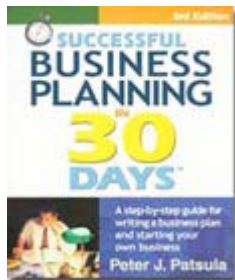


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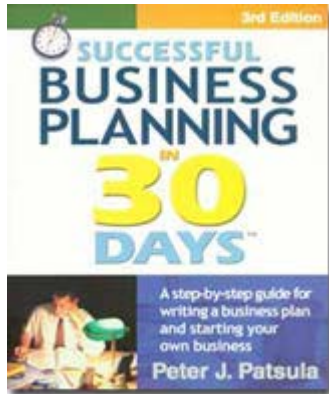


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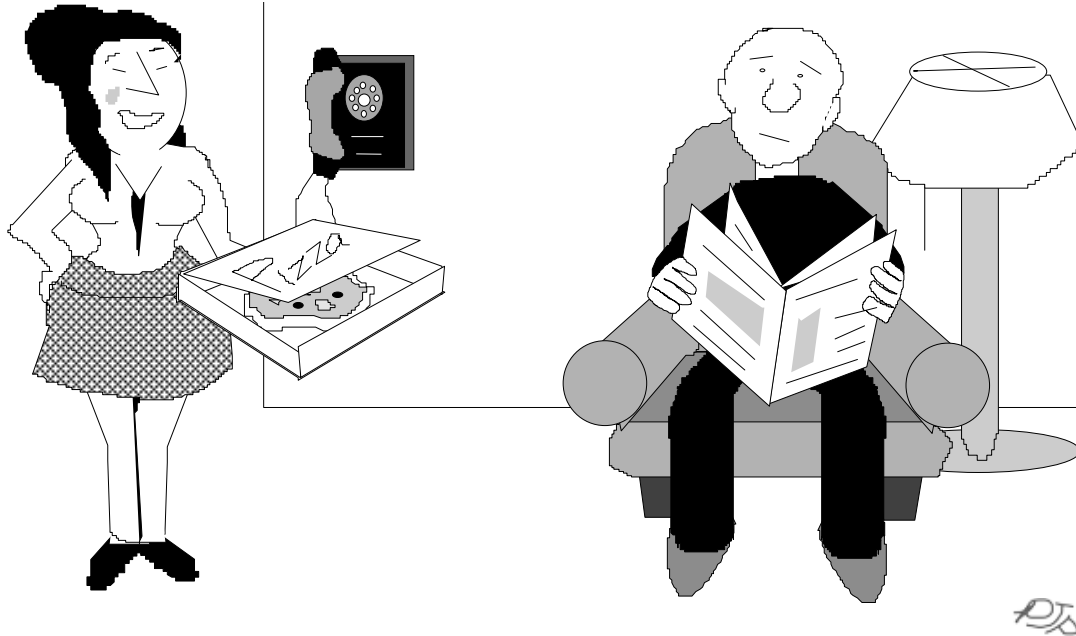
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“I hate to worry you dear, but the guy who delivered this pizza sure looks a lot like your new financial planner.”

Smallbusinessstown.com

BUILDING AN INVESTMENT PORTFOLIO

ANY profits left over, after you've paid your monthly business expenses, covered your monthly living expenses, and contributed into your retirement plan, should be immediately invested in one or a combination of the following investment products:

- **cash investments**
- **debt instruments**
- **equities**
- **mutual funds**

The investment vehicle you choose will likely depend upon liquidity needed, rate of return desired, and risk involved.

THE FOUR MAJOR CATEGORIES OF INVESTMENTS

THERE ARE four major types of financial investment vehicles available to you to help build your investment portfolio:

- cash investments
- debt instruments
- equities
- mutual funds

Cash Investments – Cash investments include savings accounts, term deposits, short-term investment certificates, money market certificates, T-Bills and other investments that are generally seen as very low risk. They're very liquid (cashable), but they offer low rates of re-

Never invest your money in anything that eats or needs repairing.

BILLY ROSE

turn. Having part of your portfolio in cash gives you the flexibility to react quickly to investment opportunities or emergencies and makes your portfolio less exposed to market volatility. However, it also reduces your overall rate of return.

Bonds & Debt Instruments –

Debt instruments are contracts between someone who wants to borrow and someone who has money to lend. They include investments such as bonds, debentures, mortgages and personal loans. The contracts involve the borrower paying certain amounts of money in the form of principal and interest at certain times in the future, once the loan has been made.

Bonds and debt instruments earn interest at a predictable rate when you hold

them to maturity. However, if you sell them prior to maturity, there is the potential for capital gains or losses. If interest rates go up, your contract is valued less by the market. If interest rates go down, your contract, with its higher rate of interest, becomes more attractive.

Equity Investments (Stocks) – Equities are shares of a company or organization that increase or decrease in value depending on the market's perception of the company's future earnings prospects. This group includes stocks, equity, and shares of private companies. It also includes real properties and collectibles. Equity investments are expected to grow in value over time and may even provide some income in the form of regular dividends. Historically, they have achieved the best re-

turns but are also the most risky, because their value is based on market demand.

Investment Risk vs. Returns

Asset	Volatility	Return	RISK
Cash Investments	Low	Low	Low (but may not earn more than inflation)
Debt Investments (Bonds)	Mod.	Mod.	Moderate (but may not beat inflation; or interest rates may rise creating capital losses)
Equities (Stocks)	High	High	High (market may fall)
Mutual Funds	Low to High	Low to High	Low to High (depends on type of mutual fund)

Mutual Fund Investments – Mutual funds pool resources to invest solely or in a combination of cash investments, debt instruments or equities. The variety of mutual funds available to investors is almost limitless.



Mutual funds pool resources to invest solely or in a combination of cash investments, debt instruments or equities.

CASH INVESTMENTS

WHY KEEP CASH? Cash is necessary to take advantage of special bargains e.g., a supplier's clearance sale of raw materials. Cash held for such purposes is called speculative cash balance. A business should also hold some extra cash as a precaution against emergencies or unexpected outflows of funds.

An additional advantage to holding an adequate cash balance is the opportunity to take trade discounts offered by suppliers for early payment of invoices.

NOTE A bank may require the small business to maintain a checking account with a minimum deposit equal to some percentage of the loan amount.

I cried all the way to the bank.
LIBERACE

Types of Cash Investments

There are six basic kinds of cash investments:

- savings accounts & term deposits
- short-term Certificates of Deposits
- Investment Certificates (GICs)
 - Money Market Certificates
 - Treasury Bills
 - Commercial Paper

These types of investments offer exceptional security and liquidity along with safe returns at close to top interest rates. The rates they offer can often be only a few points below the rate set by the the Federal Reserve in the U.S. and the Bank of Canada in Canada.

Savings Accounts – Special savings accounts can offer rates as high as one and a half to two percent below prime. Money can be withdrawn at any time without penalty. To get the best rates, avoid large commercial banks.

NOTE Many large mutual fund companies will offer savings accounts because they often need quick access to cash themselves. Their rates are very competitive.

Term Deposits – Term deposits are similar to savings accounts except you can only access your money after a certain period of time such as 30 or 60 days.

CDs – The negotiable CD (certificate of deposit) is a popular short-term instrument issued by commercial banks. It is issued in

minimum denominations of \$100,000 and may be traded in the secondary market. CD holders feel safe knowing their investment is insured by the Federal Deposit Insurance Corporation (FDIC).

A string of successes can kill you if they make you think, “Hey, I’m smart; I can’t make any mistakes

**HARVEY
MACKAY**

GICs – Investment certificates of various kinds are offered by banks and other financial institutions with maturities ranging from 30 days to 5 years. Some of these investments can be redeemed prior to maturity with an interest rate reduction as a penalty. Others cannot. The obvious advantage of an investment certificate is simplicity. Just walk into a bank and the entire transaction can be completed in a few minutes. However, the downside, is that since your money is tied up for a fixed period of time, the real rate of return on your money can be affected by

taxes and inflation. As well, if you need the money today, for a special bargain purchase, forget it.

Money Market Certificates – Money market certificates or funds, as they are often called, can be used as an investment in a variety of ways. You can buy shares in a money market mutual fund, purchase a certificate that invests in a money market fund, open up a money-market deposit account, or purchase a six-month money market certificate.

Treasury Bills – Treasury bills, commonly referred to as T-Bills, are a key component of money market securities. They are virtually risk-free since they are issued by federal and provincial governments and offer a good rate of return. They

are very liquid and can be bought and sold quickly and easily on the open market.

In Canada, for example, every week the government issues a new set of treasury bills with terms of 91, 182 and 363 days (normally thought of as 90 days to a year).

T-bills can then be purchased on the “wholesale” market in essentially the same manner as a bond or stock. However, the difference between the wholesale rate and the price from the investment dealer is less, usually about 25 basis points (0.25%).

In the U.S. T-bills are sold quite frequently by the Treasury through public auctions. However, most small investors are advised to buy them in the secondary market through a U.S. T-bill dealer/broker.

If you can count your money, you don't have a billion dollars.

J. PAUL GETTY

NOTE T-bills don't pay interest as such: the investor's return is the difference between the discounted purchase price and the face value paid at maturity. In other words, T-bills are sold at a discount, the buyer pays an amount less than the face value of the bill which he/she receives when the security matures. The smallest denominations are \$10,000.

Commercial Paper

– Unsecured promissory notes of large corporations with high and well-established credit ratings are known within the financial industry as

If a man runs after money, he's money-mad; if he keeps it, he's a capitalist; if he spends it, he's a playboy; if he doesn't get it, he's a ne'er-do-well; if he doesn't try to get it, he lacks ambition. If he gets it without working for it, he's a parasite; and if he accumulates it after a lifetime of hard work, people call him a fool who never got anything out of life.

VIC OLIVER

commercial paper. Maturities of commercial paper are typically between 15 to 45 days, but may range from 1 to 270 days.

There are no secondary markets for commercial paper, but issuers generally provide liquidity by standing ready to buy back the security before it matures.

Essential Cash Investing Strategies

- 1. Invest in cash investments to reduce your risk in the short-term and maintain liquidity.**

Cash investments are very low risk in the short-term. They also usually can be accessed immediately, whenever you need funds.

2. Avoid investing in GICs unless your needs are very specific.

Some experts feel that GICs and similar investments offer a reliable and predictable rate of return that is often very competitive with bonds, T-bills and other investments. They also feel that they're an easy and convenient way to invest and well suited for investors seeking a fixed income investment for amounts under \$60,000 (the amount in Canada guaranteed by the Federal Depositors Insurance) and who do not require liquidity.

However, usually these experts work for banks or other financial institutions and have a vested interest in convincing you of where to put your money.

One of the main reasons for investing in cash products is to obtain liquidity. A GIC defeats this purpose.

Invariably, the rate they give you is generally about 0.75% below the rate you can get from other just-as-secure investments such as Government of Canada Bonds. They then earn their money between the interest rate they offer you and the interest they can earn on these and other secure investments that offer higher rates of interest. In other words, they earn money on your ignorance.

The bottom line is that you should avoid putting the cash investment portion of your portfolio in any investment that ties up your money. After all, one of the main reasons for investing in cash products is to obtain liquidity. A GIC defeats this purpose.

3. Avoid letting excess money sit around idle in a checking account. Money has to work for you. Never give it a holiday. It is always better to throw excess money that is sitting around into a short-term GIC or similar investment then let it sit in your checking account.

4. For the long-term, avoid cash investments entirely. Many investors feel you may as well put your money in your mattress if you invest in cash investments. Inflation and taxes will eat away most of your profits.

5. If you do invest in GICs, stagger your maturity dates. Many GIC in-

vestors decide to stagger or vary the maturity dates of their GICs to have more control over their funds.

6. Negotiate rates. The financial service industry has become so competitive than banks and trust companies often use an interest rate bonus of .25 to .5% to attract customers. Some investor have discovered that it pays to shop around for the most advantageous rate, or to request an interest rate bonus, if they are investing or transferring funds from another financial institution.

T-bills are well suited for investors with \$100,000 or more to invest for short periods of time in a high quality environment, who don't require income.

SUPERTIP



BONDS & DEBT INSTRUMENTS

THERE ARE four basic ways of investing in debt instruments:

- bonds
- debentures
- mortgages
- personal loans

NOTE In this section bonds will be dealt with in great detail while the other three will just be touched upon.

What is a Bond?

A bond is an interest-bearing security – a piece of paper – issued by governments, banks, corporations, and municipalities to

raise cash. More simply put, a bond is a loan made to large organizations by investors.

A bond is an interest-bearing security – a piece of paper – issued by governments, banks, corporations, and municipalities to raise cash.

SUPERTIP

When you buy a bond, essentially you are purchasing an IOU from the issuer who promises to pay you a set rate of interest for a specified period of time – in some cases this interest rate is adjusted according to market rates – and also, to return your capital on a specified date called the maturity date. Bonds are issued with a fixed term to maturity usually from anywhere from one to 30 or even

40 years.

Some bonds can be redeemed (cashed in) almost any time but then usually can't be sold to other investors. However, the

majority of bonds can't be redeemed before maturity. Instead, they can be sold to other investors through securities dealers. Most bonds pay interest quarterly or semi-annually.

What is the “face value” of a bond?

The “face value” of a bond is the fixed amount of money that will be paid back at maturity. The bond “price,” however, varies with market conditions. It is quoted in a percentage of face value. “Par” is 100, which means the bond’s price is equal to its face value. A price of 95 means that a bond with a \$1,000 face value will cost \$950 (or can only be sold for \$950).

What is a bond’s “coupon rate?” The interest a bond pays is often referred to as its “coupon rate.” This rate is fixed on the

The interest a bond pays is often referred to as its “coupon rate.”

day the bond is issued. For example, a bond with a \$1,000 face value and a 7.5% coupon rate would pay \$75 a year in interest. North American bonds usually pay interest in equal semi-annual installments, in this case of \$37.50 each.

Why do bond prices change?

When you buy a bond on the open market, its price may be above or below par (face value). It all depends on several factors:

- the credit rating of the issuer
- how much time is remaining until the maturity date
- current interest rates

These in turn are affected by investors’ fears about inflation, and demand and supply for bonds of various maturities.

What is a bond's "yield?" A bond's yield, or yield-to-maturity, is its average rate of return, taking into account not only the coupon rate but also the capital gain or loss at maturity if there is a difference between the bond's purchase price and par. While the coupon rate is fixed at the time of issue, yields vary, depending on the bonds' remaining term to maturity and its purchase price.

Buying Bonds – Government and corporate bonds are usually purchased from an investment dealer. The dealer makes money on the difference between the price at which he or she pays for the bonds on the wholesale market and the price at which he or she resells the bonds. This difference can range from 50

Why Invest in Bonds?

You should consider investing in bonds because they offer . . .

- Low risk and pre-determined yield if held to maturity
- Liquidity – government and prime corporate bonds can be sold quickly and easily
- Semi-annual interest payments and potential for capital gain if purchased at a discount of if interest rates fall
- Rapid growth through compounding
- Wide range of terms available, from 6 months to 30 years
- Well suited to self-directed retirement investments such as IRAs, RRSPs and RRIFs.

basis point 0.5% to as high as 100 basis point 1%.

Types of Bonds

There are two main types of bonds:

- straight bonds

- strip bonds

A third and fourth type of bond worthy of explanation is the:

- redeemable

- real return bond

Straight Bonds – A straight bond is the most common kind of bond. Simply put, it is a series of coupon payments at specific dates extending into the future, culminating in a final coupon and repayment of the face value at maturity. If the purchase price is below par,

Strip bonds are created by taking a straight bond and separating it into its basic components: the individual semi-annual coupons and the face value payment at maturity.

the coupons will be lower than you could get on a similar bond trading at par, but there will be a capital gain at maturity to compensate. If the price is above par, the coupons will be higher than you could get on a similar bond trading at par, but there will be an offsetting capital loss at maturity.

Strip Bonds – Strip bonds are created by taking a straight bond (usually a government issue) and separating it into its basic components:

- individual semi-annual coupons
- face value payment at maturity

These parts are equivalent to zero coupon bonds or treasury bills. They trade at a discount with the size of the dis-

count depending on the required yield and the term to maturity.

Strip bond prices change more for a given change in yield than straight bonds of the same maturity. However, they are like straight bonds in that their price converges on par as the term shortens, and if held to maturity produce the yield which was calculated when you bought them.

NOTE The table shown on the right shows the price of a strip bond for various yields and terms. Note the power of compound interest: a 20 year strip bond priced to yield 8% costs just \$20.83 and returns \$100 at maturity, yielding a guaranteed gain of 380%.

Redeemable Bonds – Some bonds particularly corporate issues, have call features which permit the issuer to call (re-

deem) them prior to maturity. Essentially this means that the issuing company, when ever it wants, can call a bond for redemption by informing the bond holders that it wishes to prepay the principal of the bonds prior to maturity. This makes the bond less attractive to investors since issuers will only redeem their bonds if the call (redemption)) price is lower than the market price. As a result, bonds with call features usually offer a higher yield, particularly if

Time to Maturity				
Price of a strip or 0% coupon bond	1 year	5 years	10 years	20 years
To yield 7%	93.35	70.89	50.26	25.26
To yield 8%	92.46	67.56	45.64	20.83
To yield 9%	91.57	64.39	41.46	17.19

they are trading close to their call price.

NOTE Usually the company must pay a premium above the \$1,000 par value to retire the loan early. This is laid out in the original terms of the loan or prospectus.

Real Return Bond – In Canada there is a bond called the “Real Return Bond.” This bond is fully protected against inflation; its principal value is increased at the same rate as the Consumer price Index, and its coupons are calculated on the basis of the adjusted principal. As a result, its yield is lower than other listed bonds, however its yield is entirely real.

High interest arises from three circumstances: a great demand for borrowing, little riches to supply that demand, and great profits arising from commerce.

DAVID HUME

Essential Bond Market Investing Strategies

You should not buy a bond unless its yield is competitive with other investments. Factors such as the issuer's credit quality and the bond's term to maturity, as well as market considerations like inflation expectations and government policy, all affect the interest rate required to make a bond competitive.

- 1. Invest in bonds for the long haul, not for short quick profits.** If you look at bond performance over the long term (five years or greater), you will see that no bond fund has ever lost money. However, over shorter periods such as six months or even one

year, bond funds have shown declines in value both currently and in the past. When markets are volatile, it's especially important to remember what made bond investments suitable for your portfolio.

Bond funds are a valuable part of any portfolio because they generate income and offer the prospect of moderate long-term capital appreciation. Similar to stock funds, time will help reduce the risks of investing in bond funds.

NOTE A recent study by Ibbotson Associates, Chicago, revealed that between 1974 and 1993, intermediate term government bonds had negative capital appreciation in 9 out of the 20 years but

the income earned on those bonds more than offset any losses in each of the 20 years.

2. Invest in bonds to reduce your risk.

When investors think about bonds, they think about safety and income. There are many bonds such as those guaranteed by the governments of Canada and the U.S. that are virtually riskless. In fact, it is often less risky to buy a 20 year bond and hold it to maturity than to buy four successive five year GICs, reinvesting at whatever rates are available at each maturity.

A bond isn't as risky as common stock either. If a corporation goes bankrupt, it must pay its bondholders

There is more opportunity for a man to achieve wealth at the present time than ever before.

J. PAUL GETTY

before it pays its shareholders.

Furthermore, a straight bond with an excellent credit rating is also considered by some to be less risky than a bond mutual fund that invests in similar bonds since the bond mutual fund itself has no fixed maturity date and thus no guarantee of a fixed price at maturity.

NOTE Barring the rare event of a default, your bonds will be worth par at maturity and the only part of your return that is uncertain is the rate you will earn when reinvesting the coupons and face values as you receive them.

- 3. Invest in convertible bonds to protect yourself from inflation.** Convertible bonds give the holder the

*Put not your
trust in money,
but put your
money in trust.*

**OLIVER
WENDELL
HOLMES**

right to exchange his or her bonds or debentures for shares in the holding company at a specified price. During periods of inflation, share prices of companies rich in assets move up. Thus although normally your bond yields would drop, with convertibles you can trade your bonds for shares and then sell the shares at a profit.

NOTE The convertible feature of a bond is a good option, but it's not free. Convertibles are often issued at a yield lower than what you would expect from a straight debenture.

- 4. Keep a watchful eye on inflation levels.** The mortal enemy of the bond investor is inflation. Since the chief income producing aspect of a bond is the

interest it pays out, as inflation rises, bonds earn less and less. This loss is further increased with the likely scenario of the government raising interest rates to curb inflation. Usually, high long-term interest rates simply reflect high levels of inflation.

NOTE Bond values are also affected by psychological factors such as the prospect of a rate increase and the general economic and political environment.

5. Keep a watchful eye on interest rates. Bonds are

In bond markets, you typically pay a fee ranging from 1% to 2%, much higher than the cost of buying bonds directly from an investment dealer. Large financial institutions however can buy bonds in volume on the wholesale market at the same rate as investment dealers and can thus offer bonds to individual investors at a lower fee.

FUNFACT

generally issued at a fixed interest rate and a certain value per share. However, due to fluctuating interest rates, their value can go up or down and expose buyers to capital losses.

Here's how it works. Suppose you buy a \$10,000 bond, with a 9% coupon rate – and then interest rates rise to 10%. If you want to re-sell that bond, nobody will want to pay its original face value because they can get new bonds that pay a higher coupon rate for the same price. To achieve a yield of 10% – the going rate – a buyer would only buy your bond at a discount. On the other hand, if interest

rates fall to 8%, then your bond will be trading on the open market for more than par, because it pays a more attractive rate of interest than is currently available.

6. Keep a watchful eye on the credit rating of the bond.

Since a bond is a promise, the credit quality of the issuer is very important. Issuers are given ratings by bond rating agencies to establish their creditworthiness. If their rating falls, the value of their bonds will also fall. Govern-

“Bonds and debentures are always issued at or near par which is \$1,000. When they mature, they will be redeemed at par. After the coupon (i.e., interest) rate of a bond has been fixed, any price divergence from par is reflected in the yield to the buyer. Obviously, a buyer of than bond who pays less than par will experience a higher yield than the coupon rate. This is because $Yield = Coupon/Price$.”

ALEX DOULIS

Take Your Money and RUN

ment bonds historically have been rated the highest and most stable while bank, municipal and corporate bonds (often called debentures) have a variety of ratings usually lower. Changes in bond fund values often result with changes in the credit worthiness of the bond issuer. It is thus important to note these changes of an issuer's credit rating.

NOTE A securities dealer (stockbroker) can tell you whether a bond or debenture is rated extremely safe – AAA – or is at a high risk of default on interest payments or redemption at matur-

ity. The ratings are made by independent bond-rating services and are based on the expected ability of the issuer to pay back the borrowed funds.

7. Lengthen or shorten your bond portfolio's average maturity in anticipation of changing interest rates.

As stated earlier, when interest rates change, the value of a bond changes. However, it is important to realize that the extent of the change is influenced by the length of time left for the bond to reach maturity. The longer the term, depending on whether interest rates have gone up or down, the greater the discount or the higher the premium – similarly, the shorter the term, the less it will be affected by in-

Short-term bonds are those which were issued some time in the past and are now approaching maturity and hence re-

terest rate fluctuations.

To illustrate this point, consider that a rise in interest rates will usually cause a larger drop in the price of a 20-year bond than for an otherwise equivalent 10 year bond. Therefore, in anticipation of higher interest rates, to reduce your capital losses, it is necessary to sell bonds having longer terms of maturity and buy bonds of shorter terms. On the other hand, in anticipation of lower interest rates, to increase your capital gains, you should do the opposite.

NOTE Short-term bonds are those which were issued some time in the past and are now approaching maturity and hence re-

demption.

8. Stagger your bond purchases so they don't all mature at once.

Bonds expose the buyer to interest rate risk at renewal. When a bond matures, you suddenly receive a lump of cash that you will need to re-invest in a hurry. But if this happens when interest rates are low, and you don't want to throw the money into the stock market, you will then have to purchase bonds at a low rate and set yourself up for capital losses when interest rates inevitably rise. You can reduce this risk by owning many bonds

As a basic rule of thumb, when interest rates go up, bond prices go down. And vice versa. That's because the coupon (the bond's fixed rate of interest) stays constant, so the bond is worth more when interest rates fall below its coupon rate and worth less when investors can get higher interest rates elsewhere.

ROYAL TRUST

with staggered maturity dates, so they don't all mature at once. Or, you can buy a bond mutual fund.

9. **Watch out for redeemable bonds.** If you have long-term investment objectives when buying bonds, there is no use in buying a high yield redeemable that can be called away from you at a moment's notice.

Debentures, Mortgages & Personal Loans

There are many varieties of debt instruments other than bonds available to investors. Some of

the more popular ones are described below:

Banker's Acceptances – Chartered banks guarantee promissory notes issued by corporate clients at a discount (like treasury bills). Terms vary up to 365 days. There is an active market for these investments, making them quite liquid.

Debentures – A bond is a loan secured by a particular asset. Debentures, on the other hand, are an obligation on the part of the borrowing corporation to pay interest and principal. Failure on the part of a borrower to pay interest or principal on an outstanding bond will result in the forfeiture of the pledged asset. Should a debenture issuer default, it will be taken into bankruptcy.

Mortgages – Instead of investing in bonds, why not finance a mortgage. This

type of investment strategy might be practical if you are selling franchises and offer to carry the franchisee's mortgage.

NHA Mortgage-Backed Securities –

These are mortgage-backed securities issued by the Canadian Mortgage & Housing Corporation (CMHC). They pay interest and principal on a monthly basis and usually mature within 5 years. HNA Mortgage-Backed Securities are unconditionally guaranteed by CMHC.

NOTE This investment is well suited for people seeking the reassurance of federal government backing and above-average monthly income.

Personal Loans – Your business can make a loan to another business or person just like a bank.

The stock market consists of hundreds of thousands of individuals who, in their collective wisdom, determine the price of a share.

ALEX DOULIS

Canada Savings Bonds



Canada Savings Bonds (CSBs) are another debt instrument that deserve special attention as an investment. CSBs are secure, cashable anytime and though interest rates aren't high, are considered the best of the interest-producing vehicles, such as T-bills and bank accounts. They are among the safest, most liquid investment you can buy. Three specific reasons you should consider them are:

1. The Government of Canada guarantees your principal and interest.
2. The rate of interest on CSBs is adjusted every year to remain competitive with current interest rates.
3. You have the flexibility to cash in your

No one was ever ruined by taking a profit.
STOCK EXCHANGE MAXIM

investment at any time, if you need the money or want to reinvest. In this sense, CSBs are more like deposits than actual bonds.

Types of CSBs – There are two types of CSBs:

- **Regular Interest Bonds** pay interest annually, either by check or directly to your bank account.
- **Compound Interest Bonds** add the interest to your principal each year allowing you to earn interest on your interest.

However, you will be taxed on your interest income as it accrues, although you don't receive it until maturity (the best place for a compound interest CSB is in a self-directed RRSP where interest is non-taxable).

Buying a CSB – CSBs can be purchased through investment dealers and financial institutions. For CSBs, the government pays a commission to the investment dealers and financial institutions for selling these bonds. To cover the commission, and the cost of redeeming them at any time you wish, the government typically offers lower rates of interest on CSBs than they do on government of Canada marketable bonds.

Another way to buy a CSB is to find out if your company has a payroll deduction plan for purchasing CSBs; with a plan, monthly installments plus interest are deducted over the year (similar to a loan), and the interest you pay is tax deductible.

Cashing in a CSB – Since interest rates for CSBs are paid at the end of each

month, if you have to cash in your CSB do so at the first of the month. That way you will receive the interest during the previous month.



Typical Rates of Return for Fixed Income Investments

Investment	Size	Typical Rates of Return	Terms	Comments
Bonds	\$25,000 minimum in multiples of \$1,000	5%-8% 7-9% Semi - annual payment		Prices vary based on market condition; return fixed if held to maturity; very liquid
GICs	\$5,000 minimum \$1,000 minimum	3 to 7.5% monthly, semi-annually, annually	Under 1 year 1-3 years and 3-5 years	Fixed return, not very liquid
T-Bills	\$5,000 minimum in multiples of \$1,000	4 to 8 % discounted	1 to 364 days	Low return, extremely liquid
CSBs	\$100 to \$100,000	4.5 to 7% annual payment	Up to 10 yrs, cashable any time	Rate adjusted at least annually, with a guaranteed minimum

EQUITY INVESTMENTS

SIMPLY PUT, equities or rather, stocks are shares in a company sold to raise capital to help it do things like build factories, re-tool, expand into new markets, or do research. The purchaser of the shares becomes a new part owner and is entitled to a share of profits received in the form of dividends, and if the company is sold or goes bankrupt, a percentage of the equity value equal to the percentage of total shares the investor owns.

There are two types of stocks which normally can be purchased by investors:

- common stock
- preferred stock

Common stock refers to the shares of a corporation which represent the basic rights of ownership, including the right to vote.

Common Stock – Common stock refers to the shares of a corporation, which represent the basic rights of ownership, including the right to vote. The holders of the common shares are the “true owners” and are the last to receive any distribution of earnings or assets. Common stock carries voting rights.

Preferred Stock – Owners of preferred stock receive their dividends first if the corporation does not earn enough money to pay dividends to all stockholders.

Essential Stock Market Investing Strategies

1. **Analyze sales and profits differently.** While there is nothing inherently wrong with earnings or assets, they are

the results of other things. Profits are a result, not a cause. Sales are a cause. Good profits are usually an indication of a solid management and healthy markets.

- 2. Analyze the P/E ratios of the stock.** In the stock market, earnings are recorded as dividends. Dividends are the portions of earnings paid to the owners of the company. The P/E ratio of a stock stands for its price to earnings ratio. To calculate a stock's P/E ratio multiply its price by total number of shares in existence and then divide this value by its annual earnings.

One has to be a lucky buyer.
J. PAUL GETTY

NOTE Stock market investors often calculate P/E ratios based on the current market

price of a share by the most recent twelve months' earnings per share, or the expected future twelve months earnings. They then compare these to the equivalent numbers for the market generally. This gives an indication of the validity of the share price.

3. Be wary of sales reports.

Company sales are never consistent. Sales are always peaking and troughing. Young companies frequently suffer glitches as they mature. Sales reports often won't depict the true future of the company.

- 4. Buy a super company everyone else thinks is a dog.** Sometimes due to bad publicity the financial community may believe a genuine super company

to be a real dog and no one will buy. That however is the time you should buy. Always look for young rapidly growing companies that are currently out of favor with Wall Street (or even old ones in the process of restructuring).

5. **Buy low and sell high.**

The fundamental rule for making profits in the stock market, is to **buy low** and **sell high**. However, this is easier said than done. Another related rule is, “Buy early and sell early.” This way you avoid the panic at both entry and departure from the stock market.

Stocks have fascinated investors for the last several centuries for the following reason: once the initial stock offering has taken place, the value of the stock takes on a new life quite independent of its original value. Speculators can thus drive stocks up and down, in no relation to their original value. Stock values can soar as companies become more profitable.

POWERPOINT

NOTE Stock market prices really begin to tumble when everyone pulls their bids, and sellers find prices rolling away with every trade being done at subsequently lower levels.

- 6. Cost average your investments.** Discipline yourself to program buy, once a month, quarterly or yearly. Cost averaging consists of investing the same amount of money in the market at the same time every year. In this way, you will always get the average price. You will never beat the timing

problem, but you will never lose to it either.

7. Diversify your portfolio. You need to buy at least ten stocks to begin playing the stock market. Out of those stocks, 3 or 4 will fall, 3 or 4 will post modest gains or stay the same, and 3 or 4 will become winners.

8. Don't chase after growth stocks, look for "value stocks." Value investing makes more sense than chasing after growth stocks. Avoid glamour stocks. Glamour stocks have a high ratio of stock price to book value, a high ratio of price to cash flow, a high ratio of price to earnings, and a high rate of sales growth. However, in an article published in the *Journal of Finance*, Joseph Lakonishok, Andrei Shleifer and Robert Vishny found that out-of-favor stocks

Value investing makes more sense than chasing after growth stocks.

beat glamour stocks 2-to-1. They found that over a 22-year period ending in April 1, 1989, that most glamour stocks average 9% to 13% while the most unglamorous stocks averaged 16% to 20%.

NOTE To pick a value stock, look for stock with a low ratio of price to earnings. Another, even better strategy is to look for companies with a low ratio of price to book.

9. Don't confuse intelligence with a bull market. During a bull market, stocks go up, having little to do with your skill at picking stocks. During these times, you are not infallible. The market will fall.

10. Don't get too technical when making your buying and selling deci-

sions. There are two major types of investors:

- the technical analysis investor
- the fundamentalist investor

The technical analysis investor studies the past action of a stock, the market, interest rates, or some other technical aspect or related event and bases his or her buying and selling decisions on that information. Fundamentalists base their buying and selling decisions on analyzing future trends for the economy, industries, or single businesses, in addition to using valuations like P/Es, PSRs and book values.

Although, there are plenty of adher-

ents to both styles, it is the fundamentalists who always seem to come out ahead. Perhaps, because there has never been a serious academic study that demonstrates a stock's prior price action has anything to do with its future price action.

PSR shows how much the stock market is willing to pay for a dollar of a company's sales.

It should also be noted all the legendary players who've repeatedly made big bundles on the stock market were basically fundamentalists.

11. Evaluate stocks by their price to sales ratio (PSR).

By itself, a PSR shows how much the stock market is willing to pay for a dollar of a company's sales. It is almost a perfect measure of popularity. To calculate a stock's PSR ratio, simply mul-

multiply its price by the total number of shares of stock in existence, and then divide this value by its annual sales.

Some guidelines you should follow when evaluating stocks according to their PSRs is never ever buy a company with a PSR greater than 15. Buy companies with a PSR of 5 to 10. However, as a general rule, since PSR values decline as companies get bigger, buy stocks of huge companies at PSR values of 0.4 or less. This means that if a company has \$10 billion in annual

Selling my merchandise is easy because it sells itself. Dreams of glory always sell themselves. Men and women lie, cheat, steal, kill and commit suicide over my merchandise. It makes them miserable and it makes them joyous; it makes everything possible and everything impossible. I'm a stockbroker and my game is greed.

BRUTUS

Confessions of a Stockbroker

sales, its stock value must be less than \$4 billion to be considered. In even the strongest of Bull Markets, most large companies should then be sold at a PSR of 2.0. Sell stock when the PSR rises above three or six.

NOTE PSRs are particularly effective in valuing stocks when there are no earnings and P/Es won't work.

12. Find out everything you can about the company as if you were buying it.

You need to find out the companies sales, profits, cash flow, net worth, basic cost structure, expenses, property owned, future growth potential, basic

company strengths and weaknesses, opportunities and threats and the management's vision of their future. Try and get a copy of their business plan.

13. Find out how much re-search the company does. A

company that does a lot of re-search yet remains profitable, is a company that will be around for a long time. However, keep in mind that the real key to what a company will get out of its re-search lies in its marketing.

14. Find out how much the business is actually worth.

To get an idea of whether or not a stock is undervalued or not, calculate how much a company would be worth if it was liquidated. If this value is sub-

To get an idea of whether or not a stock is undervalued or not, calculate how much a company would be worth if it was liquidated.

stantially greater than the present market value of the company (share prices times total number of shares in existence) you may have found a winner.

15. Get into the habit of using the Industrial Composite to compare.

The Value Line Industrial Composite published in *Selection & Opinion* lets you compare a single stock or groups of stocks to the broad markets' characteristics. It gives you a complete 15-year statistical snapshot of the market plus a projection for next year – all of which can be used to determine whether the market is too high or low or to compare individual stocks with the overall market. It includes balance sheet and other data, in chart and table

form, such as stock value, P/E ratios, cash flow per share, debt and current assets and liabilities (which can be used to analyze the company's basic liquidity). These charts are excellent for comparing stock values and prior revenues.

NOTE The *Industrial Composite* consists of over 900 industrial, retail and transportation companies (except rails). These companies account for about 80% of the income earned by all U.S. non-financial corporations.

16. Invest in stocks for long term growth. Although you can easily lose money by investing in stocks for the short term, historically it has been very difficult to lose money in

Although you can easily lose money by investing in stocks for the short term, historically it has been very difficult to lose money in the

the long term. Don't for example quickly dump a long-term growth stock when it levels off or sinks in value. In fact, that is when smart investors consider buying even more shares – at bargain prices.

17. Learn how to recognize super stocks. A super stock can generate internally funded future long-term average growth of approximately 15 to 20 percent and future long-term average after-tax profit margins above 5 percent. Most importantly however, in combination with the above two conditions, a super stock can be bought at a PSR ratio of 0.75 or less.

18. Study market directions. Market

mood more than facts determine the direction of the stock market. In fact, previous market research has found that about:

- **65** percent of share price movements reflect investor attitudes towards the market
- **20** percent of share price movements are caused by attitudes of investors towards the industry in which a company operates
- **15** percent of share price movements occur as a result of incidents affecting a specific company

Most people want to be rich, but not because they love money. They hope that financial freedom will give them personal freedom i.e., the opportunity to do what they really want.

POWERPOINT

The results of this study show that the day to day fluctuations in share prices reflect the general attitude towards the market and the economy—more than any other factor. This means that more than anything else a successful investor is one who can determine market directions rather than pick stocks.

19. Take advice from stockbrokers with a grain of salt.

It's a good idea to ask stockbrokers and other security analysts for information on presently traded stocks or upcoming issues.

However, keep in mind that stockbrokers make money when you buy and sell not when you make a profit. They are interested in generating lots of trade. Some will even give

you tips after they've heavily invested or have clients heavily invested in order to drive up the price. Of course, they won't tell you when they will sell and drive the price down.

20. Use the “40-Week Moving Average” to help determine when to buy and sell.

Moving averages don't predict market turns, but they are pretty good at confirming them after the fact. Thus, within reason they can be used to provide you with a warning signal that tells you it's time to think more seriously about buying or selling. To use this investment tool, get a hold of the last 40 weekly closing prices (available at your library). Then simply divide the sum of all these weekly closing prices by 40.

What was a great stock to own in Japan while the Tokyo Stock Exchange index fell from 39,000 to 18,000? Answer: no stock.
ALEX DOULIS

Chart this average on a graph. Then, each week add the new week's closing price and drop off the first week's closing to your sum and recalculate your average. Chart this new average and compare it with the actual weekly index. When the market is above its moving average, it's thought to be bullish and you should think about buying. When it's below its average, it's bearish and you should think about selling.

NOTE Moving averages can be based on 39, 41, 3 or 1003 week averages. But shorter periods whip-saw you much more often and longer periods seldom give you a signal.

21. Watch the value of the dollar. A

lower dollar leads to higher stock prices for export orientated companies with national dollar costs. For example, lower dollars should have a positive impact on commodity-based national companies.



A lower dollar leads to higher stock prices for export orientated companies with national dollar costs.

MUTUAL FUNDS

MUTUAL FUNDS are a group or portfolio of over a hundred stocks (equities), bonds (debt instruments), cash investments (interest bearing certificates) or other investments all managed by the same company or manager. In a mutual fund, the resources of many investors are pooled. This pooling of resources enables investors to be invested in a more diversified portfolio of investments than most individuals could generally own.

To buy into a mutual fund you purchase ownership units or shares in the entire portfolio.

To buy into a mutual fund you purchase ownership units or shares in the entire portfolio. The manager of the fund uses your money along with the capital invested by other shareholders to make investments for the portfolio based on the

objectives outlined in the fund's prospectus. For the average investor, who doesn't have a lot of time to study and research the stock or bond market, mutual funds are one of the safest and most profitable ways to invest. However, there are over 600 mutual funds in Canada alone, 1300 in America. The task of picking the right ones to balance your portfolio requires some research.

7 Reasons for Investing in Mutual Funds

As an investment vehicle mutual funds offer:

1. **Control** – Only those who are willing to exercise a measure of control over their investment can safely and consistently earn big profits. Mutual funds are an excellent vehicle for exercising con-

trol.

2. **Easy to Evaluate** – The track record of every mutual fund is a matter of public record. You simply check your newspaper for the previous day's closing price just as you would for a stock.
3. **Income** – You can choose to receive periodic income from any type of mutual fund: stock, bond, or money market.
4. **Investment Options** – Your investment options are almost limitless through mutual funds. You can invest in stocks, bonds, money market instruments, overseas companies and even precious metals.
5. **Liquidity** – You can withdraw part of all of you money anytime you wish and

The track record of every mutual fund is a matter of public record.

receive it within a few days.

6. **Professional Management** – Mutual fund managers are among the most knowledgeable financial people in the country. A full-time professional is responsible for choosing the stocks, bonds or other investment and watching the markets for you eight hours a day. They or the company they work for will also keep all necessary records of your account and send you periodic statements about your account.
7. **Safety** – Because of the incredible diversification, a mutual fund investment is mathematically 8 times safer than investing in any one stock or bond.

15 Types of Mutual Funds

Below are brief descriptions of the most common types of mutual funds:

Balanced Fund – A fund that invests in a combination of both equity and debt instruments such as stocks, bonds, and preferred stock. A *Balanced Fund* violates what some consider a fundamental investment strategy and that is “Every economy has one best investment.” Knowledgeable investors avoid these over-diversified balanced funds, which are big losers when interest rates are rising.

Bond Mortgage Fund – A fund that invests almost exclusively in a mix of bonds and mortgages.

I buy when other people are selling.
J. PAUL GETTY

Bond Mutual Fund – A fund that invests almost exclusively in bonds.

Canadian Equity Fund – A fund that invests almost exclusively in Canadian equities.

PICKS Ethical Growth Fund; Trimark Canadian; Phillips, Hager & North Vintage Fund.

Emerging Company Growth Fund – A fund that invests in new companies with good future potential.

Equity Fund – A fund that invests almost exclusively in stocks. It attempts to give investors capital growth and income at the same time. Over time, equity funds offer potential for greater returns than money market and bond funds.

Growth & Income Fund – A fund that invests in high-yielding stocks, bonds and convertible securities. This fund is designed for investors seeking some current income and stock market participation while stressing preservation of capital. This fund performs well when the prime rate is dropping because both stocks and bonds are appreciating, and the stocks and bonds are earning interest and dividends. However, it performs poorly when the prime rate is going up because any stock gains are automatically wiped out by bond losses.

Growth Fund – A fund that invests almost exclusively in common stocks. Generally, this kind of fund will not produce much regular income. It is managed for capital appreciation. Typically, it involves

***Growth Fund**
– A fund that invests almost exclusively in common stocks.*

more risk than other types of funds. Its unit price fluctuates more wildly with changes in the stock market. They are suitable for long-term investors.

Income Fund – A fund that invests in bonds, convertible securities and stable companies that have large dividend yields. Dividend yield is the amount of dividends paid per share divided by the price of one share. The lower the price, the higher the yield. This fund is managed to generate high current income and moderate capital appreciation with an emphasis on preservation of capital.

PICKS Altamira Income; Phillips, Hager & North Bond Fund.

Fixed Income Fund – A fund that seeks to provide investors with a regular stream

of income plus the potential for long-term growth. Fixed income mutual funds invest in securities such as mortgages, Canadian bonds and international bonds.

Index Fund – A fund that theoretically owns a percentage of every share in the Standard and Poors 500, Dow Jones or other index.

International & Global Equity Fund – A fund that invests almost exclusively in foreign equities.

PICKS Templeton Growth; Trimark.

Money Market Fund – A fund that invests almost exclusively in short-term debt instruments such as Treasury Bills, certificates of deposit, banker's acceptances, etc. Money market funds invest in short-term super safe, interest-bearing instru-

ments. They are good investment when interest rates are over 10% and on the rise and poor investment when interest rates are less or coming down. Money Market funds were originally created in 1972 in the US with the birth of the Reserve Fund. The objective was to offer small investors the opportunity to get better than bank rates on money market instruments.

PICKS Elliot & Page Money Fund; Everest Money Market Fund; Industrial Cash Management Fund; Waltham Instant \$\$ Fund.

Mortgage Fund – A fund that invests almost exclusively in mortgages. These funds are for conservative investors who want regular income.

Mutlite Fund – A fund that invests in shares of other mutual funds. An example

***Mortgage Fund** – A fund that invests almost exclusively in mortgages.*

is the U.S. based Vanguard's Star Funds. These funds have poor track records.

Pacific Rim Fund – A fund that invests almost exclusively in countries like South Korea, Taiwan, Malaysia, Hong Kong and Singapore.

Precious Metal Fund – A fund that invests in mining companies involved in the extraction of gold silver, platinum, and other precious metals. These types of funds are volatile and should be used only by more aggressive investors.

Preferred Dividend Fund – A fund that invests almost exclusively in preferred shares.

Real Estate Fund – A fund that invests almost exclusively in income producing real estate properties.

Sector Fund – A fund that invests in one particular industry sector, like oil and gas or precious metals.

Invest your profits to secure your future not to control it.
SUPERTIP

Specialty Equity Fund – A fund that invests in a particular market segment or has an equity investment philosophy that sets unique investment restrictions on fund managers. Examples of the former would be gold funds, or natural reserve funds. Examples of the latter would be option equity funds or funds that restrict investment to stocks with small capitalization's.

U.S. Equity Fund – A fund that invests almost exclusively in U.S. equities.

PICKS Bullock American Fund; Phillips, Hager & North U.S. Fund.

Essential Mutual Fund Investing Strategies

1. **Assess management expense ratios – MERs.** All funds charge an annual management fee that is clearly laid out in every fund's prospectus. MERs range from a low of 1.00% to a high of 2.78% with the average being around 2.1%. Equity funds usually have higher MERs than bond funds.
2. **Choose a fund based on its track record during the present type of**

Choose a fund based on its track record during the present type of economy.

economy. Don't choose a fund based on its five-year or ten-year record. Look at its performance during a bull market or a bear market, or when interest rates were low or high.

3. **Choose a fund that gives you straightforward advice at no cost.** Many of the good mutual fund companies will have a bi-monthly newsletter to help keep you informed on the latest developments in investing and personal financial planning. This newsletter should help you track the performance of your funds and keep up-to date with new legislation and tax changes that will affect you throughout the year.
4. **Choose a fund with an automatic**

investment plan. If you don't want to bother writing a check every month, or you feel you lack the discipline to budget for your investment plan, choose a mutual fund company with an automatic investment plan. With an automatic investment plan, the mutual fund company automatically withdraws from your bank account a pre-authorized amount, and then invests the proceeds according to your instructions.

Choose a no-load or low-load Fund.

- 5. Choose a fund with assets of more than \$25 million, less than \$3 billion.** If a fund has under \$25 million in assets, there is a good chance it cannot afford to hire or keep the best fund managers. You don't want your capital used to provide the training ground for a new fund man-

ager. Getting too big also has a downside. If a stock mutual fund has over 3 billion in assets, it loses flexibility. Much of the success of a stock fund in beating the stock indices is created by portfolio turnover – moving money in and out of cash positions in anticipation of market drops or gains. A fund manager can't move money fast enough if the fund is too large.

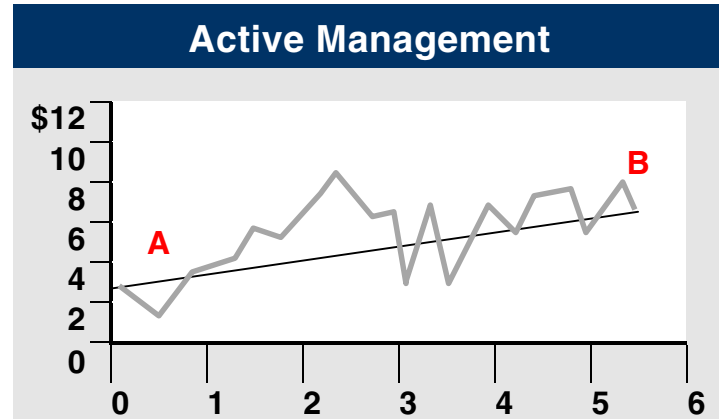
- 6. Choose a mutual fund that has a minimum required initial deposit within your investing limits.** Some funds require as little as \$100 to invest while other require a minimum of \$100,000.
- 7. Choose a no-load or low-load Fund.** Mutual funds come in two basic types: no-load and load funds. Load

funds charge commissions upfront and/or when you sell. They are usually sold by commissioned sales representatives. On the other hand, no load funds charge no commissions. It is preferable to choose a mutual fund company that sells its investment products without charging either front or back-end commissions. Also, check for exit fees and early withdrawal fees.

8. **Choose the right type of mutual fund for the present economy.** In general, when interest rates are high, invest in income mutual funds; when low, invest in equity mutual funds.

A more complicated way to assess whether to invest in stock or bond mutual funds is to look at the PE (price to earning) ratio. The Globe & Mail pub-

lishes the PE ratio of the Toronto Stock Exchange's 300 Index. The TSE calculates the PE on the basis of the most



PORTFOLIO MANAGERS

A passive manager buys security at Point A and sells at Point B. An active manager will try to take advantage of market fluctuations by buying at lower points and selling at higher points.

Note: This chart is for illustrative purposes only. Actual data has not been used.

recent 12 months of earnings. In December 1995, that ratio was 90, which meant that the dividend return on \$1,000 was \$11 for the year (1.1%). At the same time, a \$1,000 bond at 7.5% yielded \$75 giving it a PE of 13.3. What this tells you is that with a higher earnings yield in the bond market the price of bonds should go up so that bond and equity yields are competitive. Therefore, the investor looking for the best capital gains would expect to see it in the bond market, as long as equities remained at a high PE.

- 9. If you want income, choose a fund that offers a periodic withdrawal plan.** Many mutual fund companies can arrange to have automatic monthly

Wall Street is the only place people ride to in a Rolls Royce to get advice from people who take the subway.
WARREN BUFFETT

payments made directly to your bank account from your mutual fund.

- 10. Invest in a company with a family of mutual funds.** Choose a company that provides you with a wide range of investment products to satisfy your investment objectives. Choose a fund that has several stock funds, at least one bond fund, and one money market fund.
- 11. Invest in a fund with telephone switching via an 800 number.** Easy and fast access to your investment, when you need it is important. Choose a fund that allows you to redeem fund and transfer money back and forth between your mutual fund account and bank ac-

count, over the phone and at no cost.

12. Keep track of your funds performance. Start by making note of how many shares you receive when you first invest. At the end of the year, even if it appears you have made only 10% on your money from the NAV price change alone, you may discover that you now have 15% more shares and have actually earned 25% total return.

NOTE The current net asset value per share NAV is not enough to determine your profit or loss. Profits from capital gains distributions, dividends, and interest are usually given to investors as additional shares. To find the present value of your investment, multiply the number of

The best investments are often those that looked dead wrong when they were made.

**STOCK MARKET
MAXIM**

shares you had on your last statement by the current NAV and compare to the amount of money you originally invested. On many statements, the total current value of your account will be shown.

13. Know where to get good information on mutual fund performance. The best reporting on mutual fund performance in Canada is done by the *Southam Corporation* through a report called “The Mutual Fund Source Book.” Portions to the report appear

every third week in the *Financial Times* and contain all mutual funds. The *Wall Street Journal* also has good reports of mutual fund performance. Most local newspapers will also report on mutual fund performance, though their infor-

mation may be a little sparse.

- *Understanding NAVPs* – The current value in dollars of one share of a mutual fund is known as its Net Asset Value Per Share – NAVPs. A load fund – a fund that charges a commission when you buy shares – will generally have two NAVPs. The higher figure is the price at which you could purchase one share, the lower figure represents the price at which you could sell one share. No load funds have no commissions and only one column. The NAVPS of a bond mutual fund fluctuate with changes in the prices of the bonds it holds or when the portfolio's composition is altered. For equity mutual funds, the prices changes as a

The current value in dollars of one share of a mutual fund is known as its Net Asset Value Per Share – NAVPs.

result of the changes in the values of the stocks.

- *Understanding Money Market Per Share Values* – The per share value of a money market fund is always \$1 in U.S. funds and \$10 in Canadian funds. Your principal value does not increase or decrease. The dividends earned by your shares are added to your account as additional \$1 shares in U.S. funds or \$10 shares in Canadian funds. Newspapers quote money market funds in terms annualized by their daily interest paid.

9 Mutual Funds that Never Lose Money

Below is a list of nine mutual funds with excellent five-year returns (source *Money*

Magazine 1995).

1. Imperial Growth Equity (24%)
2. Universal Pacific (23%)
3. Bullock American (20%)
4. Counsel Real Estate (20%)
5. AGF Japan (18%)
6. Cambridge Growth (17%)
7. MD realty A (16%)
8. MD realty B (16%)
9. Elliot & Page Money (16%)

Top Canadian Mutual Funds

On the right is a comparison list of 13 Canadian mutual fund families. Performance is based over a one-year period from June 30, 1996. Winning families are marked red.



Comparing 13 Canadian Mutual Fund Companies 1996

Company	# Winners	# Funds
AGF	14	35
Altamira	7	20
Bank of Montreal	6	16
Bank of Nova Scotia	10	15
C.I.	10	23
CIBC	5	11
Fidelity Investments	11	17
Investor's Group	9	25
MacKenzie Financial	15	33
Royal Bank/Royal Trust	6	24
T.D. Greenline	15	28
Templeton	3	11
Trimark Financial	8	12

Financial Planning on the Internet (Canada)

<http://alberta.net./stockwire/> – This site carries information about companies listed on the Alberta Stock Exchange plus almost-real-time price quotes that are delayed by 15 minutes. This site also provides price and volume charts for ASE companies.

NOTE Real-time U.S. price quotes are available – typically at a price of \$29.95 U.S. per month.

<http://www.cafp.org> – This site, of the Canadian Association of Financial Planners, offers basic information on what financial planning is, and how to find and choose a financial planner.

<http://www.canada-stockwatch.com/> – This site, of Canada Stockwatch, generates price and volume charts of any publicly traded Canadian company. It also provides other corporate information. If you want to research specific Canadian companies, this is the place to start.

<http://www.CanadianFinance.com/> – This site is a comprehensive index of links to financial news and investment research.

<http://www.cba.ca> – This site, of the Canadian Bankers Association, includes links to member bank sites, which can be helpful in checking new services or comparing interest rates.

<http://www.CTSecurities.com> – This Canada Trust site includes a simple access to Canadian stock quotes.

<http://www.insurance-canada.ca> – This site can help you get comparative quotes and ratings of different insurers.

<http://www.Islandnet.com/invest> – This site takes you to Invest Network Canada and to profiles and statistical details of the major Canadian mutual fund groups.

<http://www.lombard.com> – This is one of many sources for free U.S. stock quotes on a 20 minute delay. Whenever you access a stock-quote service you'll be asked for the stock symbol – not the company name.

MAKING YOUR INVESTMENT PORTFOLIO GROW

NOW THAT you have a good idea of the basic investment vehicles, you need to fine-tune your portfolio building strategies. Below are **19** strategies to help you make wise investment decisions. Also in this section are **5** methods of calculating rates of return on investments and **12** strategies to help you avoid making serious financial blunders.

Making Wise Investment Decisions

- 1. Seek a 15% return on your investment.** When investing your

When investing your money, your goal is to achieve a safe return of 15%.

money, your goal is to achieve a safe return of 15%. At 15%, your money will double every 5 years, and in 35 years \$10,000 will be worth \$640,000.

- 2. Seek the right investment help in managing your portfolio.** Getting the right investment help means getting a financial advisor who has the skills to pick the right investments in the right sectors to outperform the broad market over the longer term. This person should also have the skills to know when and when not to, actively trade individual investments within sectors by taking advantage of capital market fluctuations and have the tendency to treat adversity as an opportunity, rather than a situation to fear. Simply put, good investment help

comes from people who know what to buy and when to buy and sell it. Below are four different ways to get help.

- *Brokers* – Brokers are registered to buy and sell securities on your behalf and are usually compensated by commission. They are not permitted to make investment decisions for you.
- *Financial Planners* – Financial Planners usually work on a fee basis to help you create a plan for what financial strategies to take without necessarily managing your money or buying and selling securities for you.

NOTE If possible, all or part of the financial planners fee should be based on their performance. In other words, if you don't

To turn \$100 into \$110 is work. To turn \$100 million into \$110 million is inevitable.

**EDGAR
BRONFMAN**
Chairman of Joseph E. Seagram and Co.

make a profit, your advisor gets lower commissions. In this way, he or she is motivated to do well.

- *Portfolio Managers* – These professionals are trained to manage a group of investments on behalf of individual or institution clients and usually have the authority to make all investment decision.

NOTE The portfolio manager you choose should have an excellent investment portfolio themselves and proof of others they have helped.

- *Trust Officers* – Trust officers are salaried professionals who work for a trust company and actively administer their clients' portfolio based on pre-determined agreed-upon

objectives.

3. **Balance and rebalance your portfolio according to your investment objectives.**

Over the period of an investor's lifetime, the economy changes. There are prosperous times and there are periods of recession and inflation where some asset classes perform better or worse than others. Individual investors and even professional managers who try to capitalize on these changes in the economy, for example, switching between stocks, bonds and cash depending on the economic climate are usually disappointed. They have found out that you simply can't count on market timing.

Balance and rebalance your portfolio according to your investment objectives.

However, what does produce results, and at the same time protects you during changing economic cycles, is creating a well-diversified portfolio which includes a number of different types of assets such as bonds, stocks, real-estate and cash, that are re-balanced from time to time. Re-balancing your portfolio, puts you in a position to perform consistently. It is a powerful disciplinary tool that allows you to manage your investment for profit, by selling high and buying low.

For example, if you decide that an investment mix of 60% in stock and 40% in bonds meets your investment objectives, and if due to a prosperous period in the economy, you find that

the stock component of your portfolio grows to 75% while bonds now represent only 25% by value, then you should take your profits and rebalance back to your original mix so that when the economic cycle reverses – as it always does – you will be in a position to take advantage of the change.

4. **Choose the best investment mix for your age.** There are basically five different kinds of portfolio mixes to

choose from, depending on your age to retirement, all of which combine in varying percentages Growth Stocks, Growth Stocks & Income Funds, Income Funds, and Short-term investments (see chart below).

5. **Put at least 10% of your profits into your investment portfolio on a regular basis.** Some experts say that 10 to 18 percent of income is necessary to cover future needs in a cli-

Choosing the Best Investment Mix

	20 + years	15-20	10-15	5-10	0-5 (retirement)
Short-term Investments	10	10	10	15	15
Income	15	20	30	40	55
Growth Income	15	20	30	25	20
Growth	60	50	30	20	10

mate of uncertainty and unraveling government safety nets.

6. Build up a cash cushion.

You should always keep about 10 to 15% of your investment portfolio in short-term investments that can be easily cashed in. These are to be used in case of an emergency or to take advantage of a once in a life time opportunity.

7. Invest in mutual funds first, and then branch out into other areas.

During an U.S. election year, history has shown that investors are generally optimistic prior to the election date and thus the market indexes generally go up. However, after the election, the markets tend to go down. It is also important to note that interest rates tend to be lowest before an election with increases likely to follow after an election. Thus, refinancing your mortgage every four years prior to an election is a good strategy.

SUPERTIP

Once you have established a modest amount of investments in diversified

mutual funds, you should branch out into other stocks, bonds, limited partnerships and real estate. This will further secure your investment portfolio.

8. To invest your money effectively, forget about one-night stands.

Invest in long term relationships.

9. Dollar-cost average your investments. Dollar-cost averaging eliminates the question of

when to invest. When you purchase at

regular intervals, the ups and downs of the market work for you, without any market timing. By making regular purchases, your payments buy more shares of a fund when the price is low. This method takes away the worry of always buying high.

- 10. Keep up with the news that affects your money.** In the U.S., read the *Wall Street Journal*. In Canada, read the *Financial Times* or the *Globe & Mail*. regularly as well as other investment magazines such as *Money* and *INC*. Keep an eye on key economic indicators as well, which include interest rates on three-month Treasury Bills, major labor contracts, strength of the dollar against foreign currencies, unemployment rates, and the stock market.

- 11. Buy on margin to increase your returns.** Buying on margin means you set up a special account with your investment firm or bank to borrow money to invest. This account is usu-

Who Should You Pay First? Investment Quiz

Who is the one person you should pay first each month? (choose one only)

- a. your loans officer
- b. your mortgage lender
- c. your utilities provider
- d. your baby-sitter
- e. yourself

Please read **Investment Strategy #14** for the correct response.

ally called a brokerage firm or mutual fund margin account. It is a risky, but it allows your actual money outlay to work twice as hard for you. Ask yourself: “Do you believe in your investment so wholeheartedly that you would be willing to borrow money?”

12. Mortgage your house to invest during a bull market.

During a bull market, you might be better off mortgaging your house and investing the money in the securities market. Even if the funds increase the same amount as you pay to the bank in interest rates, remember, the interest paid is tax deductible.

NOTE Other ways you can use your bor-

Get into the habit of saving. Save any spare change. It's surprising how much you can accumulate.
SUPERTIP

rowed money include buying real-estate for your business or investing in leveraged limited partnerships.

13. Buy stocks primarily when interest rates are low.

Only natural resources – gas and oil, for example – stand to rise in value when interest rates are high.

14. Regularly invest 10% of whatever you make.

Use the 10% solution to go from paycheck to prosperity. Take 10% off the top of each paycheck and send it to a mutual fund family or other savings investment product. Pay yourself first, before you pay your monthly bills, loans officer, utilities provider or even your baby-sitter. If you can master this dis-

cipline, you will be far ahead of most individuals.

NOTE One of the easiest ways to accumulate savings is to “Save As You Earn” through an automatic investment plan.

Many of these plans are available through financial institutions. Here’s how they work:

you give them permission to make a pre-authorized withdrawal once a month from your bank account.

They then automatically invest the money for you in an investment you agree upon.

Auto sales always seem to drop before the economy does.

15. Use the prime business loan interest rate to identify the safest and best investment for each economy. Watch the prime rate level (high or low) and the prime rate direction (up or down). Use these two fig-

ures as a guide to invest in Stock mutual funds anytime the prime rate is below 12% for Canada and 10.5% for the United States. Invest in Bonds anytime this rate is above 12% and going down. Invest in money market funds when the rate is about 12% and going up.

16. Watch the automobile industry. Auto sales always

seem to drop before the economy does. Why is this? Autos cost a lot and last for years.

Most folks can’t pay cash for them so they borrow instead. In a recession, people are economically scared, and few stick their necks out for enough to buy cars. As their cars age, and they see ads about how a hot new car would make them a hit, pent-up auto demand rises. As the economy

heats up, folks feel less afraid, and let loose that pent-up demand. Furthermore, as the expansion matures and interest rates rise, many potential car buyers who still want to buy get cut off from credit. These two forces cause auto sales to plummet.

In general, auto sales peak before the market does. Therefore, when auto sales are rising, don't expect to see stocks fall much. And when stocks do fall, check to see whether auto sales are dropping to verify that the plunge is long-lasting and deep.

The safest way to double your money is to fold it over once and put it in your pocket.

**FRANK
MCKINNEY
HUBBARD**

17. Watch the unemployment rate.

Historically, there has been a close relationship between the stock market and economic recessions and between

unemployment and recessions. Unemployment falls during expansions and rises during recessions.

However, what is particularly interesting about this relationship, is that statistically, it has been shown that unemployment regularly rises at least one full 1% during the first two-thirds of a recession, but doesn't rise more than 1% during an expansion. This means:

If you want to benefit from a major stock market bottom, be fully invested whenever the unemployment rate has just risen by 1%.

This indicator, nor any other, will not perfectly predict a market bottom, but it should get you in a couple of months of

the absolute bottom (see **page 85** for graph).

The unemployment rate can be found on the back page of *Barron's* every week

NOTE The unemployment rate won't tell you when a market top has occurred. This is because the stock market leads the economy and starts falling long before a recession begins and increased unemployment is generated.

18. Set up a spreadsheet to

Whenever you invest in cash investments or debt instruments especially, always keep in mind your real rate of return.

SUPERTIP

keep track of your investments.

Buy a personal computer and learn how to use it to keep track of your investments. The figure below illustrates a typical set up for a spreadsheet program that may be used to analyze stock returns.

19. Purchase computer software to track your investments. If you need help tracking your investments, consider purchasing software such as MicroQuest's *Inside Track* (\$39.95) and MarketArts' *Win-*

Spreadsheet Layout for Analyzing Stocks

Name of stock	NO. of shares	Purchase Price	Cost	Current Price	Current value	gains/losses	Dividend per share	total div.	Yield %
Stock A	100	\$75	\$7500	\$76.25	\$7625	\$125	\$1.35	\$135	1.77%

dows on Wall Street (\$149.95). Along with an on-line service such as CompuServe, Dow Jones News/Retrieval or Dial Data, you can update your portfolio, get key information on investments, and make better-informed buying and selling decisions. These kinds of software can also provide sophisticated charting capabilities, obtain related news about securities, and even perform technical analysis.

*I live by a Warren Buffett maxim: "Buy stocks like you buy your groceries, not like you buy your perfume."
THOMAS RUSSO
Gardner Investments*

Calculating the Return on Your Investments

Below are some handy methods you can use to calculate:

- how long it will take for your money to

double

- what the total or yearly rate of return of an investment was over a certain period of time (annualized & cumulative)
 - the value of an investment after one year where interest is compounded more than one a year
 - the "real rate of return" of an investment after considering inflation and tax liabilities

"Rule of 76" – The easiest way to calculate how fast an investment will grow is to use the "Rule of 76" to determine the doubling power of your money. To use this formula, divide the number 76 by the expected return on your

investment. The result is the number of years required to double your money.

For example, if your rate of return is 9.5% per year, then 76 divided by 9.5 equals 8. This means it will take 8 years for your investment to double. However, if your rate of return was 25%, then it would take only 3 years to double your money.

Annualized Rate of Return – The annualized rate of return is the average annual compound return received over the time period of the investment. It can be calculated using the following formula:

$$\left[\frac{\text{Ending Value}}{\text{Starting Value}} \left(\frac{1}{N} \right) - 1 \right] \times 100\%$$

where N = length of performance measurement period

For example, if you bought a mutual fund at \$10 dollars per share and it's now valued at \$15 dollars a share after three years, then your annualized rate of return would be:

$$\left[\left(\frac{\$15}{\$10} \right)^{\left(\frac{1}{3} \right)} - 1 \right] \times 100\% = 11.47\%$$

Four Ways to Save \$100,000

Monthly Deposit required to accumulate
\$100,000

(with an average return of 10%)

Monthly Deposit	# of Years	Total Invested
\$44.24	30 years	\$15,926.40
\$131.69	20 years	\$31,605.60
\$488.17	10 years	\$58,580.40
\$1,291.37	5 years	\$77,482.20

Cumulative Rate of Return – The cumulative rate of return is the overall return regardless of the time period of the investment. It can be calculated using the following formula:

$$\frac{[(\text{Ending Value} / \text{Starting Value}) - 1] \times 100\%}{}$$

For example, if you bought \$1,000 worth of IBM stock a few years ago and that stock is now worth \$1,500, then your cumulative rate of return would be:

$$\frac{[(\$1,500 / \$1,000) - 1] \times 100\%}{50\%}$$

Compound Interest Formula – The “Compound Interest Formula” can be used to calculate the value of an investment after a one-year period of time. To use this

Inflation, the rate at which your overall cost of living increases each year, undermines the returns of all securities.

formula, multiply your principle by one plus your interest rate per year plus your interest rate per year divided by the number of compounds per year.

$$P[1 + \text{interest rate} + (\text{interest rate} / \# \text{ of compounds})]$$

For example, if your principle amount is \$1,000 invested in an account that offered 10% per year with 12 compounds per year, then your investment after one year would be:

$$\$1,000 (1 + .1 + .1/12) = \$1,108$$

“Real Rate of Return” – Inflation, the rate at which your overall cost of living increases each year, undermines the returns of all securities. However, cash investments and debt instruments are affected the most. In fact, the interest rate

you receive from a cash or debt instrument investment should be thought of as having two parts: one is the compensation for expected inflation, and the remainder is the real return.

Therefore, whenever investing in these cash or debt instruments make sure you calculate your *real rate of return* (inflation – interest). Your real rate of return is also affected by your tax liability.

For example if a debt instrument is offering you 10% interest a year, the inflation rate is 4% and your tax liability is 33%, then your real rate of return is:

$$10\% - 4\% - (10\% \times 0.33) = 6\% - 3.33\% = 2.66\%$$

Let every man divide his money into three parts, and invest a third in land, a third in business, and a third let him keep by him in reserve.

**HEBREW
PROVERB**

Strategies to Avoid “Big Financial Blunders”

To avoid making big financial blunders, heed the advice contained in the following **12** investment strategies:

1. **Don't buy bonds when interest rates are going up.**

When interest rates are going up, the value of a bond goes down, since investors aren't willing to buy old bonds giving a lower rate of interest lower rate if they can get new bonds at a higher interest rate. Therefore, wait until interest rates have stabilized, and don't look like they will be going up in the near future, before making a purchase.

NOTE Bonds are good investments only

when they are appreciating due to declining interest rates. When the prime rate is rising, any long-term bond will lose 10% of its principal value for every 1% increase in the prime rate.

2. Don't buy "Penny Stocks." Penny stocks are highly speculative securities sold by fast-talking brokers and securities representative. They are usually sold over the telephone for less than \$10 a share. These are stocks of companies that have no earning history and are thus very difficult to assess.

3. Don't fall for investment phone

If you know what you're doing in the United States, you can do just fine. And if you don't know what you're doing in the United States, how in the devil are you going to know enough to do better wheeling and dealing in Malaysia?

WALLSTREET WALTZ

itches. If someone phones you up and offers to sell you the Empire State Building, don't buy it.

4. Don't go overboard and invest a significant portion of your portfolio overseas. You can reduce your risks and maximize profits by investing globally. Right? Not really! There is a lot less diversification and safety in overseas investing than you might think. Why? Most often, when the U.S. market is in a major upswing or decline, with a few minor

differences, the rest of the world's markets will be too. It's been that way for decades and will likely continue even more so as the world's economies

mies become more global.

A classic example of this close relationship is the almost simultaneous 1929 market collapse in England, France, Germany, Canada and the United States.

Furthermore, although present Pacific Rim economies have been experiencing some wild bullish markets, they also are more apt to experience wild bearish markets (like the 1997-1998 currency crisis).

The problem in investing too much overseas is further compounded by the difficulty in understanding the variations in accounting and customs in the less familiar countries. This isn't to say that some

The problem in investing too much overseas is further compounded by the difficulty in understanding the variations in accounting and customs in the less familiar countries.

investors won't get rich overseas. Some professionals will because they know what they're doing. But the average investor won't.

5. **Don't invest in inflation hedges such as precious metals.**

Precious metals gold and silver are investments only for the most aggressive investors. Inflation hedges are always investment losers. For instance, when adjusted for inflation, the real value of gold hasn't changed in a hundred years. Keep in mind that every time you sell, you lose part of your investment to the capital-gains

tax on your profits.

6. **Don't over-leverage in volatile in-**

vestments such as commodities.

Commodities are the riskiest of all legal investments. Greed is the commodities drawing card.

7. Don't pay high sales commissions.

Paying big commissions will turn almost any winning investment plan into a marginal one at best. When you buy, transfer or sell investments, get the lowest rate the market has to offer. Today's market investor learns to work directly with financial institutions like no-load mutual fund families, eliminating the need for middleman.

8. Don't transfer funds from one investment to another without a good reason. Investments should be

Long-term investments can't grow, if you keep digging up their roots.

made for the long term, not the short term. Although, the best investments change as the economy and interest rate change, predicting those changes is a full time job, not something you can effectively do after reading an article or two. In general, successful

investors wait for good opportunities to come around and are in a position to take advantage of them when they do. They don't go running around hopping from one idea to the next.

NOTE Long-term investments can't grow, if you keep digging up their roots. Therefore, once you adopt a long-term investment strategy, don't take funds out for a senseless vacation or a new sports car. After all, it makes no sense whatsoever, to discipline yourself to put aside money in

the first place, if you can't discipline yourself to keep your hands off.

9. Never store money. Money hidden under your mattress or in a safe loses value at a rate of 3% to 10% every year.

10. Never use a commissioned financial salesperson as a financial advisor. You shouldn't use a financial salesperson for two reasons: **first**, they only sell products their company's sells or are pushing heavily at the moment, and **second**, most of them don't know that much anyway. Brokers and other licensed salespeople are required to know only two things: the securities laws and how to sell. They make

Life insurance and investing, both necessary parts of a good financial plan, have little in common.

money when you sell, buy or trade, not when your stocks appreciate in value.

11. Never use life insurance as an investment. Life insurance and investing, both necessary parts of a good financial plan, have little in common. Life insurance companies got into the investment business for one major reason: there are more profits to be made in selling investments than in selling insurance. Thus they have invented methods to tie up your money for a almost your entire lifetime at a low rate of return, unlike your bank, which can only tie up your money for a few days to a few years. A good rule of thumb to follow is, buy life insurance as if you were going to die tomorrow, and invest as if you were go-

ing to live forever.

- 12. Stay away from buying individual stocks and bonds.** Buying 100 to 1000 shares of one or two kinds of stock or pumping money into one or two bond issues is very risky. If you can't afford to buy more than 10 kinds of each, stick to mutual funds.



In 1983, 1 of every 359 Americans was a millionaire, compared with 1 in 11,287 in 1948.

FUNFACT

UNDERSTANDING “MARKET LINGO”

THE FOLLOWING is a collection of terms and phrases you should become familiar with to better understand financial markets:

Active market – Refers to heavy trading volume. The difference (spread) between bid (offer to buy) and ask (offer to sell) prices is usually less (narrower) in active markets.

Average Annual Compound Return – The annual rates of return, including reinvestment of distributions, averaged over a specified time frame.

I don't have to worry about money, thank God. When you don't have it, you have to have it. Only when you get it, you realize you don't need it. But to get the ego experience, you have to go through it.

RICHARD THALHLEIMER
Founder & CEO of Sharper Image

Auction – How a new bond issue is brought to market.

Bank Rate – The minimum rate at which the Bank of Canada or the Federal Reserve makes short-term advances to the chartered banks and other deposit taking institutions. In Canada, the bank rate is set each week at 25 basis points above the average 3-month T-Bill rate.

Basis Point – Often called a “beep.” Used to describe differences in bond yields. One beep is one hundredth of a percentage point. Abbreviated as bp. (100 bp = 1%).

Bear Market – A declining stock market over a prolonged period, usually lasting at least six months and normally not more than 18 months. Usually caused by a strong conviction that a weak economy will produce depressed corporate profits.

Bellwether Bonds – Government of Canada bonds used as benchmarks against which other bonds are priced.

Blue Chip – Usually a large capitalization, well known actively traded common stock with a record of continuous dividend payments and other desirable investment attributes.

October. This is one of the peculiarly dangerous months to speculate in stocks.

The others are July, January, September, April, November, May, March, June, December, August, and February.

MARK TWAIN

Bull Market – A rising stock market over a prolonged period usually lasting at least six months and normally not more than 18 months. Usually caused by a strong conviction that a strong economy will produce increased corporate profits.

Commodities – Highly leveraged options on stocks or futures.

Convertible Bond – A bond that may be exchanged, usually for a specified number of common shares of the issuing company, as stipulated by the terms of the conversion privilege.

Coupon – A portion of a bond certificate entitling the holder to an interest payment of a specified amount when

clipped and presented at a bank on or after its due date.

CPI – Consumer Price Index is used to measure inflation. It monitors the price of a basket of goods to establish the general direction of prices in an economy.

Derivatives – Derivatives are financial instruments whose value is based on the market value of an underlying asset such as stocks, bonds or a commodity. Examples of derivatives are futures contracts, options and forward contracts.

Dividend – An amount distributed from a company's net profits to its shareholders. This amount is announced before it is paid and is distributed to shareholders of record on a per share basis.

Buy on the rumor; sell on the news.

WALLSTREET SAYING

Dow Jones Industrial Average – A key U.S. market indicator, the weighted average price of thirty blue chip U.S. stocks listed on the New York Stock Exchange.

Flat or Sideways Market – A market with minimal price movement.

Inverted Yield Curve – A situation where short-term interest rates are higher than long term rates. Normally, lenders earn higher yields when committing money for longer periods; this is a “positive yield curve.” Inverted curves occur when surging demand for short-term credit drives up short term rates; usually a sign of high inflation accompanied by low levels of confidence in the economy. Usually leads to recession.

Investment Grade – A term used to describe bonds suitable for purchase by investors.

Level – The bid/offer price that approximates where bonds are currently trading.

Liquidity – The ability to sell securities at a reasonable price with relative ease in order to raise cash. Liquidity is a concern for any monies that may be required on short notice, whether for emergencies or for planned purchases.

Load – Term used in the mutual fund industry to identify the sales charge or commission on a particular fund. Common types of loads are front-end loads, or back-end loads.

Market Tone – Refers to the sentiment of the market.

Management Expense Ratio (MER) – This figure comprises the management fee plus all other expenses (excluding government taxes) that are charged directly to the mutual fund (as set out in each fund's prospectus) stated as a percentage of the Net Asset Value of the Fund.

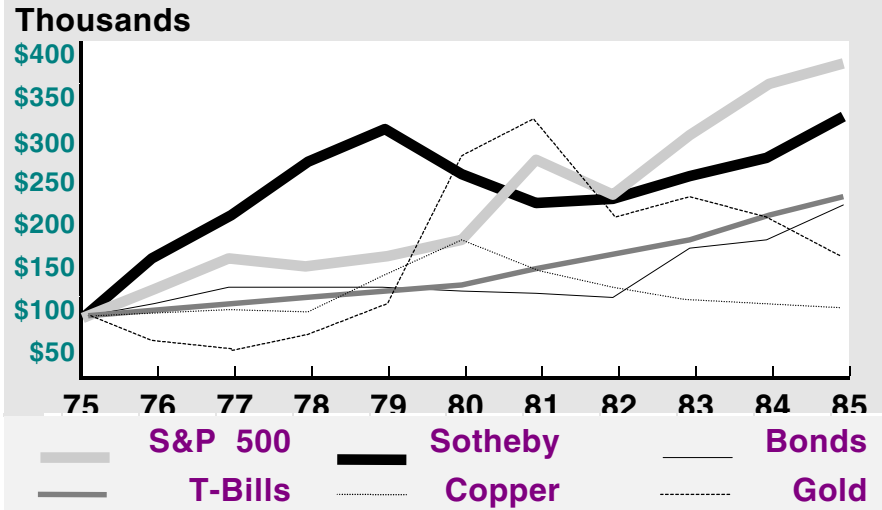
Market Tone – Refers to the sentiment of the market; “good” means active trading on narrow bid/offer spreads; “bad” or “thin” means inactive trading with greater price fluctuations.

Money Market Instruments – Debt instruments such as Treasury bills or corporate paper with a maturity of less than one year that are easily converted to cash.

Morgan Stanley Capital International Index – Provides a list of indices measuring international performance (such as the World Index, Far East) and national performance (including Australia, Canada and US) based on the share prices of over 1600 companies. It also provides performance measurement for emerging markets and international industry groups.

NASDAQ – The National Association of Security Dealers Automated Quotation System, an index of U.S. Over the Counter Issues.

Stocks vs. Five Investment Alternatives



The following chart shows how much \$100,000 would have grown over a period of 10 years from 1975 to 1985 invested in stocks and other “hard-money” alternatives. Interestingly enough, fine art, as shown here by Sotheby’s Composite Art Index, is the one hard-money asset that came close to matching the performance of stocks, rising more than 12.5 percent annually.

Net Asset Value Per Share (NAVPS) –

The market value of the securities and assets held by a mutual fund less its current liabilities, divided by the total number of shares outstanding.

Point – The dollar change in price (1 point = \$1.00). For bonds and debentures, it means \$1 in relation to the issuer's par value – almost universally \$100.

Preferred Shares – Shares that carry a fixed dividend rate, which the company is obliged to pay before it distributes dividends to common shareholders. Such shares rank ahead of common stock, and after the debenture holders, on the dissolution of a company.

Money is like manure. If you spread it around, it does a lot of good.
CLINT W. MURCHISON
Oil Man and Financier

Prime Rate – The interest rate charge by a chartered bank to its most creditworthy borrowers.

ScotiaMcLeod Universe Bond Index –

An index of approximately 700 bonds with a term to maturity of one to thirty years, designed to reflect the Canadian bond market.

ScotiaMcLeod Long Term Bond Index – An index of bonds with a term to maturity of over ten years.

ScotiaMcLeod Mid Term Bond Index – An index of bonds with a term to maturity of five to ten years.

Securities – Cash, bond or stock certificates.

Sell off – The market is largely selling bonds or stocks under pressure.

Sellers market – There is more demand for a bond or stock than there is supply. Prices tend to rise.

Soft Market – Markets with an excess of supply.

Spread – Either: a) the gap between the bid and ask price or b) the difference between yields on different securities.

Spread Narrowing or Widening – Closing in or expansion of the bid/offer prices of a bond.

Standard and Poors 500 (S&P 500) – A benchmark of U.S. common stock performance, it includes 500 of the largest stocks (by market value) listed in the U.S.

Toronto 300 Index (TSE 300) – *An index of 300 Canadian stocks, in fourteen subgroups, designed to represent the Canadian Equity market.*

Steepening Curve – When the difference between short- and long-term yields widens.

Strip Bonds – Usually high quality federal or provincial government bonds originally issued in bearer form, where the interest coupons have been detached. The bond principal and detached coupons trade separately from each other, all at substantial discounts from par.

Thin Market – When there are comparatively few bids to buy or offers to sell. Price fluctuations are usually larger.

Tight Market – Marked by active trading and narrow bid/offer spreads.

Toronto 300 Index (TSE 300) – An index of 300 Canadian stocks, in fourteen subgroups, designed to represent the Canadian Equity market.

Total Asset Value – Refers to the amount of money a mutual fund has invested.

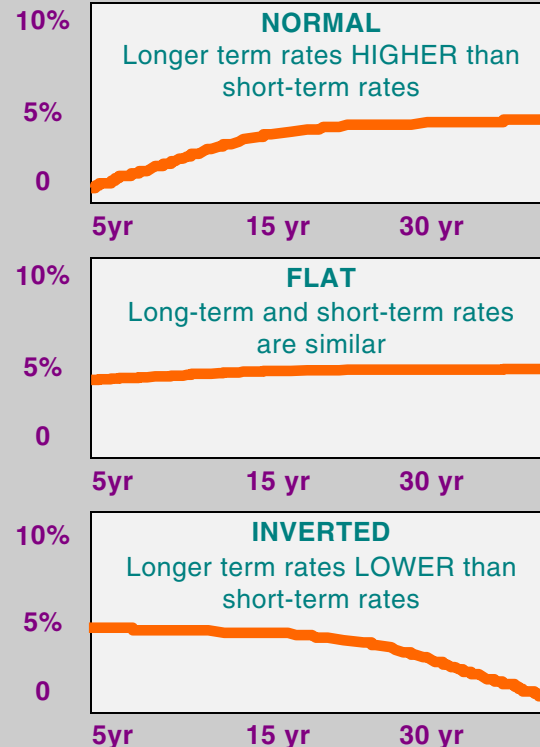
U.S. Better Bid – When there is more buying in the U.S. bond market.

Yield – Return on investment. A bond yield is calculated based on the annual interest payment plus the difference between its current market price and par value, amortized over the life of the bond. This yield can be obtained from a bond yield table or from a computer.

Yield Curve – A curve on a graph that plots the interest rate (yield) of a bond on

Understanding Yield Curves

Bond Yield Curves



the vertical axis and the length of time until maturity on the horizontal axis. Their relationship is frequently referred to as the yield curve.

Three basic types of curves exist. A normal curve is when interest yields are higher for longer-term bonds and lower for shorter-term bonds. A flat curve is when yields are about the same for longer-term and shorter-term bonds. An inverted curve is when the short-term yields are higher than the yields on longer-term bonds.

*It's just as easy
to be happy with
a lot of money
as a little.*

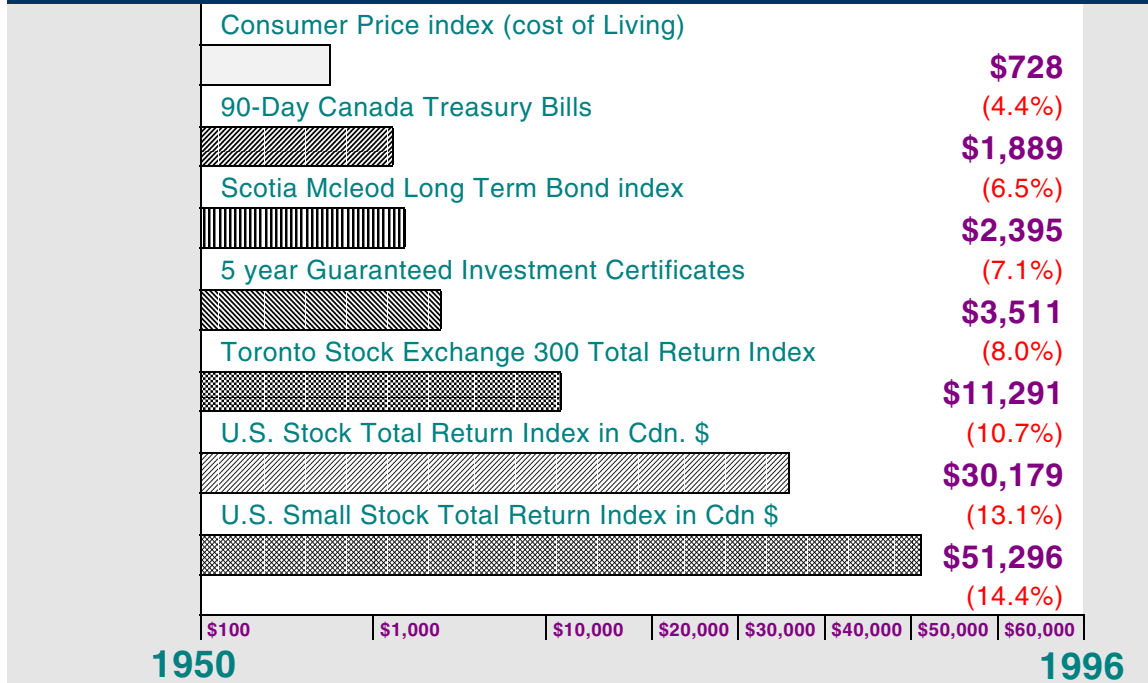
**MARVIN
TRAUB**
*CEO of
Bloomingdale's*



Choosing the Right Investment: Investment Strategy Summary Chart

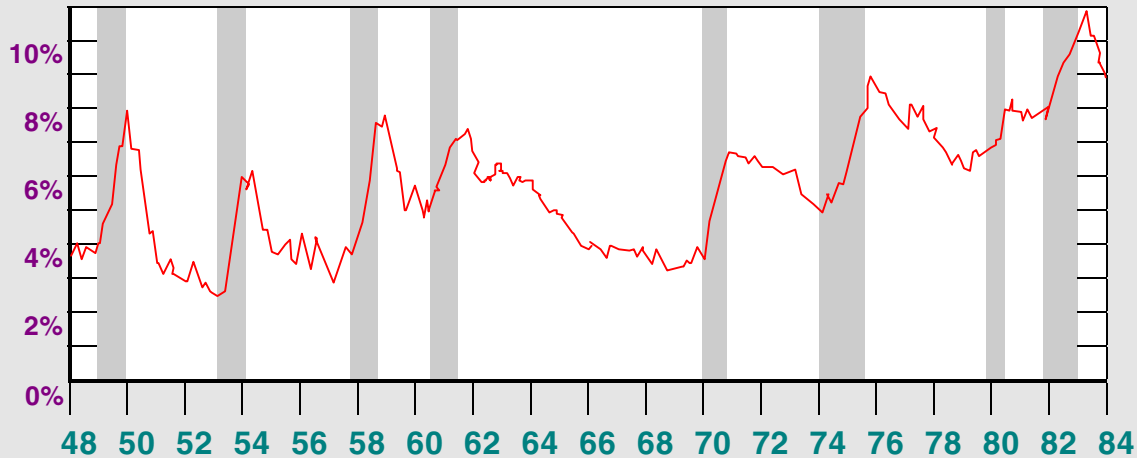
Investment	Strategy	Average Yearly Return
No-load mutual funds	Money movement	12-15% Passive
Mutual funds margin accounts	Leverage	25% Passive
RRSP accounts	Self-directed accounts	15-20% Passive
Your own home	Leverage & personal use	20% Passive
Asset Management Checking accounts	Legal float and debit card	8-14% Active
Employer's pension plan	Money movement and payroll deducted	20% Passive
Discounted mortgages	Guaranteed interest tax deferral	30% Active
Investment real estate	Leverage, and equity growth capital gains	30% Active

1996 Investment Return Rate for \$100 Invested in 1950



RETURN RATE for a \$100 INVESTMENT (value quoted in Cdn\$) The following chart shows how much an \$100 investment made in 1950 would have grown if it was invested any one of the above 7 investment vehicles. **Source:** Canadian Government Document

Unemployment Rate for Civilian Workers (seasonally adjusted)



Shaded areas indicate a recession.

Source: U.S. Bureau of Labor Statistics.