal government spending tens of billions to stimulate job growth, both laymen and experts alike seemed to agree that interest rates had nowhere to go but up.

The yield on the ten-year U.S. Treasury note as of June 30, 2009 was 3.52%, down from 5.25% in June 2007 but well above the 2.09% level registered amidst the worst of the credit crisis the previous December. With retail sales and housing activity showing signs of gradual improvement, the only question appeared to be how much higher interest rates would go.

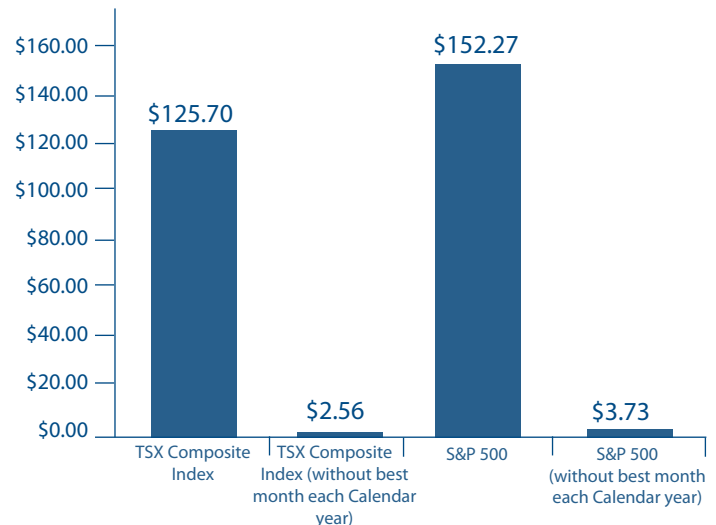
Among fifty economic forecasters surveyed by the Wall Street Journal in 2009, forty-three expected the ten-year U.S. Treasury note yield to move higher over the year ahead, with an average estimate of 4.13%. Seven expected a rate of 5.00% or higher while only two predicted rates to fall below 3.00%. The result? The ten-year Treasury yield slumped to 2.51% on September 30, 2010, and rates on thirty-year mortgages fell to their lowest level since Fannie Mae began tracking them in 1971.

Some observers may be tempted to poke fun at these hapless “experts,” implying they are incompetent or poorly informed. This interpretation is flawed since it suggests that a team of better experts would achieve a more accurate result. A more useful explanation is that even the most talented analysts are unlikely to make reliable predictions, and the poor showing by this particular group is simply what we would expect to see, just as often as not, if markets are working freely and fairly.

Today’s bond prices already reflect expectations for tomorrow’s business conditions and inflation, and these expectations can change quickly in response to new information. However tempting it may be to believe that we can predict the future better than other market participants through careful study, the results of the Wall Street Journal survey as well as numerous other efforts suggest this confidence is misplaced.

What is the message for investors? Predicting interest rates and bond prices is no easier than predicting stock prices, and making decisions based on what appear to be certain outcomes at the time can often prove costly. Many investors reconfigured their portfolios in anticipation of higher interest rates and have penalized their results while they are waiting. Instead of seeking to predict the unpredictable, investors are much more likely to enhance their results by focusing on the elements they can control—risk exposure, diversification, and minimizing costs and taxes.

Growth of \$1 (1956-2009)



*Data is in Canadian dollars. See 2nd page

T H E F . D A N I E L S O N G R O U P
A S S A N T E F I N A N C I A L M A N A G E M E N T L T D .

Data is in Canadian dollars. The S&P data are provided by Standard & Poor's Index Services Group. S&P/TSX data provided by S&P/TSX. Indexes are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results

Yahoo! Finance www.yahoo.com accessed July 7, 2010.

Wall Street Journal Forecasting Survey, www.wsj.com, accessed July 7, 2010. Prabha Natarajan and Matt Phillips, "Stocks Drop; So Do Mortgage Rates" Wall Street Journal, June 25, 2010. Mark Gongloff, "Two Treasury Forecasts: a Grand Canyon-Sized Gap," Wall Street Journal, April 10, 2010.



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