

Here We Go Again

It seemed like only yesterday that we were pondering the fate of the markets for the year 2004, wondering how much of its performance would be influenced or predicated on how the first week/month went? Sure enough, the first week of 2004 was impressive, up over 7% with the entire month of January ending even higher. However, for the balance of the year it looked as though the January barometer would not be an accurate gauge. The majority of the returns for the year occurred from the first week of November (the U.S. election), to year-end. Thus, the lesson learned in 2004 was patience.

Here we are facing a brand new year and a brand new January all over again, only this time 2005. Considering the obstacles the markets faced in 2004, the markets had a relatively good year. Perhaps not so much in absolute returns; the Dow Jones and the S&P were up 3%, the Nasdaq up 8% and the TSE posted a solid 12.5% (largely due to increased commodity prices) I'd say the term "good" refers to how investors faced the many obstacles; the constant barrage of negative news on the war in Iraq, the uncertainty of a new President in the White House, a rising Canadian Dollar, the fear of rising interest rates, not to mention the "mental baggage" of the bear markets of 2000 to 2003, and yet the markets still managed to finish on a strong and positive note.

However, there isn't a lot of time to pat ourselves on the back, as many of last year's obstacles still litter the horizon of 2005, along with unknown obstacles not yet faced. The big economic topics heading into 2005 will revolve around the twin U.S. deficits and the weak U.S. dollar along with how China will deal with its growing pains and just how far they'll go to close ranks and slow its economy. Right now, it's Mother Nature and the fallout from the disastrous tsunami that are dominating the geo-political headlines.

The outlook for this year remains bright, a continuing North American expansion and falling bond yields along with a soon-to-be-declining Canadian dollar signal a favorable year for stocks. Avery Shenfeld, Senior Economist with CIBC World Markets recently stated "We still believe that later this year, the visible impacts of excessive Canadian dollar strength, a cooling in non-energy commodity prices and negative spreads between Canadian and U.S. rates across the yield curve, will see the loonie retreat below 80 cents." This will indeed be positive for Canadian dollar denominated U.S. held equities, where we can benefit from the increase stock prices and positive currency exposure.

Regardless of the outcome, very little of your future success will have to do with the past. Most of your achievements will be dependant upon your good habits and your ability to maintain them unwaveringly in the face of potent distractions. That may be as difficult as any New Year's resolution, but on this one, we are here to help.

Sincerely,

Don

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