

## **Fighting the fear factor: Don't let today's uncertain times take you off track, investment advisers say. Focus on your long-term goals.**

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Extreme sports enthusiasts sometimes talk about the thrill of "feeling the fear" and doing it anyway. But it may be a sign of just how grim the investment climate has become that financial gurus are singing a similar tune about investing in RRSPs.

With bearish stock markets in their third year of dismal losses and the threat of a U.S.-led war against Iraq feeding even more uncertainty, it's hard not to fear that buying an RRSP right now amounts to throwing good money after bad.

But avoidance is not a strategy, advisers say. And delaying beyond March 3, the deadline for RRSP contributions, means missing out on a valuable deduction against 2002 income taxes.

Advice on how to face the fear and make a good decision in difficult times varies:

- Warren Jestin, chief economist of Scotia Bank, recommends against selling any existing investments now because that would lock in losses at market lows. But for new money, such as a contribution to an RRSP, parking money temporarily in a money market fund or cash account (held as an RRSP), may be "very prudent" for people who are feeling nervous. He thinks the geo-political situation may keep business and consumers feeling anxious and stock markets very volatile until at least the April-June quarter of the year.

- Michael Moreau, a financial planner with Personal Financial Solutions in Ottawa, says most of his clients feel reassured once they review their long-term objectives and understand that markets go both down and up over time. But for new investors, it could make sense to put RRSP money into a cash account or money market fund and gradually buy your chosen stocks, bonds or designated mutual funds in stages over a period of time. It was a tactic Mr. Moreau used with clients during the 1999 Y2K scare, when people were worried that computerized systems around the world could shut down when they rolled over to the year 2000.

- Marc Lamontagne, co-president of the Ottawa chapter of financial planners known as Advocis, disagrees with wait-and-see tactics for anyone with a long-term investment horizon. Temporarily parking money to wait for the global anxiety level to cool risks missing out on a stock market rebound, since markets typically anticipate events and can turn very quickly. If you've got a good diversified plan, stick to it and forget about trying to time the market, says Mr. Lamontagne, a partner in Ryan, Lamontagne and Associates. "It may sound boring, but it is the right way to approach it."

It's not surprising that investors are feeling anxious.

In the past 12 months, only about one-third of the 35 categories of mutual funds tracked by Fundata Canada, managed to stay out of the red. Gold funds, which on average rose nearly 55 per cent, and natural resources (including oil), which gained 12 per cent, represented two of the top three performing fund categories. And both of them are being driven higher by fears of war and oil shortages. Foreign bonds, up 15 per cent, was the other category in the trio of top performers.

Further down the list, Canadian bonds, managed a five per cent gain while Canadian equity funds averaged a 13 per cent loss over the 12 months ending Jan. 31. Science and technology funds got hammered once more, losing 42 per cent of their value as the worst performing sector.

January's results offered even less comfort. Only five of the 35 fund categories managed to avoid losses including Canadian and U.S. money market funds and mortgage securities funds, which are all traditionally used as short-term parking spots for cash during times of uncertainty.

The continuing slide in stock markets and low returns on bonds and other income investments has left an increasing number of people feeling angry, worried and even betrayed by advisers and securities regulators, who failed to deal with abuses that led to Enron-type scandals and pumping of stocks, says Halifax psychologist Jason Roth.

For example, Mr. Roth says he recently counseled a 61 year-old man with health problems who felt betrayed because he could no longer afford to retire early, despite a warning from his doctor that he should.

"For him, (there) was this sense of betrayal," because he regularly contributed to his RRSP, believing his long-term plan would take him where he wanted to go, says Mr. Roth, who is working on two books about the human relations side of dealing with money issues and financial planners.

Mr. Roth's advice to those who are angry or fearful is to seek balance between finding satisfaction in current parts of your life, which you can control, and dealing with long-term investment plans, the results of which you can't always control.

"I caution people against trying to hit a home run, because it can compound that sense of (loss)," says Mr. Roth. It's dangerous to think, "Well, I've lost \$800 in the casino, so I'm going to bet \$2,500 to break even."

Ranga Chand, author of Ranga Chand's Top 50 Mutual Funds 2003 Edition, says finding the right mix of investments and diversification are the keys to handling risk.

But with more than 5,000 mutual funds available to Canadian investors, he says you need a system to pick good funds, based on their historical record, in both good and bad times.

Investors can get a good sense of a fund by looking at a given fund's best and worst returns over 12-month periods and its average return over a longer period of time. Also look at how many times the fund lost money in any given 12-month period and compare its overall performance to funds with similar investment styles, says Mr. Chand.

While some types of investments naturally do better in some environments than in others, "you'll find the longer you hold your fund, the less the chances are it will lose money" because cycles even out over time, he says.

While Mr. Chand believes markets will begin to strengthen later this year, the return to a bull market isn't likely to be a repeat of the 1990s when stocks commonly showed gains in the high teens or

better year after year.

"You need to have realistic expectations," he says. "Think single digits for the stock market." The bond market, he believes, would produce returns more like five per cent and money market funds around three per cent.

Bond funds are sensitive to interest rate changes and so are individual bonds, if you intend to sell them before maturity. When rates go up, the value of existing bonds go down because they were issued when interest rates were lower. That could produce losses in bond funds and individual bond securities, if they are sold before maturity. But the risk is greatest in long-term bonds, which tend to see the greatest swings when rates change.

Mr. Chand suggests potential investors ask what the "average term to maturity" is for a bond fund they are considering. If it is 15 years or more, the fund is much more sensitive to rates and could suffer a bigger hit if general interest rates increase this year, he says.

Mr. Jestin, chief economist at Scotia Bank, doesn't do specific market forecasts. But given the uncertainty surrounding an Iraqi war, he's expecting the general economic growth to come in somewhat slower than the 3.25 per cent GDP growth in Canada last year.

Worries over fallout from any war will keep a lid on business spending and could aggravate nervousness by consumers, whose spending has been a source of strength.

If things go well, markets could begin shaking off uncertainty by spring, but if things go poorly, that could drag down the U.S. economy and slow Canadian growth as well, he says.

"I don't think in this market it is easy to pick winners and losers because of the random damage that sudden shifts in investor confidence can do," he said.

Illustration:

- Colour Photo: Corbis Images / The third year of dismal losses in the stock market and the threat of U.S.-led war against Iraq has investors worried about what to do about their RRSPs this year.

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