ADVANTAGE
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PORTFOLIO STRATEGIES
corporation

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Records Are Meant To Be Broken

When the trading day ended on Tuesday, March 5, the Dow Jones Industrial Average (one of the most used stock indices) closed at a record high of 14,253.77. It surpassed the index's previous closing high of 14,164.53 reached in the pre-recession days of October 2007. This rise in the market is particularly impressive. Why? This rise has happened at a time when the government continues to run deficits and the unemployment rate has remained stubbornly high. This market surge is primarily due to the profitability of corporate America, with most companies having record profits and consistently beating the earnings estimates of the market.

It is true that the Dow Jones is not the most representative index – it only tracks 30 stocks. What's more, the index is price-weighted, meaning more expensive stocks have an outsized impact on the number. In fact, the top three stocks in the Dow Jones account for almost 1/3 of the index's total performance.

Analysts say the S&P 500, a much bigger index, is more reflective of the market as a whole. At the time of writing this, the S&P is just five points away from its record closing high of October 2007. What's more, the S&P is now at the same levels it was at the turn of the century. but this time at a Price to Earnings Ratio (P/E ratio) that is half what it was at that time. P/E Ratios are one of the most common ways that stocks are valued. It refers to how much a stock costs, relative to the earnings of the company. So, currently we are paying half the price for earnings than we were 13 years ago.

But ,what about the Canadian stock market – the TSX? Our market remains off of it's record high of June 2008 by about 19% or 2,896 points. A year ago, the TSX was about 2,000 points ahead of the Dow Jones Industrial Average. Now the Dow has left Canadian stocks in the dust and has risen so strongly it's overtaken the TSX and is ahead about 2100 points. The main cause of this – commodity stocks have been out of favor the past couple of years. The depression of this sector shows that there is still some nervousness surrounding global growth.

Outside of the commodities sector, Canadian companies are doing quite well, whether it is financials (banks and insurance companies), telecoms, utilities, etc. The drag on our market due to one sector, shows how under diversified the Canadian market really is. We only make up 4% of the total global economy and we have a heavy reliance on commodities. This demonstrates the need to keep a diversified portfolio, with a strong weighting in Canada but to also include other sectors globally where the Canadian market is under represented.

Is now the time to sell?

With all of the headlines devoted to the record run of the market (especially south of the boarder) it's natural to wonder whether now would be a good time to sell our investments. It all sounds very simple; sell now while the market is high, wait for a dip and then buy back in again.

However, in practice, this investment strategy is almost always sure to fail. In the Globe and Mail article referenced below, Mark Hulbert, analyzed a database to see how market timers have done since the market peak in 2007. He said that no one was able to call the market top or bottom exactly right. Even when it came to adjusting their equity exposure by 25 percentage points ,96% of them still failed. Even the few that got it somewhat right, made many other calls during that time that more than diminished any gains they may have made from making a correct prediction.

The time tested strategy for success continues to be owning investments that you understand. These invest-ments need to meet your risk tolerance, time horizon and be sufficiently diversified..

Meeting with your advisor regularly to ensure that your portfolio remains balanced, is vital as well.

Please contact me if you have any questions or concerns.

Keeping you informed:

Is now the time to sell high?
m.theglobeandmail.com/globe-investor/inside-the-market/is-now-the-time-to-sell-high/article9720740?service=mobile

Running of the bulls
http://www2.macleans.ca/2013/02/12/running-of-the-bulls/

Do You Trade or Invest?
https://nu123.infusionsoft.com/app/hostedEmail/53437/510e63a2249455c8?inf_contact_key=ae60f637b3e739909f1696a2585a5e1057410729fbeffb7892b65f6231d3a18

Random Thoughts

Risk comes from not knowing what you're doing.
Warren Buffett

Remember, happiness doesn't depend upon who you are or what you have; it depends solely on what you think.
Dale Carnegie

Don't find fault, find a remedy.
Henry Ford

A goal is a dream with a deadline.
Napoleon Hill

Did you know…

If you add up all the numbers from 1 to 100 consecutively (1+2+3…) it totals 5050

DVDs are physically the same size as CDs, but can store 13 times more data

Tim Hortons sells more than two billion cups of coffee annually in North America

Men are struck by lightning 7 times more than women