

2003 WILL BE A DIFFICULT ACT TO FOLLOW

What a difference one year can make, a great deal has changed since last January. Last year at this time, terrorism, corporate scandals and weak markets weighed on everyone's mind, along with the looming threat of a U.S. led war on Iraq. While we are still processing the aftermath of this war along with continuing corporate scandals, some stability has crept back into our lives amid encouraging signs that 2004 is indeed going to be a brighter year on several fronts.

The TSX Composite index was up over 24% for the year. The Dow Jones Industrial Average, home of 30 blue-chip U.S. stocks, was also up 25.32% on the year, while the more broadly based S&P 500 Index (often referred to as the "barometer" for U.S. stocks) climbed almost 26.38%. The technology-laden NASDAQ 100 soared over 49% last year. So, for the first time in four years, major North American indexes finished well entrenched in positive territory. But not all is, as it seems to be. Even with the double-digit returns of the U.S. markets, Canadians didn't fare as well as their American counterparts due to a much stronger Canadian dollar. With the Canadian dollar up almost 24% against the U.S. greenback, the S&P 500, when valued in Canadian dollars, diminished the return to a mere 3.4%.

Outlooks for the U.S. and Canadian economies are healthy. Bank of Montreal economists recently forecasted Canadian growth to average 3.3% in 2004 (it was 2% in the third quarter of 2003), while pegging U.S. growth – depending on business confidence – at 4.4%, as the effects of recent tax cuts kick in. CIBC World Markets have forecast the Canadian dollar to lose ground and end 2004 at .74 USD. As a result, we should see some of the currency losses reversed.

Despite indications that the stock market and North American economies are gearing up for a strong 2004, it would be naïve to suggest that you will never feel turbulence again, whether it's next month, next year or five years from now. Investing is a long-term proposition and diversifying your portfolio is the method we employ to smooth out the returns (and losses). As such, you may not hit the highest of the high returns, but you are also protected from plunging too low when the next market downturn takes place.

Last year at this time I wrote, "Will the Markets Ever Recover?" now we know that they do and will. I had also indicated not to wait for hindsight, as it's hard to see trends as they take shape. Investors can try to guess the direction of the markets, many have tried but few have been successful. The greatest fortunes are amassed by investors who understand that the markets are imperfect on a day-to-day basis but over time grow to near perfection.

Regards,

Don

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