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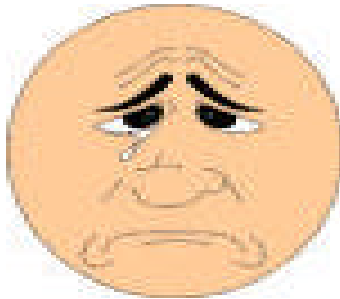
Buy and Hold??

"In the long run we are all dead."

-- [John Maynard Keynes \(1883-1946\)](#), [First Baron of Tilton] British economist

"In a 10-year period from 1989 to 1999, only 4 out of every 10 mutual funds performed better than 5-year Guaranteed Investment Certificates. And unlike mutual funds, GIC's are guaranteed."

-The Fundletter



Alan Newman of HD Brous & Co. analyzed the effect of investing \$500 per month since Jan. 1997 in S&P 500 stocks (with index as the proxy). The total investment was \$31,000. At the end of Feb. 2002, 5 years later, the value was \$31,162! The reason DCA lost out was that the price remained high for a while before tanking. Most of the purchases were made when prices were high.

Source: April, 2002 Money Digest

PERFORMANCE OF CANADIAN CASH, BONDS, AND EQUITIES OVER A 10-YEAR PERIOD

Why Asset Class Diversification is Important — % Average Annual Returns

| 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|------------------|--------------------|
| Bonds 22.1% | Bonds 9.8% | Equities 32.6% | Cash 5.4% | Bonds 20.7% | Equities 28.4% | Equities 15.0% | Bonds 9.2% | Equities 31.7% | Bonds 10.2% | Bonds 8.1% |
| Equities 12.0% | Cash 7.1% | Bonds 18.1% | Equities -0.2% | Equities 14.5% | Bonds 12.3% | Bonds 9.6% | Cash 4.7% | Cash 4.7% | Equities 7.4% | Cash 4.7% |
| Cash 9.8% | Equities -1.4% | Cash 5.5% | Bonds -4.3% | Cash 7.6% | Cash 5.0% | Cash 3.2% | Equities -1.6% | Bonds -1.1% | Cash 5.5% | Equities -12.6% |

Sources: EQUITIES: S&P/TSX Composite Total Return Index BONDS: Scotia Bond Markets Universe CASH: Scotia Bond Capital Markets 30-day Canada T-Bill Index.

INTRODUCTION

A stock worthy of the buy and hold classification is one which is well-managed, demonstrates a steady superior growth in real earnings and sales and is fairly priced when you buy it. Such a stock's share price is expected to consistently grow over time. A buy and hold strategy is based on the idea that the investment will appreciate, throw off dividends/interest, defer taxes and not incur any fees along the way that impair returns. The key success factor to buy and hold is buying right in the first place. Also, subsumed in the idea is the assumption that markets can't be timed so you may as well hold onto what you've got providing your holding has not suffered a devastating or fundamental blow. A mutual fund whose portfolio contains a large number of such stocks is called a buy and hold fund, of which in reality there are very few. Buy and hold allows compounding, what Einstein called the "8th wonder of the world" to take place. In a RRSP, reinvested distributions compound on a tax-deferred basis. Outside of a registered account, buy and hold permits the full value of an investment to keep growing. If a mutual fund or stock is sold, capital gains tax must be paid – 23.2 % at the highest marginal tax rate in Ontario - leaving only 76.8 % for re-investment. Reduced trading costs/switch costs and low or no maintenance expenses are also characteristic of buy and hold. [Money market and resource funds like precious metals are not considered appropriate as buy and hold investments]. These are the basic principles behind the buy and hold strategy.

Some market watchers and investor advocates question the wisdom of a buy-and-hold strategy in this new era of challenging and increasingly volatile stock markets. Some investment pros argue that the time-honoured strategy is dying, if not dead already. Investors can no longer expect the market to be buoyant enough to bail them out if they make the wrong move at the wrong time. Contrast this with the 1980s and 1990s. In the 18 years from 1982 to 2000, there were just two bear markets — in 1987 and 1990. During that period, the Dow Jones industrial average climbed from the mid-1982 low of 770 to 11,000. You made 14 to 15 times your money by just sitting on those 30 [Dow] stocks. Little wonder that many investors decided in the 1990s that buy-and-hold and index investing were the ways to go.

Don Coxe, Chairman of Harris Investment Management in Chicago, in a short piece (Nothing for Nine) he wrote for Maclean's observed that the MSCI EAFE index had a meager 9 year return to Aug. 31, 2002 of 0.12 %. (reinvestment of dividends would have actually made it *negative* because so much of that income would have been invested when the market was higher). He further argues that the difference in returns between the S&P 500 index and the EAFE *is almost entirely accounted for by the increased value of the U.S. dollar* that increased the S&P index price- to-earnings multiple.

Therefore, he observes that the 2 stock indices that together include almost all the world's industrialized nations produced barely observable returns over a nine-year

period. He isn't against stock investing per se " ... provided you cut back your exposure to the market during periods of grotesque excess. " Mr. Coxe concludes by defining the *Long Run* as " Decades".

" Remember those who bought for the long term back in 1965? The DOW went through the 1000 level for the first time!! Only it took them 16 long, miserable years just to get back to that magic number which by the way, was the equivalent of about 620 after giving effect to inflation.

Worse still were those long-suffering souls who bought in early in 1929.They waited 25 years!!"

-Ken Robertson, The Robertson Index, May 31,2002

" I don't disagree with the typical buy and hold investment strategy if that suits you. But buying a fund "for the long-term" suggest you stay with it even when it goes down. Does that mean you should be intent on earning a low rate of return or even losing money for several years even when there are alternatives? Frankly, if you buy into a fund at the wrong time and stay with it, it may take "a long-term" to get your capital back. Gold is currently around \$400 an ounce. Remember when it was \$ 860 (U.S.) in 1979?"

-Dennis Anstett, " The 17 % Plan

Finding such a portfolio of winning stocks these days is a lot more difficult. The job is an almost impossible one now because of latent accounting aberrations and fraud (e.g. Enron) and insider trading (Imclone) that even seasoned professional auditors can't uncover. Meetings with management can be useful but at best, more as negative signals than positive. In the technology sector especially, the task of timing product introductions, in evaluating product success and determining trends is daunting. Disruptive technologies or formidable new entries can impact a company's fortunes in a very short time (e.g. RIM). Worldcom taught many a lesson they will never forget about how too much of a good thing is actually bad. Globalization brings new opportunities but also new threats. Even if these challenges could be overcome, how the stock price will behave is becoming more unpredictable and volatile due to program trading, day trading, online chat groups, after-hours trading, complex derivative products, currency/ interest rate fluctuations and option/derivative schemes. Horrible events such as terrorism can impair even well run companies such as Bombardier and CAE for years along with the air transport and tourism industries. The rise of executive stock options in the 1990's and the lack of expensing them has distorted numbers and adversely impaired management behaviors. We won't even mention pension-funding liabilities. And of course, there is the unavoidable business cycle and the normal pattern curve as a company inevitably migrates from a growth company to a mature company. The phrase buy and hold is a phrase that acquired near religious status when the marital vow "till death do us part" was observed by all Canadian couples including a high proportion with horrible relationships. The oracle of

Omaha, Warren Buffet has noted” You shouldn't fall in love with the stock, it doesn't know you love it”.

“The "buy and hold" pitch by the retail money management business is a necessary condition, but as it has turned out, not a sufficient condition for realization of the promise of higher returns on stocks than on other assets over many time periods. The sale of stocks is the bedrock of the revenues of investment firms that serve households. Further, because investment firms have proven their ability to induce households to pay up for new issues of stocks, corporations seeking a lower cost of funding play along with the bullish stock story. Merrill Lynch's "bullish on America" campaign, which blends patriotism and a preference for stocks, probably represents the ultimate cynical appeal to unsophisticated households hesitant to jump into the stock market and thereby to help sustain rising equity prices that would attract even more households into the market. The cynicism has been underscored by the release of internal memos at Merrill Lynch and other brokerage firms wherein their stock touts chuckle about the junk stocks they are foisting off onto the American public while collecting hefty underwriting fees from the companies issuing the stock.”

-John Makin, “ After Irrational Exuberance “

The actual practices of most mutual funds differ markedly from their media advertising. It is confusing to say the least that professional money managers who are employed to guide mutual funds so completely ignore what is probably the first tenant of sound investing- low portfolio turnovers. On top of the hit to returns, frequent (ranging from 75 –125% turnover and more for Canadian equity funds) trading exacts commissions and bid/ask spreads. Funds that have large turnover ratios will also end up distributing taxable capital gains annually to shareholders. Also, because of unrealized capital gains and the inability to time sales, buy and hold funds can pose a significant tax exposure in a non-registered account.

THE ARGUMENTS FOR BUY AND HOLD

The primary traditional arguments for buy and hold are:

- **Stick with a winner.** Equities *as measured by benchmark indexes* have outperformed other asset classes over long periods of time-15 to 20 years. So if you own shares in well run company hold onto it and ride the growth. A mutual fund does this with its portfolio. You will often see a chart showing how the likelihood of positive returns increases with holding period. Such a mutual fund would exhibit a portfolio turnover up under 30 percent.
- **Pay less taxes:** If a buy and hold mutual fund is sold there will be a capital gains tax liability unless held in a registered plan. Why not let the great growth accumulate tax-free? Additionally, it is suggested that tax rates might even be lower when you sell years later.
- **You can't time the market:** Knowing when to sell) or buy) has proven extremely difficult even for the most skilled and experienced investors. Mutual fund companies often cite a statistic like” If you were out of the market for the best 20 trading days during a ten year period, your returns

would be only 2.8 % instead of 10 .0 percent on a fully invested basis”.
(Source TD FundSmart Investing)

- **Use dollar cost averaging.** Mutual fund companies go beyond buy and hold and promote dollar cost averaging and reinvestment of all distributions. This way it is claimed you buy still more units if the fund temporarily declines on its generally upward slope and less units when the price is higher. It is a well-established fact that the majority of mutual fund investors underperform the actual funds they’re invested in by following a Buy high, Sell low investment strategy.

HERE’S THE PITCH

“Hold for the long-term”

“Markets always recover”

“Stocks are best for the long run”

“Stay fully invested”

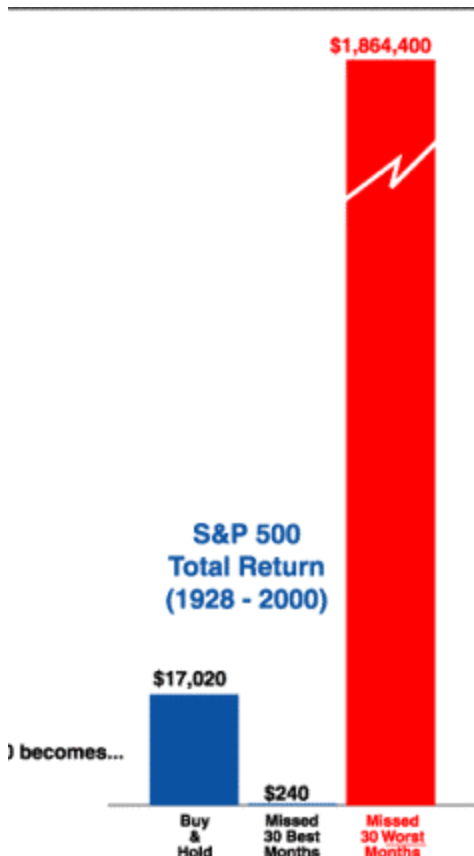
These simplistic notions have cost U.S. investors a bundle. According to a recent paper “After Irrational Exuberance “ by prominent economist John Makin, the U.S. market is down about 40 percent since the market high of March 2000, it will take until mid 2009 to retain that pinnacle assuming a realistic 8% return. The “ hold on” pitch has, according to Makin, cost American households about \$8 trillion over the past 2-1/2 years! Studies of the buy-and-hold portfolios of hundreds of investors have found that most of those portfolios produce less than they should. Typically, investors either are taking too much risk for the performance they are getting or not getting the performance they deserve to compensate them for the risk they are taking.

Buy and Hold does serve mutual fund Companies well however. By your holding on, they collect fees from you whether the fund is meeting its benchmark index or even losing money. Advisers collect trailer fees as long as you stay invested in the fund. If the fund Company also owns or is affiliated with a brokerage subsidiary, they make money on trading commissions. By urging the continuous reinvestment of distributions, a policy not inconsistent with buy and hold, a fund company earns still more fees. And by promoting the use of Dollar Cost Averaging, the continually growing asset base results in yet more fees. Clearly, buy and hold suits fund Company’s but does it suit unitholders?

WHAT DO CRITICS SAY?

Critics have been vocal in attacking buy and hold as advocated by mutual fund companies and brokers. First, in *principle* the arguments in favor of buy and hold are mostly valid. The controversy comes in practice. The term has been abused and effectively been unduly promoted as “buy and forget “or “buy and buy still more”.

The problem is that there are very few companies or mutual funds that have a pristine record that has lasted 15 or 20 years or 25 years- the mythical long-term. One –time star, Polaroid has faltered and is now in Chapter 11. Nortel which only two years ago had a market capitalization exceeding all of the Canadian banks put together now flirts with bankruptcy and trades at about \$ 1.50 down from \$120. Enron, touted by Wall Street only a year ago is implicated with criminal fraud. The catch therefore is that there only a very few companies around worthy of the buy and hold label and even experts aren't sure which ones they are. Second, very few funds follow their own words. According to the mid October 2002 edition of Investment Executive the average Canadian equity fund experienced a whopping 113.7 % portfolio turnover in 2001. Critics argue that fund companies and brokers bastardized a sound idea for their own self-serving purposes. Thirdly, studies have proven that asset/sector allocation is far more important than the choice of individual mutual funds or stocks. Such studies of professional money managers indicate that asset allocation decisions account for more than 90% of the variance of a portfolio's performance. Fourth, despite the, you can't time the market, claim, there really is a time to sell. In Feb. 1994, Fed Chairman Alan Greenspan announced an interest rate increase after several years of declines-this represented a changing trend with its adverse impact on securities markets. Another time to sell-during periods of outrageous excess such as the Telecom boom that began in March 1997-this was the most dramatic fiscal display of folly, foolishness, hype and fraud in the history of financial markets. A mutual fund investor who slashed his holdings in overvalued equity funds generally and techs specifically in 2000, experienced much better returns with less stress. This is only common sense which apparently is relatively uncommon. Finally, even so-called "buy-and hold" mutual funds don't make sense in that they defeat one of the most fundamental purposes of buy- and-hold, which is keeping fees to a minimum. Many of these funds, especially Canadian ones, have MER's in excess of two percent, payable each month, that acts as a major drag on long-term returns under a buy-and hold strategy.



"A Buy & Hold strategy is largely dependent on fundamental factors. There's always the belief that if you only chose equity or bond mutual funds or a blending thereof, your mutual fund portfolio won't get hit hard in a bear market. That belief is an historic illusion. "Buy & Hold" is a safe strategy when you are invested in the asset, which is friendly to the developing underlying fundamentals, be that Equities, Government Bonds or Cash.

Shown in the graph (Courtesy of www.investech.com) is the dramatic difference between a" blind "Buy & Hold strategy versus moving to temporary cash (Money market Funds or Fixed-Income Funds) when the investment climate has turned against the investor. Since 1962, a \$10,000 investment in the S&P 500 would have grown to \$719,592 through Buy & Hold. In direct contrast,

that same \$10,000 could have returned 5 times more - \$3,332,028 - by following a "safety first " and "risk averse" strategy. This strategy is designed to keep you out-of-bear-markets when the monetary climate turns against the investor.”

Source: Buy & Hold-Myth or Truth?

June 18, 2001 Hans Merkelbach; www.strategicsector.com

DOLLAR COST AVERAGING

Dollar cost averaging (DCA) is the process promoted by fund companies of investing small fixed amounts regularly (weekly, quarterly or most usually monthly) and therefore buying more units when prices are low and fewer units when they're high. Often investors can choose an option in which money is automatically withdrawn from their banking account and invested into the mutual fund at a specified time of the month. The strategy can be an aid to those who need a forced savings vehicle and provide psychological comfort/investment discipline in volatile markets when retail investors often buy too much at a peak and emotionally sell off holdings during a decline. As an optimizing investment strategy , DCA has however been attacked , primarily by academia.

DCA is based on buy, buy and buy still more and is a close cousin of Buy and hold. Regular contributions, it is postulated, ensure investments move into the market cautiously, unlike an annual lump sum. DCA does provide a disciplined approach to saving and can be an acceptable way to accumulate wealth and reduce risk albeit at the price of return. However, many academics, such as Dr. Moshe Milevsky a finance professor at York University, have been decrying the inefficiency and outright abuse of this strategy, for about as long as DCA has been preached as gospel. According to Milevsky you should realize that DCA is essentially a “bearish” bet on the markets. You are buying a few units now, in the hope that you will be able to buy even more units when they get cheaper. That boils down to market timing, plain and simple. Milevsky convincingly demonstrates that the reduction in returns under DCA is more than it should be for the amount of volatility reduction it offers. There are more efficient ways to reduce volatility/risk he argues, such as asset allocation.

“It would appear to me that there is little justification to even look at DCA; mathematically it can only "work" in a constantly rising market- under those circumstances you are on average best off to buy all immediately. As for buy and hold, coming from the institutional side of this business I can assure you that nobody lives by that credo. The only explanation for it is that the adviser has no better idea and consequently it is just a simple way of unloading the responsibility for performance on the client himself who by virtue of the essentially undefined time period implied by the strategy, can never really complain, not even of the high MER's.”

- Anonymous Financial Adviser

Other independent researchers are also skeptical as to whether dollar cost averaging actually means better returns. If the strategy worked it would be expected to produce the best results with volatile funds (those whose unit prices bounce around the most) because you'd be buying lots when they were in the dumps and very few when they were riding high. In fact, studies have shown that the less volatile funds produced the better returns about 70 percent of the time. According to “Money Logic “ (pg 45), researchers have identified a long-term performance penalty suffered by dollar cost averaging, which they estimated at between 1% and 4 % depending on the time period and market involved. This wealth of research didn't however stop Ned Goodman of Dundee Bancorp, owner of Dynamic mutual funds to state “For a fluctuating market, no one has yet discovered a formula for investing which can be used with so much confidence of success as dollar-cost-averaging.” The same brochure actually claims that they can time the market. “To make your investment work even harder, Dynamic analyzed the “Day of the week Effect” to discover the best day to transfer funds. This analysis revealed that stock prices on average are lower on Mondays than on any other day. That's the day designated for the Dynamic Dollar Cost averaging fund to reinvest 1/52 of your total investment into units of your chosen Dynamic fund.” Notwithstanding this controversial claim, the hard evidence seems to be that a very effective way to make money in the stock market, depending on age of course, is simply to invest your cash as early as possible, diversify, rebalance as required and let time and compound returns work their Magic.

NOTE: Dividend Reinvestment Programs (DRIP's) are available for a wide variety of quality stocks, income trusts and REIT's. These programs reinvest the dividends at zero or little commission. With most DRIP Programs, you can also make voluntary lump sum contributions. Some brokers like Action Direct offer a wide selection but only integral (no fractional units) numbers of units/shares can be acquired. In effect, DRIP's are a form of DCA with the amount invested constantly growing as more shares are acquired.

WHAT BUY AND HOLD ISN'T

Buy and hold is an enticing catch- phrase that greatly oversimplifies the investment process. Specifically buy and hold does not mean:

- **reinvesting blindly year after year without a periodic review of performance, trends, outlook and alternatives**

- forgetting the principles of asset/ sector allocation and diversification tailored to your stage- in- life, age and goals
- ignoring the need to annually rebalance/reallocate your money to suit your changing objectives, overall financial position and loss/risk tolerance
- staying fully invested in equities in a bear market or an obvious bubble like the dot.com circus where new ratios like Website hits per month became financial metrics
- leaving your asset mix the same as you get older and your loss/ risk tolerance declines
- planning to a blind eye to sell signals like excessive P/E 's, negative momentum indicators, declining performance trends or dismal economic forecasts
- accepting everything your adviser says without asking tough questions and receiving fact- based answers
- passing on boring low MER, tax efficient index funds or ETF's, no matter how wonderful the mutual funds marketing pitch
- looking only at the idealized pre-tax returns promoted by the fund Company
- ignoring other uses of money such as eliminating credit card debt which costs say 18 % p.a. and is not tax -deductible
- forgetting the fact that mutual funds and stock prices may fall at inconvenient times such as in the years before retirement, a family emergency or just before university tuition bills come due- some stock funds or indexes can lose 4 to 5 percent in a single day!

SOME THOUGHTS ON THE BUY & HOLD STRATEGY

A 1988 study by Professors Richard Woodward & Jess Chua of the University of Calgary shows that holding on to stocks as long term investments works better than market timing because the gains from being in the market during bull markets far outweigh the losses in bear markets. The Professors conclude that a market timer would have to make a correct decision 70 % of the time to outperform a buy and hold investor-not an easy task. The report was written however before modern communications, the internet, executive stock option programs, discount brokers, ETF's, the perceived higher volatility of modern markets and the breakdown of confidence in market regulation/accounting /ethics. In any event, Canadian mutual fund investors have an average hold period of between 3 and 4 years.

An intelligent buy and hold investor should continue to use this strategy to be sure, subject of course to periodic review of his portfolio. But he also needs to look at other investment strategies and vehicles to complement it. For instance holding

intermediate or long-term bonds, bond funds or stripped coupons makes more tax-sense when held within a RRSP. A Registered Educational Savings Plan (RESP) stacked with growth and income investments that shelters income, attracts a government grant and is taxable in the hands of the student at withdrawal 15 or 20 years later is an excellent candidate for buy and hold. ETF's or Index funds which are the ultimate examples of diversification and buy and hold are very tax efficient and provide market returns over the long term. With ETF's like the i60 or QQQ, more sophisticated investors comfortable with buy and hold, can sell in-the-money covered call options (LEAPS) to protect their holdings/earn extra income.

Sometimes however you are wise to sell and take some money off the table. Smart investors know that when to sell is just as important as when to buy- and- hold. For every buying strategy, there should be a selling strategy. You may want to rebalance, the management has changed, governance issues have arisen, customer service is poor, the investment is a chronic laggard, the risk- adjusted return is unwise or the investment is no longer suitable for you. You can crystallize some gains, park the money, put the money to better use or reinvest in more conservative or alternative investments.

You may see alternative investments with a better risk/reward profile or those that are more suitable for estate planning, tax optimization, currency hedging (mutual funds in Canada are valued in Canadian dollars-maybe you want some greenback exposure) or asset protection against creditors /claimants. Income/Royalty trusts, REIT's, U.S. dollar denominated bonds, preferred's or ADR's offer some attractive alternatives. If your risk tolerance is relatively low and your willing to give up some return for being able to sleep, Index-linked GIC's or segregated funds may be ideal buy- and- hold investments but you'll need to really shop to find the right one. Or, look into one the more than 100 hedge funds available in Canada to better manage risks. You might even consider investing in mutual fund companies. If your net worth has reached the point (say over \$150,000) where you can invest by using a managed money approach then mutual funds should be reconsidered altogether. (see "the Wealthy Boomer: Life after mutual funds" by National Post finance columnist Jonathan Chevreau, Key Porter books, 1998.) . Alternatively, take some timely losses to offset some other capital gains & hence reduce income taxes payable. If you have net losses you can carry them back to 1999 when capital gains were taxed at a 75% inclusion rate.

Asset Reallocation is another alternative. One key point of buy and hold is that the investment has to be making money for it to work.

If your unhappy with investment performance or concerned about risks you can use the money for example to reduce loan or mortgage interest or simply enjoy life. Often the return to you by reducing non-deductible debt provides a much more significant benefit than buy and hold investing. Take a look at your credit card balances and the interest rate your paying. Instead of doubling up on your "long term "losing Japanese equity fund -10 year Group average return minus **1.40 %**, maybe make some additions to your home that will add comfort now and tax-free

value when you sell. Buy and hold applies to home ownership too, although the investment industry or fund factories may not be glad to hear this.

TAX AND ESTATE PLANNING

If you've held a mutual fund or stock for a long time under a buy and hold strategy, the tax liability can be significant when you go to sell. If held inside a registered plan the proceeds will be taxed at your highest marginal tax rate (46.2 Percent in Ontario) despite the fact that roughly two-thirds of the gain is due to capital gains and one-third is due to dividend income. You may however be in a lower tax bracket than when you made the contributions. In the event of death, the registered plan, such as an RRSP can be rolled over to the spouse tax-free as long as he/she is the defined beneficiary. If there is no spouse or the spouse needs the cash, tax will have to be paid. Estate planning advisers suggest that an insurance policy in the approximate amount of the anticipated tax liability (and deferred sales charges if applicable) be established preserve the estate for heirs.

If the mutual fund is held outside a registered plan, the tax liability will be much less. You will however need to compute the adjusted cost base (ACB) in order to calculate your capital gain. The ACB is the weighted average price you paid for the units including reinvested distributions and/or any lump sum or DCA contributions. This can be quite an administrative chore if you've held a fund for 10 or 15 years. You'll of course have to have a record of all transactions. Mutual fund taxation is much more complicated than equity ownership. If your taxable amounts are large or your tax situation is complex, be sure to enlist the services of the tax professional. As before, a term insurance policy can help mitigate the sting of a large tax liability at redemption (deemed disposition).

CONCLUSION

Before looking at any investment strategy, it's vital to identify your goals and prepare a **financial plan**, with specific time-phased objectives. Starting to invest early and allow multi-year compounding to work its magic is a key component of successful investing. *Intelligent* adherence to buy and hold is still a solid piece of investment advice. The investment industry has oversimplified the strategy so much that it's led investors to hold losers along with winners. *Preservation of capital* is a fundamental tenet of any investing strategy. Coupled with sound asset/sector allocation, a minimum annual review of your portfolio/periodic rebalancing and the use of *low cost* investments like stocks purchased through a discount broker or ETF's (or low MER index funds) your financial goals can be met using intelligent application of buy-and-hold as one of your strategies. Avoid load funds, especially back-end loads which inhibit your timely exit through costly penalties. Don't average down a loser or a high-risk situation, fund managers don't, but exploit buying opportunities you feel comfortable with. As John Bogle, Vanguard's founder suggests "If you're in for the long term (> 5 years) the last thing you want to do is stop the averaging program at the bottom when you kept investing while things were near the top.... providing you've got your asset allocation in stocks and bonds right... stay the course ...Index funds will give you those returns when they happen

“. As you reach retirement or are in ill health, commence shifting your investments to those with lower short -term standard deviations/volatility.

Always remember it's after- tax returns that count and that your *financial plan* consists of a lot more than investment portfolios. Insurance (personal/home/critical care), debt, home ownership, tax issues, emergency cash reserves and estate planning are also key components. You want to optimize your *overall* financial position not just your investment portfolio. Because your various financial elements are co-dependent, often non-linearly, optimization of only your portfolio element definitely will not optimize your overall position if Operations Researchers are correct.

Listen to fund Companies and advisers but get educated and be prepared to challenge them with insightful questions. For instance, ask your adviser or fund Company what your returns would have been if you had missed the **worst 20** trading days over the last 10 years.

Control your own destiny or someone else will.

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(Noted investment adviser Hans Merkelbach runs this excellent site)