

YOUR INVESTMENT PORTFOLIO

Time to Take

The crash was bad. Very bad. The 30% to 40% stock market tumble that hit Canada, the United States and elsewhere affected all investors with almost no exceptions. It's now time to take stock.

"The last months of 2008 were very hard on all investors," acknowledges Mary Hagerman, an investment advisor at Desjardins Securities. "But very few of my clients gave in to panic. Instead, we took the time to carefully reflect on the situation and look at solutions for the future."

These solutions first of all require taking a step back from all the fuss to look before leaping into any action. A bit of distance helps people better control the emotions that can often lead to financial mistakes. "People very often underestimate the emotional side of money," states Hassan Geroli, a financial planner at Carrefour Desjardins, a downtown Montréal service centre that includes representatives from several Desjardins Group subsidiaries.

Taking action starts by establishing or correcting your financial plan with the help of an expert. "Each person is different, but you absolutely must have a solid plan behind you," notes Geroli, who works with Hagerman. Both agree that a proper financial plan helps people keep on track in a storm.

IS YOUR PROFILE RIGHT FOR YOU?

The stock market disaster has certainly been an opportunity for many investors to fully measure their risk tolerance. You may want to reevaluate your investor profile to adopt a more conservative investment portfolio.

"On paper, people have a certain tolerance to risk," remarks Geroli. "You often have to go into things a bit deeper to see their real profile." Acting out of fear is probably the worst thing you can do. "Everything in moderation," warns Hagerman. "Putting it all in bonds is no better strategy than having everything in equity."

"There's also a risk in opting for a more conservative profile," Geroli adds. "If the client can't sleep at night, we have no choice but to redo their profile. But it is important for the client to understand that this will lower their yield." However, if concerns are keeping you awake nights, don't hesitate to meet with your advisor to clarify your situation. "It takes less than three days to have your portfolio changed to match your new investor profile" he assures us.

ASSET DISTRIBUTION AND DIVERSIFICATION

The investor profile is a key factor in determining asset allocation. In short, asset allocation means dividing a portfolio into three major categories: liquid assets (or cash), fixed income securities (bonds, Treasury bills, guaranteed investment certificates, etc.) and corporate shares (stocks or mutual funds). It depends mainly on the investor's risk tolerance and the time they have before they need to use the money, whether for their retirement or something else. Many experts believe that asset allocation



is responsible for 80% of a portfolio's returns.

"It is best not to change your asset allocation when there is panic on the markets," notes Hagerman. "History shows that these periods are followed by recovery. You should avoid selling your stocks low, since it's only a temporary situation."

Geroli, meanwhile, believes that those who are able to benefit from the low prices on stock markets today will probably be able to recover their losses for 2008 in the next three to five years, assuming the recession will not worsen into a deep depression. "It's not necessarily true to say that we'll have to work longer because of these losses," he asserts. "What we are seeing here is a kind of stock market 'Boxing Day,'" he adds, referring to the dramatic fall in stocks and market indices.

Once your asset allocation is established, it's important to diversify the corporate share portion of the portfolio so that you're not too exposed to fluctuations in only one or two economic sectors, such as natural resources or financial institutions. "Proper diversification makes it possible to truly reduce risk," claims Geroli. Desjardins offers this kind of diversification with its range of Diapason and Chorus portfolios.

RECOVERING WITHOUT RISK

It is very tempting to try to buy more speculative stocks in the hopes of 'making up your losses' more quickly. But speculation only suits one specific type of investor. The average person should instead set aside the casino vocabulary and get back to basics, which are less spectacular, but also less stressful and more effective.

But first, Hagerman advises us to take stock of the damage we've already suffered. "It's important to examine how our asset allocation was affected so we can build a savings strategy for the future."

It's a good idea to meet with a financial advisor or planner so you can set the objectives and establish the strategy. "You need to tell your



financial planner everything,” insists Geroli. All your investments, any change in marital status, new job, birth of a child, personal projects as well as your plans for using the money (buying a car or a cottage, etc.) will be determining factors in your strategy.

“As an advisor,” explains Hagerman, “my role is first and foremost to listen to people. I have to respect my clients’ risk tolerance as well as their financial objectives. Some people want to be more conservative; others would like to dive into potential bargains. There’s no single recipe that will suit everyone.”

In much the same way that pension plan managers and participants will probably need to contribute fresh money into their fund to make up for a possible deficit, individual investors should probably take another look at what they need to do in terms of savings in order to reach their own retirement objectives.

A financial planner will be able to help you determine the exact amount of additional savings you’ll require to make up for the shortfall in reaching your personal objectives. “Sometimes, all you have to do is increase your savings contributions just a little in order to achieve that,” mentions Geroli, who recommends that the first step should be to use up any unused contribution room in your registered retirement

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savings plan (RRSP). If you have no room left, a tax-free savings account (TFSA) is an attractive alternative solution. Non-RRSP savings products could also be used to compensate for the 2008 downfall. In short, nothing beats good old-fashioned systematic savings practices.

PROGRESSIVE INVESTMENT

The good news is that, given the general downward trend of the markets, the choice of investments has perhaps never been so easy. “An index-based approach with market-traded funds that mimic the main stock market indices could be a winning strategy for investors who don’t want to spend a lot of time choosing specific securities,” suggests Hagerman.

However, both Geroli and Hagerman believe that people should increase their investments slowly. “The storm is not over, but the worst has probably passed,” warns Hagerman. “You need to invest gradually because nobody knows whether the crisis is really behind us.”

Geroli seconds the notion: “Regular investments are also a good way to reduce risk,” he affirms. “When the market goes down, your investment allows you to acquire more mutual fund shares, which lowers your average cost. When things get back on track, your recovery will be faster.”

For more information on the risks related to various investment instruments, see our Finances column on page 16. 

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