



My View

By: Victor A. Didkowsky CFP, CSA

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Be Afraid of Fear

It seems that every time I take pen to paper, that by the time I complete my words, something else has happened in the markets. Needless to say, that this bout of volatility is testing our trust and confidence in the capital markets, government, corporate leaders, and in the strength and diversification of our portfolios.

So many things have happened in the last few weeks, since my last 'My View' update of September 16, 2008. So the challenge is where do I start?

Two giants either disappeared or got led to the altar. Merrill was acquired by Bank of America for \$29 per share, a 70% premium to where the shares closed the previous Friday. One of the reasons that made Merrill an attractive acquisition is that it had already purged itself of its sub-prime mortgage exposure. Secondly, it brings to Bank of America, a valuable global retail investor franchise which will add profits and increased diversification going forward. Both are strategic reasons that made it a valuable acquisition.

Lehman Brothers, on the other hand, had not cleaned up its balance sheets, was no longer being accepted as a counter party to derivative transactions and since Lehman had made its name in structured fixed-income products, a market whose prospects are bleak in a period of tight credit, the company was dead in the water. As a side note, we may also witness some recovery in the value of Canadian banks which have a strong retail franchise.

AIG Insurance is one of the largest insurance companies in America, which saw itself needing to be bailed out because of its exposure to the credit market and Lehman Brother's bad paper. Insurance companies require much higher liquidity and are governed more stringently than banks, so therefore, they represent a much safer investment overall. For those policy holders of AIG in Canada take heart, it is a separate entity and holds no exposure to what got AIG in the United States into trouble. Washington Mutual has also run a ground and it will take a while to straighten that out.

Continued capital pressure will also likely claim some hedge fund victims and will reinforce the present declaration in global economic growth, putting pressure on some commodity prices.

Now we have the proposed 700 billion dollar first aid injection by the U.S. government. ***Let us remember that markets do not like uncertainty and surprises.*** With Congress stalling the process (which may have been the correct thing to do), it has basically frozen the credit market. Banks will not lend to banks, banks are not lending to companies, and next, will stop lending to consumers. If allowed to continue, this will have a devastating effect, not only in America, but will end up paralyzing the global economy. If this uncertainty is allowed to take hold, then we will experience a

cataclysmic meltdown that will have far-reaching implications for all of us. I cannot believe however, that the governments and leaders of industry will allow this to happen. Events are unfolding at a staggering rate and most certainly time is of the essence in order to calm down tattered nerves.

As a quick recap of the last three days:

On Monday, September 29th, the U.S. House of Representatives rejected the proposed 700 billion dollar economic rescue package. By the time the markets closed, the Dow Jones industrial average dropped 778 points. While the Canadian market closed down 841 points, making it the largest one day point drop in history. The very next day, being Tuesday, we experienced a bounce of 485 points for the Dow Jones and 467 points for the Canadian TSX. Today, being Wednesday, the markets ended the day a little down. Tonight, the U.S. House of Representatives voted on a revised proposal, and have approved it. However, by the time you get this update, things would have changed yet once again and the market will be reacting to today's events.

The real danger is to become afraid. What you focus on, what you direct your attention and emotions toward will become reality. So this behaviour of fear is something you wanted to avoid. Stop being afraid of the temporary setback in the markets and the economy. Instead, look at it as an opportunity. The medicine sometimes tastes and smells terrible, but it usually is the best thing for you and makes you healthy, happy and prosperous.

If we step back and reflect, the U.S. went through something like this not so long ago with the meltdown of its Savings & Loan institutions. That also cost a trillion or so dollars, but it certainly did not affect the markets the way this has, since it was impacting Side Street, not Wall Street.

One question you may be asking yourself, as I have also, is should I go to cash? If history is any teacher, trying to time the market is a shell game. However, that does not make holding on any less of a painful white-knuckle experience.

Let us look at what the smart money is doing. Warren Buffet, the world's richest man instantly comes to mind. One of his favourite sayings is: ***“Be fearful when others are greedy, be greedy when others are fearful.”*** In the last one and half weeks, Mr. Buffet has invested thirteen billion dollars into the market. What does he know that obviously many others do not?

In my own personal portfolios, I remain 100% invested and am continuing to dollar cost average every month into high-quality holdings which have been beaten up, but longer term represent an increasing future value proposition. The reality is that today on paper, they may not look that attractive...but beauty is in the eye of the beholder. If you want to capitalize on the opportunity like Mr. Buffet has, then please give me a call to discuss.

Thank you for your continued trust and support.

Victor