



Winter 2001

# The Lion's Roar

❖ Quarterly Bulletin for Clients of Networth Asset Management Inc. Calgary, Alberta Canada ❖

## A Reflection of Where We've Been and Where We're Going

by Victor Didkowski

Welcome to the year 2001 and what a year it promises to be, but it seems like just yesterday that we had just finished double and triple checking our computer systems in order to ensure that the feared Y2K bug wouldn't get us!

Where has the time gone? I am sure that I am not alone in feeling that life has become very fast paced and is getting even faster. I'm not sure if it is technology, getting older or a combination of both.

One of the ways I use to slow things down is to take some time for myself by myself. This forced isolation allows me to reflect, regain balance and plan for the future. So at least once a year, I take time to reflect on where I've been and where it is that I am going. Without a clear path and measurable milestones, how do you know if you're on track? This is very similar to what we do for you in the financial planning process.

### So where is it we've been in the last twelve months, and how has that benefited you?

1. We purchased, renovated and moved into our own office space, a renovated Georgian style house in Crescent Heights with easy access to everywhere, two minutes from downtown and free parking.
2. Our web site – [www.networthassetmgt.com](http://www.networthassetmgt.com) is up and running. Initial comments are: very professional, extremely quick, easy to navigate and possibly too much information. Subsequent revisions should only make it better. Please let us know what you think.
3. Designed and developed a proprietary software program that reflects the true growth and invested principal for the last quarter, year to date, period to date and inception to date, of your portfolio with us. As is typical in software

development, we're still ironing out some bugs, so stay tuned.

4. Initiated phase one in our one-to-one servicing approach by utilizing an electronic platform to send you your portfolio and "The Lion's Roar" news bulletin as well as various communications via the Internet. This replaces a paper-based format, if this is what you had requested or if you would like to, then drop us an email.
5. Reviewing and modifying our services and procedure guidelines in order to raise our deliverables to an even higher standard.
6. Established an 'e-friendly' corporate image and linking that to our existing profile. We have also redesigned our business cards.
7. Expanded our computer system – made it bigger, faster and added a color laser printer and scanner.
8. Defined and integrated the positioning statement of: ***"To us, financial planning is a lot more than figures; its about dreams and the peace of mind that comes from knowing that they are not only achievable but sustainable."*** As an aside, it was interesting to see one of the big five banks, and then subsequently a major life insurance company, advertise about achieving client dreams. I wonder how they can go about doing that, without having intimate knowledge and a trust based, long-term relationship with their clients. Well I guess big



advertising budgets take care of those issues...

9. In the late spring I was approached to broaden my board involvements. I have been appointed to the Southern Alberta Institute of Technology Board of Directors, and hold the position of Finance Chair, Corporate Secretary and Treasurer. I was always told that if you want to get something done, then find someone who is busy, they're the ones who are result oriented. If that's true, this brings me up to three boards. The others ones are the Canadian Association of Gift Planners, Treasurer and Canadian Association of Family Enterprise, Associates Chair
10. Ever wonder who that cheery person on the other end of the phone line is? Last but not least, I am pleased to welcome Shelley McQuattie to our little family. Shelley brings with her a strong work ethic, drive, determination, a positive attitude, willingness to learn, a very good understanding of computers and excellent people skills. We are looking forward to a long, successful and evolving association with Shelley.

### So now that we have looked in the rear view mirror...what do we see ahead of us in the year 2001.

1. The ability for you to view your own portfolio on-line, seven days a week, 24 hours a day, 52 weeks a year. We are just waiting for CMG Worldsource (our back office) to help make this a reality.
2. More in-depth communication and timely market commentaries, when things are going up or down, outside of our comfort level.
3. To gain insight into where you like to eat, vacation to, travel to, read, watch and participate in, so that once again we can add even more value to our relationship with you. **Please be advised that we do not share, sell, distribute or make this information available to anyone.**
4. To facilitate small interactive workshops and gatherings, dealing with such timely issues as:
  - Succession and Estate Planning – keeping the taxman from becoming your beneficiary.



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- How to properly set up your risk coverage, to not only protect your family, but also split future income to reduce the tax burden.
  - Pension management – which employer plan is the best for you.
  - Global markets and how Canada, and you as an investor, fit into the picture.
  - Financial Planning issues for the business owner. How to safeguard your assets and reduce taxation.
  - The use of trusts and offshore corporations, to once again maximize and preserve your net worth.
  - The means to safeguard all your future income requirements and additionally, secure that your children's children will be able to enjoy the same quality of life that you do.
5. To host a client appreciation function which will be designed for the entire family, including children and grandparents.
  6. To be well positioned, to deal with the constantly changing financial service industry landscape, from a regulatory and compliance perspective.
  7. To add one additional high quality practice to our own. This will be done in order to provide a broader infrastructure, more flexibility and achieve the critical mass required in order to not only stay ahead of our peers, but to increase even higher, the height of our **Excellence Bar**.
  8. Increase the synergy, and thereby better define the areas of responsibility and competency, within the practice.
  9. To maintain our virtual 100% client retention rate, while increasing our new clients who came from recommendations and referrals of our existing clients, from 70% to 80%. **We can't do it without your assistance!**
  10. To continue to surprise and exceed your expectations with what we refer to as the **"Wow Factor"**. This is achieved by how we conduct our practice and look after your needs, while continuing to strengthen our trust relationship with each of you.

The basic truth is that we, nor anyone else, can control the market. The equity market over time has always gone up, and that our primary mission is to assist you in the achievement of all your financial dreams. We do this by controlling your emotions and safeguarding your future, and that of your family, by not allowing you to make costly emotional mistakes.

## So Taxes are Going Down... Fact or Fiction

Canada is a great place to live, and it would even be better if we weren't so heavily taxed! The first problem of having a country that has the second largest landmass in the world is that things are really spread out. Second, we only have a population of just over thirty five million (35 m) to feed the system. Third, our federal government likes to think that every one of us lives and works to support them. In other words, they feel that they are entitled to every dollar a person earns!

The Communist manifesto advocates a welfare state where the creation of and the retention of personal wealth was evil. Not to get into politics, but think back to when we had a federal surplus. Then Pierre Elliot Trudeau became prime minister and with the assistance of his finance minister, Jean Chretien, decided to combat evil and put every man, woman and child for multiple generations, into a state of financial servitude. These are still the tactics of the government of Jean Chretien. However, to his credit, it has been sugar coated, better marketed than before and the finger has not yet visually come up! So why am I so harsh?

- If you earn over \$7,100 a year, you're in the taxman's gun sight.
- No other country in the world taxes more from its people than Canada, 36.8% of GDP. In the USA as an example, it is 28.5% of GDP.
- If you earned \$60,000 or more in 1998, you were in the top 7.4% of all Canadian income earners.
- In 1998, the top 30% of Canadians earned 57.4% of all income, and paid 64% of all taxes.
- Lets say in 1961 you earned \$4,755 and in 1998 you now earn \$140,812, this is an increase of 2,861%. At the same time, in 1961 you paid \$960 in income tax and in 1998 you paid \$50,630. An increase of 5,174%, this is more or less a doubling of tax over income or reducing your buying power by half.
- Now add in PST, GST, property taxes, etc. and if you were earning \$61,825 a year, you would pay out \$33,385.50 in taxes or 54.0%.

With the last full budget, there were some tax cuts that were given out because of the surplus. Let us not forget that the major reasons for any surplus

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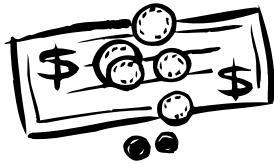
## Dinner Draw Winners

Don't forget, every time that you introduce us to someone who becomes a client, your name is entered for a dinner draw. We have the pleasure of awarding this symbol of our appreciation every quarter.



**Congratulations!!**

This period's dinner draw winners were to **Phil and Lana Bullough** who introduced us to **Patricia Lambert.**



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is lower interest rates on servicing the national debt, the reduction of Provincial transfer payments, high energy prices resulting in increased revenue and piggy backing on a strong American economy. It's not due to fiscal restraint or better money management; the Liberals are spending/wasting more than ever. Then came the mini-budget, or the "if you re-elect me propaganda budget." It said that an even brighter future is there for each of us if we only vote in the wolf who dawned the newer, cleaner all improved sheep's clothing...guess what happened.

For many years, I have been saying that the true payout for the federal coffers will be a death tax on the entire estate of a deceased individual. There are several trillion dollars, which will be passed down from one generation to the next, in the upcoming decade. So why nickel and dime the taxpayer, go after the big bucks instead. Is this coming? I feel that the groundwork has been laid and now it's time to wait and see.

So are taxes going down? I think we will be wishing for the good old days when we only paid an effective 48.7% in taxes.

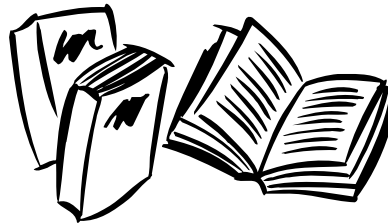
By the way, one bright light could well be Alberta. We're big enough to house thirty five million people, our taxes are the lowest in the country and we could well end up becoming a tax-free jurisdiction, resources are plentiful and we have a winning attitude. What more could you want?  
**Alberta a tax haven.**

*Don't wait until the last minute.*

*Get your RRSP contributions looked after now! We also have loans available with flexible terms, at great rates.*

### I require your assistance...

- What is it that I do so well that has earned your trust?
- Of your most valued relationships who else would also value that?



### Just a reminder.

We have a library of some of the very best books and tapes on Personal Finance and Self Development, available to you on loan, at no cost, just give us a call.

### Welcome and thank you!

Welcome, to all of our new clients who have joined us since our last news bulletin. Thank you, to those of you that have mentioned our name to people that you know would benefit from our services, just as you have.

Your introductions, and trust in our abilities, means a great deal to us.

### Pass it on...

If you enjoy this publication and find it of value, possibly someone else you know may also appreciate receiving it. If that is the case, please give us a call and we would be happy to add them to our distribution list.



## News & Views

### Now for a little 2001 crystal ball gazing:

- In general, the world economy is slowing down just enough to catch its breath, before starting to climb once again by mid-year.
- The next 18 months should see oil fall to a more realistic \$25.00 a barrel because seasonal demand from the northern winter will abate, the U.S. economy will moderately slow down, and OPEC doesn't want such high prices.
- Because of core inflation pressure, the American Federal Reserve will probably raise interest rates by another 0.5 to 1.0%. This will be mirrored by the U.K., Canada, European Economic Community and Japan.
- Taxes are being cut in Canada, Germany, France and Italy, which should boost the GDP output.
- Bonds in Canada and the U.S.A are at fair value, the Euro zone is cheap and in Japan, they are expensive. If interest rates rise, then the value of bonds drop. Bonds will still outperform cash, but that doesn't take much of an effort.
- Secure growth sectors such as pharmaceuticals and financial service providers should be favored, while real technology, telecommunications, e-commerce business and Japan, should be great dollar cost-averaging opportunities.
- If you are looking for long-term superior growth, quality equities are the only vehicle class that outperforms the pack and gives you a significant after-inflation and after-tax, real rates of return.



## Index Funds/Managed Funds, Risk versus Reward, The Nortel Connection

**W**hat's the difference? Well, an index fund is a representation by weighting of the market capitalization of the largest companies within that index. For example, the TSE 300 Composite Index is the Toronto Stock Exchange's top 300 companies as by the above definition. Now, if each of the 300 holdings were more or less equally weighted, things would be great, but as we saw on October 25, 2000, that's not the case. Nortel Networks, a healthy, profitable and real company, representing in excess of 30% of the total capitalization of the entire Toronto Stock Exchange, and well in excess of 40% of the TSE 300 Index, caused the TSE to suffer its largest one-day loss in history. Of the 850-point drop, it represented 800 points and that in turn, wiped out 80 billion dollars in shareholders' equity of which 5 billion was from Canada's pension and mutual funds unit holders.

An index fund is obligated to match the weightings of its own holdings in the index it tracks. Common sense tells you that having 40% of your wealth in one holding is very risky. A managed fund in contrast, by law, cannot have more than 10% in any one holding. Therefore, when the market over the last few years was being driven by four technology heavyweights, a well-balanced managed fund portfolio, underperformed the index. In turn,

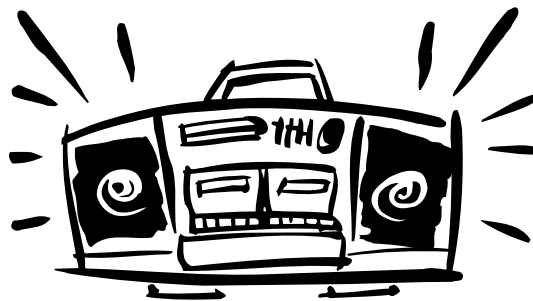
when it was time for a correction, which always happens, the index went from a YTD gain of 24% to just 6% and a few days later to 4%. That's a 600% drop, while most value orientated managed funds dropped less than 20-30%. Remember the roller coaster ride example?

In 30 years, will the index portfolio look much different than the managed one? Maybe not a great deal, but what is significantly different is the ride – no shock absorbers or a ride of comfort and peace of mind. The choice is up to you. Your own investor's psychology is the biggest enemy you have. I am the great believer who prevents you from making costly emotional mistakes.

### **What caused that spectacular drop would be laughable if it wasn't so scary.**

**The Nortel Story:** The expected revenue growth year over year, for their optical division was expected to be 115%, but the true numbers came in at a mere 90%. The other contributing factor was that for total corporate revenues, the year-over-year increase was only 42% instead of the projected 47.6%. Nortel was trading at 100 times its price earnings ratio (P/E) and is now at about 40 times P/E, certainly closer to where in reality, it should be.

### **What makes this story scary is the reaction that we all witnessed.**



### **From Shelley's Desk...**

It's hard to believe that three months have already passed since I joined Victor and made Network Asset Management my home away from home.

I have been afforded the opportunity to write a column for our Quarterly News Bulletin, but before I jump in and do that, I wanted to take a moment and introduce myself to you.

I came to Network Asset Management from the Oil and Gas Industry where I was employed in various positions ranging from Project Assistant, Administrative Assistant and Transportation Analyst. In my career I have been accountable for clerical, secretarial, gas measurement and Customer Service duties. I was laid off in April 1999 and with the support of my mate have been able to reflect over this last year as to what it is I want to do with my career. I will now be able to couple my previous securities training with the day-to-day responsibilities of my job, to create an exciting opportunity with Network Asset Management.

Over the next year, I plan to:

- complete my investment licensing;
- become proficient in all of the policies and procedures currently established within the practice as well as identify opportunities for improvement; and
- develop towards becoming a full associate.