

Will History Repeat Itself?

2006 exited with a flurry of activity in the financial markets; it was a year of constant fluctuations. However, for all the movement within the year, oil finished within one cent of where it started at the beginning of the year and the Canadian dollar finished at 85.98 USD; little change over the start of the year at 85.81 USD. The final quarter proved to be very rewarding for investors, particularly in the equity markets. For the first time in recent memory the returns of the Dow Jones Index surpassed that of the TSX with an annual performance of 16.29% versus 14.51%, while the broader market indicator of the S&P 500 returned modestly less at 13.62% on the year.

*2007 represents the third year of a Presidential term. In the entire history of the S&P 500, there have only been two years in which there were negative returns during the third year of a President's term. The last negative year was in 1939 as the United States was entering into the Second World War. During all other third year terms, the S&P 500 increased by double digits – with only two exceptions; 1947 & 1987 in which returns were single digits. The **AVERAGE RETURN for the third year of a Presidential term has been 20%! While there are no guarantees, history has placed the odds in our favour; the rally of the last quarter could be an exciting start to the equity markets this year.***

I've previously referred to an old investment adage that states "bull markets climb a wall of worry". In my last quarterly summary, I pointed out some of the concerns about the overall US economy; corporate profits, the US dollar, twin deficits, energy costs and the expense of the ongoing war in Iraq. As you might expect there are an abundant number of reasons for investors to worry about the markets; which in turn has the potential to entice investors to take the profits of recent years and run. Although none of the worries are new or unforeseen, we can be assured that varying interpretations will unfold and trigger emotional responses in the market. Thus, we may see a slight pull back before a potential storm forward in 2007.

Regardless of what the short-term response to the markets will be, if we invest prudently and stay the course with eyes focused on the horizon, we will reach our destinations.

I look forward to navigating the future with you.

Regards,

Don

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