

BEATING THE TSX - IT WORKS!

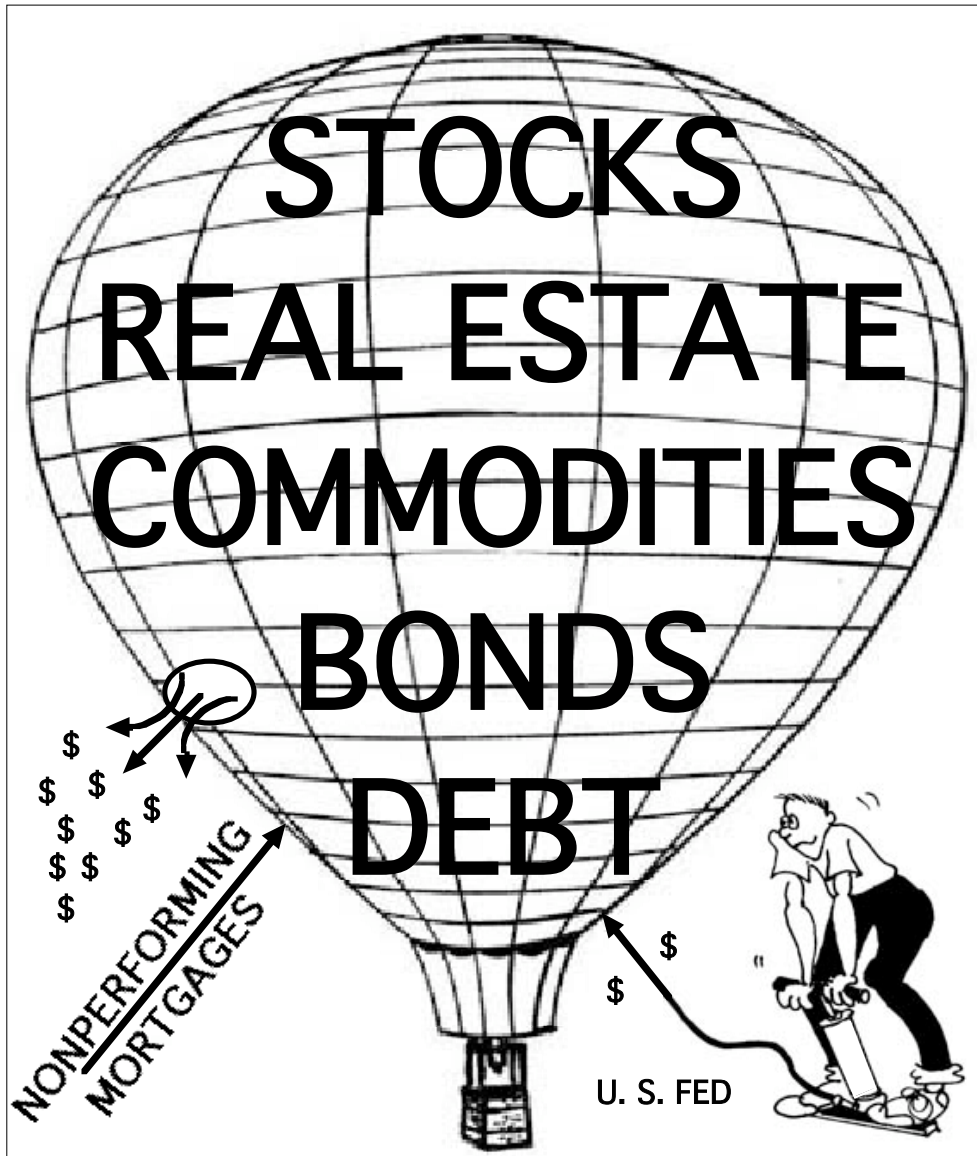
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OUTLINE

- ❖ WHAT HAS HAPPENED
- ❖ WHAT IS HAPPENING NOW
- ❖ WHAT MIGHT HAPPEN
- ❖ WHAT TO DO NOW?
- ❖ BTSX – HOW IT WORKS AND PERFORMS
- ❖ IS ANOTHER DEPRESSION LIKELY?
- ❖ SUGGESTIONS AND CONCLUSIONS

WHAT HAS HAPPENED



THE GREATEST GLOBAL LOSS OF PERSONAL WEALTH SINCE THE DEPRESSION – AN UNINTENDED CONSEQUENCE OF HUBRIS, GREED, DERIVATIVES, AND TOO MUCH LEVERAGED DEBT.

❖ U. S. HOUSING MARKET EQUALS \$20 TRILLION OF UNHEDGED RISK. THE BUBBLE LED TO RISKY MORTGAGES SOLD AROUND THE WORLD.

❖ GLOBAL DELEVERAGING AND CONTAGION (DOMINO THEORY). EVERY FINANCIAL CRISIS IS A BANKING CRISIS AND IT HAPPENS QUICKLY.

❖ THE U. S. FED, FOLLOWED BY OTHER COUNTRIES, LOWERED SHORT-TERM LENDING RATES, THE TRADITIONAL KEYNESIAN MONETARY POLICY TO REINFLATE ASSETS. THIS DIDN'T WORK. DEBT LEVELS ARE TOO HIGH BECAUSE OF LEVERAGE. LENDERS ARE HOARDING CASH. THE VELOCITY OF MONEY HAS DECREASED DRAMATICALLY.

❖ GOVERNMENT – 'IF WE JUST KEEP POURING MONEY INTO THIS PROBLEM WE CAN BEAT IT'.

WHAT IS HAPPENING NOW

❖ AS STOCKS LOSE VALUE BANKS, MUTUAL FUNDS, HEDGE FUNDS, ETC. ALL UNLOAD THEIR INVENTORY TO COVER MARGIN CALLS, PRODUCING A CASCADE OF LOSSES.

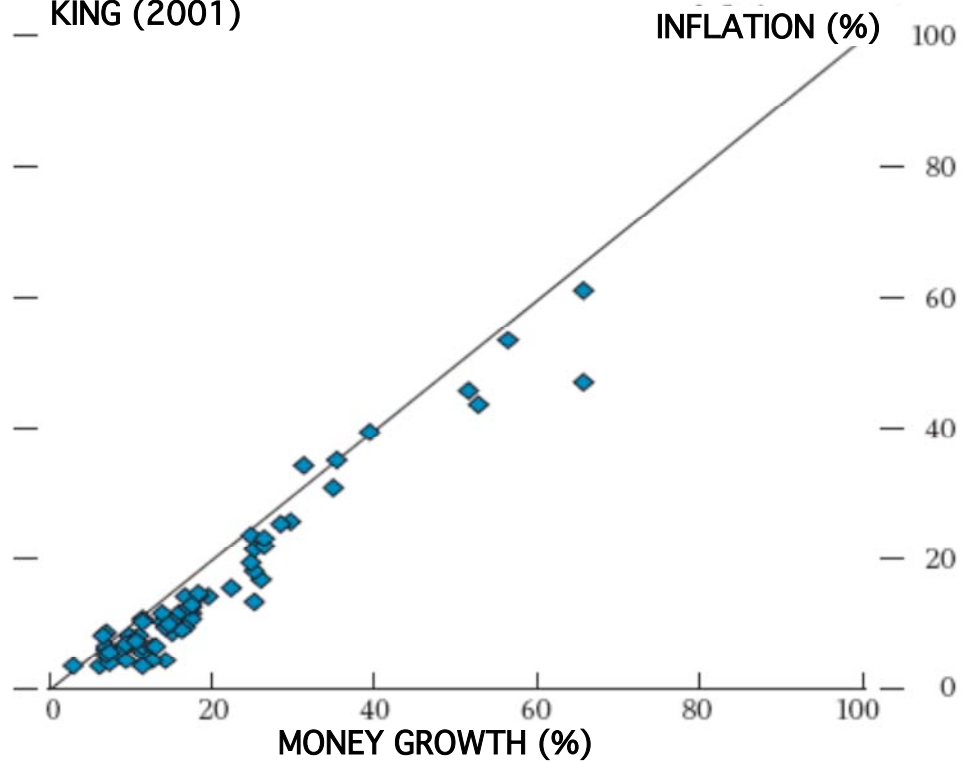
❖ THE NEXT STEP IS BAILOUTS OF TROUBLED ASSETS. THE U. S. AND OTHERS ARE BUSY BAILING OUT BANKS, INSURANCE COMPANIES, AUTO MANUFACTURERS, ETC. 'TOO BIG TO FAIL'. IT IS NOT WORKING YET. THE GOVERNMENT EXPECTS THE PRUDENT TO RESCUE THE RECKLESS. WHY WOULD ANYONE WANT TO BUY SOMETHING WHOSE PRICE IS BEING SUPPORTED BY THE GOVERNMENT SINCE IT'S MORE THAN LIKELY THERE WILL BE FURTHER LOSSES?

❖ SOME PENSION FUNDS MAY BE IN TROUBLE.

WHAT MIGHT HAPPEN

YOU CAN'T KEEP PRINTING MONEY WITHOUT INDUCING INFLATION.

116 COUNTRIES, 30 YEARS
— KING (2001)



❖ IN ORDER TO KEEP THE GOVERNMENT SOLVENT TAXES MUST INCREASE.

❖ ONE OF THE EASIEST WAYS FOR THE GOVERNMENT TO LESSEN THEIR DEBT LOAD IS DEVALUATION OF THE CURRENCY.

❖ CANADA IS IN BETTER SHAPE. OECD (2008): “CANADA’S BANKING SYSTEM HAS BEEN LESS DIRECTLY AFFECTED BY FINANCIAL TURMOIL, AND THE CORRECTION IN THE HOUSING SECTOR IS LIKELY TO BE MODEST.” BUT WHAT ABOUT WEAK WORLD TRADE GROWTH?

❖ I THINK INFLATION IS THE BIGGEST THREAT COMING OUR WAY. BERNANKE: “UNDER A PAPER-MONEY SYSTEM, A GOVERNMENT CAN ALWAYS GENERATE HIGHER SPENDING AND, HENCE, MORE INFLATION.”

❖ IF DESPERATE, PERHAPS A MOVE TO GLOBAL CURRENCY AND A GLOBAL CENTRAL BANK? IF THIS HAPPENS CAN A ‘GLOBAL’ GOVERNMENT BE FAR BEHIND?

WHAT TO DO NOW?

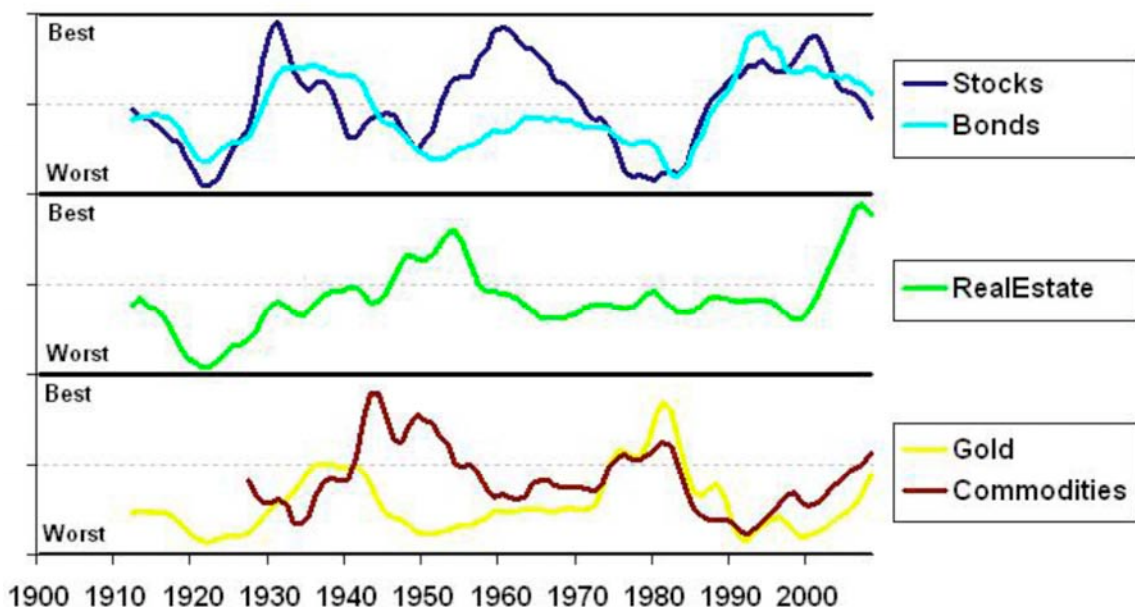
❖ THE INVESTMENT CLIMATE IS CHANGING. UNFETTERED CAPITALISM WILL GIVE WAY TO MORE REGULATION, THE DAYS OF CHEAP FINANCING ARE OVER, LEVERAGED PLAYS WILL SUBSIDE, AND CORPORATE TAX RATES WILL INCREASE.

❖ WHAT ARE OUR INVESTMENT OPTIONS? AS ALWAYS – STOCKS, BONDS, COMMODITIES AND PRECIOUS METALS, CASH AND REAL ESTATE.

❖ REAL ESTATE – IN CANADA OUR HOUSE PRICES HAVE NOT DROPPED AS PRECIPITOUSLY AS IN THE U. S., BUT ANY INCREASES WILL LIKELY BE ANEMIC AND BARELY KEEP PACE WITH INFLATION.

❖ CASH – GOVERNMENT BAILOUT PROGRAMS WILL LEAD TO DEBT BORNE BY TAXPAYERS. INFLATION WILL INCREASE DUE TO REFLATION EFFORTS. WE NEED ASSET GROWTH THAT MONEY MARKETS WILL NOT PROVIDE.

❖ COMMODITIES – HARD ASSETS COULD MAKE A COMEBACK, ESPECIALLY ENERGY AND THE MATERIALS NEEDED TO PROVIDE INFRASTRUCTURE IMPROVEMENTS. A BIG DEMAND FOR PHYSICAL GOLD.



❖ BONDS – CDN GOVERNMENT BOND YIELDS ARE DROPPING; REAL YIELDS ARE NEGATIVE. INFLATION WILL WORSEN THIS RETURN. CURRENT YIELD ON THE CDN 5-YR BENCHMARK BOND IS 1.68%; CURRENT CPI IS 2.0-2.4%. WHY BUY BONDS WHEN INFLATION MEANS THE GOVERNMENT WILL JUST PRINT MORE MONEY TO COVER THEM? CORPORATE BONDS OR PREFERRED SHARES MIGHT BE A BETTER BET SINCE SELLING OF STOCKS AND BONDS HAS RAISED THE YIELDS ON CORPORATES, BUT BUYING OF GOVERNMENT BONDS HAS LOWERED THEIR YIELDS – A WIDE SPREAD NOW. "IF EVERYBODY ELSE AROUND ME IS INVESTING IN ASSET CLASS X, DOESN'T THAT MEAN I'M PROBABLY OVERPAYING?"

❖ STOCKS – IN THE LONG RUN STOCKS ARE THE BEST BET, IF PRICED REASONABLY. INVESTORS SHOULD FIND A SUITABLE STOCK/FIXED INCOME RATIO.

❖ STOCKS ARE A TOUGH SELL NOW. AFTER THE GREAT DEPRESSION INVESTORS AVOIDED EQUITIES FOR DECADES, TO THEIR DETRIMENT. I BUY STOCKS FOR THEIR DIVIDENDS TO PRODUCE A TAX-ADVANTAGED INCOME STREAM THAT IS REINVESTED AND COMPOUNDED. CAPITAL GAINS ARE GRAVY. YOU NEED TO KNOW ABOUT COMPOUNDING.

❖ ONE OF THE WAYS TO MINIMIZE BEAR MARKETS IS HAVING A PORTFOLIO BASED ON HIGH-YIELDING CANADIAN BLUE-CHIP STOCKS THAT INCREASE THEIR DIVIDENDS REGULARLY.

WHY CANADIAN, WHY BLUE-CHIP, WHY DIVIDENDS? THERE ARE MANY REASONS:

1) DIVIDENDS CONSISTENTLY AMOUNT TO GREATER THAN 50% OF LONG-TERM TOTAL STOCK RETURNS;

2) DIVIDEND PAYING STOCKS OUTPERFORM NON-DIVIDEND PAYING STOCKS; DIVIDENDS ACT AS A CUSHION IN DOWN MARKETS;

3) CANADIAN DIVIDENDS ARE PREFERENTIALLY TAXED AND THERE IS NO WORRY ABOUT CURRENCY FLUCTUATIONS;

4) DIVIDENDS CAN OFTEN BE REINVESTED IN NEW SHARES AT NO COST THROUGH DRIP PLANS, LEADING TO FAVOURABLE COMPOUNDING EFFECTS.

5) DON'T BE MISLEAD – DIVIDENDS AND DRIP PLANS CAN BE REDUCED OR DISCONTINUED, BUT THIS IS LESS LIKELY FOR BLUE-CHIP COMPANIES. THIS BRINGS US TO THE BTSX CONCEPT, A WAY TO PURCHASE THESE STOCKS WHEN THEY ARE ON SALE. STOCKS ARE NOT A BARGAIN IF YOU PAY TOO MUCH. FIRST, SOME BENCHMARKS:

BENCHMARKS, DECEMBER 31, 2008		
AVG. ANN. CMPD. RETURN	5 yr (%)	10 yr (%)
CPI - ALL ITEMS	2.0	2.3
S&P 500 (\$CDN)	-5.1	-5.2
S&P/TSX TRIV	4.2	5.3
1-YEAR AVERAGE GIC	2.1	2.5
5-YEAR AVERAGE GIC	3.1	3.7
91 DAY TREASURY BILL	3.3	3.7

“WAIT FOR THE FAT PITCH” – WARREN BUFFETT

“BEATING THE TSX”

BTSX IS A SIMPLE METHOD FOR BUILDING A PORTFOLIO OF BLUE CHIP, HIGH-YIELDING CANADIAN COMMON STOCKS AT A REASONABLE PRICE. IT IS EASY TO IMPLEMENT AND REQUIRES NO SPECIAL MATHEMATICAL SKILLS. OVER THE PAST 21 YEARS IT HAS BEAT THE CANADIAN TRIV OF LARGE-CAP STOCKS BY AN AVERAGE OF 14%. A \$1000 DOLLAR INVESTMENT WOULD HAVE GAINED ABOUT 23% MORE WHEN INVESTED IN THE BTSX PORTFOLIO. THE METHOD CONSISTS OF YEARLY SELECTING 10 STOCKS BASED ON HIGH YIELD AND LOW COST.* IT IMPOSES DISCIPLINE AND PATIENCE, AND ELIMINATES MANAGEMENT FEES.

MOST STOCKS STAY ON THE LIST FOR SEVERAL YEARS, MAKING FOR LOW TURNOVER AND LESS TRADING COSTS. WHEN A STOCK DROPS OFF THE LIST IT IS USUALLY BECAUSE THE PRICE HAS RISEN. YOU CAN THEN DECIDE TO KEEP THE STOCK AS PART OF A GROWING PORTFOLIO CONSISTING MAINLY OF LIQUID BANKS, INSURERS, PIPELINES AND UTILITIES, MOST OF WHICH HAVE DRIP PLANS THAT ALLOW INVESTORS TO COMPOUND THEIR DIVIDENDS AT NO COST. DURING THE RECENT DOWNTURN IN THE STOCK MARKET BTSX HAS LOST MUCH LESS THAN THE INDEX, REFLECTING THE ABILITY OF HIGH-YIELDING STOCKS TO WITHSTAND MARKET CORRECTIONS. RESULTS FOR THE 21 YEARS OF BTSX:

BEATING THE TSX – 21YR RESULTS (1987-2007)		
	AVG. RETURN (%)	\$1K INVEST
BTSX	13.1	\$10,192
INDEX	11.5	\$8,303
% INCREASE	+13.9	+22.8

A 23% INCREASE IN RETURN IS HUGE. THE BEST PART IS BUILDING UP A PORTFOLIO OF HIGH-YIELDING CANADIAN STOCKS THAT HAVE BEEN OBTAINED AT BARGAIN PRICES. AT REBALANCING YOU MAY DECIDE TO KEEP IT AS PART OF YOUR LONG-TERM PORTFOLIO, OPENING UP THE POSSIBILITY OF A PROLONGED COMPOUNDING EFFECT AND DEFERRED CAPITAL GAINS TAXES. HOW HAS THE PORTFOLIO DONE RECENTLY?

 BTSX—RESULTS FROM 5/23/08 TO 12/31/08

STOCK	OPEN	CURR.	CHANGE(%)
SHAW COMM.	\$21.42	\$21.61	0.89
POWER CORP.	\$33.30	\$22.42	-32.67
*BCE INC *	\$33.60	\$25.13	-25.21
TRANSCANADA *	\$39.48	\$33.43	-15.32
BNS*	\$47.60	\$33.31	-30.02
TELUS*†	\$48.24	\$37.17	-22.95
BMO	\$48.52	\$31.25	-35.59
*ROYAL BANK	\$49.82	\$36.10	-27.54
NTL BANK	\$53.12	\$31.30	-41.08
*TD BANK**	\$68.36	\$43.45	-36.44
AVERAGE			-24.12 ^
DJ 40 TRIV	2770.13	1737.06	-37.27

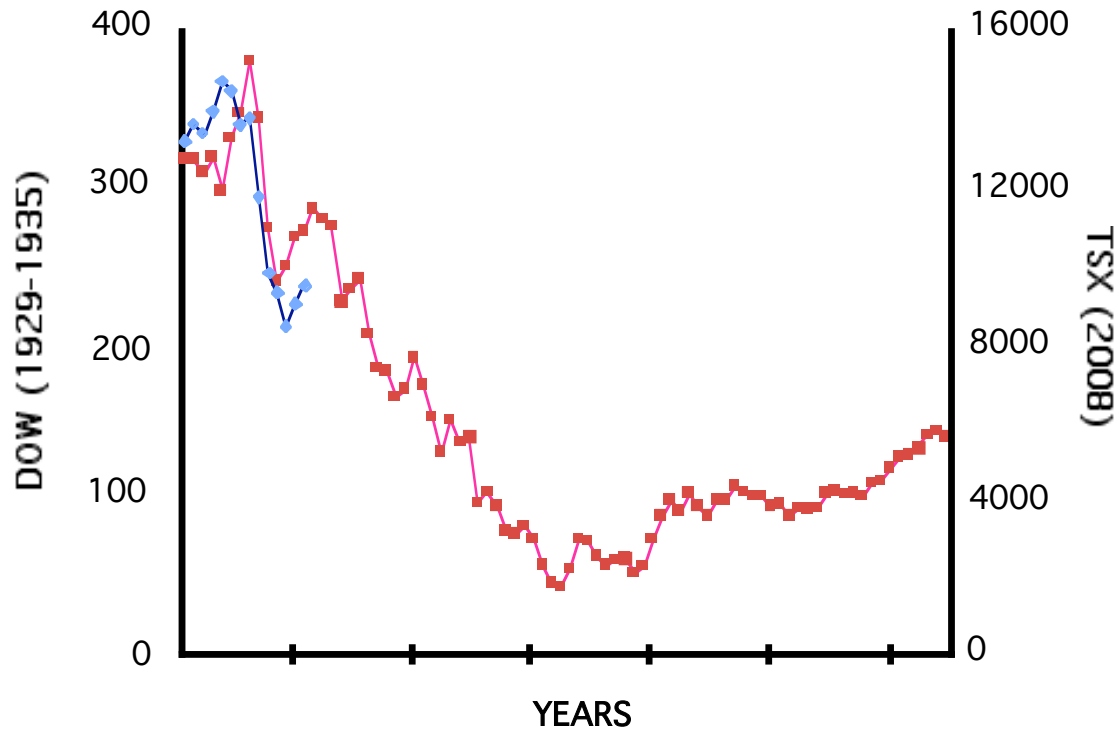
**TSX TRIV=-38.96 (CM, HSE, BNS, GWO,
POW)**

AVG. YIELD = 6.55%; TSX = 4.04%

WE ARE BEATING THE INDEX HANDILY AND IT IS
BETTER TO LOSE LESS MONEY THAN MORE.

IS ANOTHER DEPRESSION LIKELY?

ARE WE HEADED FOR A BEAR MARKET OR A DEPRESSION? DEPRESSIONS USUALLY INVOLVE OTHER CAUSES BEYOND JUST A FINANCIAL CRISIS. PEAK OIL, HIGH FOOD PRICES, CLIMATE CHANGE AND GEOPOLITICAL TERRORISM HAVE ALL PLAYED INTO THIS 'PERFECT STORM' SCENARIO AS WELL AS THE FINANCIAL CRISIS. THIS GRAPH INDICATES WE ARE CLOSELY TRACKING THE 1930's DEPRESSION.



NOTICE HOW THE 1929 CRASH WAS CHARACTERIZED BY A SAW-TOOTH DOWNWARD SLOPE. EVERY TIME THE MARKET RALLIED DURING THIS PERIOD MORE OVEROPTIMISTIC INVESTORS GOT HURT. THE LESSON IS NOT TO RUSH IN TOO QUICKLY. WAIT FOR THE FAT PITCH.

WHAT EFFECT DID DIVIDENDS HAVE ON THE RECOVERY FROM THE '29 CRASH? HERE ARE THE DATA FOR THE DOW 30 STOCKS MINUS 5 THAT WERE REPLACED, PLUS 2 GOLD MINERS AND 3 TOBACCO COMPANIES.

DIVIDENDS AND THE 1929 CRASH

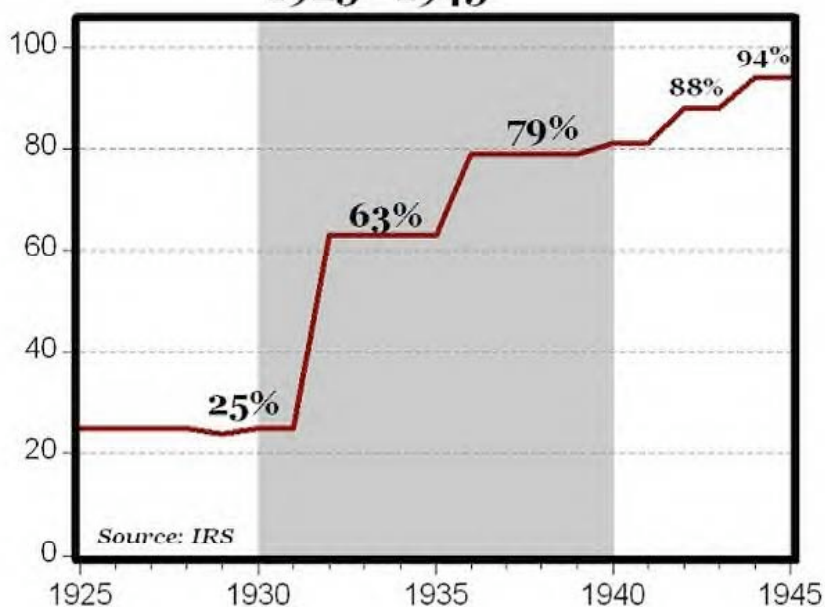
OUTCOME	#	'33HI/'29LO	SECTOR
INCREASED (247%)	2	675%	GOLD*
MAINTAINED (100%)	6	111%	TOBACCO
REDUCED (-54%)	12	103%	MIXED
REDUCED TO 0	8	66%	INDUST
NO DIVIDEND	2	51%	'HI-TECH'

DIVIDENDS WERE A FACTOR IN LIFTING STOCKS FROM THEIR LOW. WHICH SECTORS WILL LEAD THE RECOVERY THIS TIME? NOBODY KNOWS. HOWEVER, IN BEAR MARKETS SHARE PRICE PERFORMANCE HAS CORRELATED CLOSELY WITH DIVIDEND CHANGES; STOCKS WITH HIGHER THAN AVERAGE DIVIDEND GROWTH TENDED TO OUTPERFORM THE INDEX.

GOLD STOCKS AND THE GREAT DEPRESSION				
DATE	HOMESTAKE	DIV	DOME	DIV
LOW '29	\$65	\$7	\$6	\$1
HIGH '30	\$83	\$8	\$10.38	\$1
HIGH '31	\$138 <u>CPI</u>	\$8.45	\$13.50	\$1
HIGH '32	\$163 -10.3	\$10.60	\$12.88	\$1.30
HIGH '33	\$373 -5.1	\$15	\$39.50	\$1.80
'34-FDR RAISES GOLD PRICE: \$21 TO \$35/oz				
HIGH '34	\$430 +3.4	\$30	\$46.25	\$3.50
HIGH '35	\$495	\$56	\$44.88	\$4
HIGH '36	\$544	\$36	\$61.25	\$4

TAXES ON THE UPPER CLASS IN THE U. S. WERE HIKED DRAMATICALLY DURING THE DEPRESSION.

Highest Marginal Individual Income Tax Rate 1925 - 1945



CANADIAN BARRIE WIGMORE, WHO WROTE ABOUT THIS ERA, CONCLUDED THAT WHAT DETERMINED THE END POINT OF THE GREAT DEPRESSION WERE SOCIAL, POLITICAL, AND ECONOMIC EVENTS ACTING ON FINANCIAL MARKETS RATHER THAN THE MINOR ROLE PLAYED BY THE FED IN PROVIDING RESERVES TO THE BANKING SYSTEM.

SUGGESTIONS AND CONCLUSIONS

WITH A SMALL AMOUNT OF EFFORT AND USING READILY AVAILABLE RESOURCES YOU CAN EMPOWER YOURSELF AS AN INDIVIDUAL INVESTOR. KNOWLEDGE IS EMPOWERMENT.

HOW TO GET THE INFORMATION YOU NEED:

- ❖ SUBSCRIBE TO THE MONEYSAVER
- ❖ JOIN A SHARECLUB, TAKE A COURSE
- ❖ EXPLORE THE INTERNET BUT BE CAUTIOUS

BE CAREFUL TO WHOM YOU TRUST YOUR MONEY – MOST ADVISORS ARE HONEST BUT A FEW ARE NOT.

THINGS TO AVOID:

- ❖ SHORT-TERM TRADING, MARKET TIMING
- ❖ TECHNICAL ANALYSIS – CHART DIVINING
- ❖ STOP LOSS ORDERS

❖ STOCK OPTIONS, COMMODITY FUTURES, SHORTING – I DO NOT RECOMMEND OPTIONS. THEY'RE ILLIQUID, THE BID-ASK SPREADS ARE HIGH, AND IT'S DANGEROUS TO HAVE TIME WORKING AGAINST YOU. IT'S HARD ENOUGH TO BE RIGHT ON THE DIRECTION OF A STOCK'S MOVEMENT, MUCH LESS BEING RIGHT ON THE TIMING. VOLATILITY HAS A HUGE EFFECT ON THE PRICE OF AN OPTION.

❖ FRICTIONAL COSTS, MUTUAL FUNDS (TRY ETF'S OR INDEX FUNDS INSTEAD).

❖ WATCHING CNBC OR BNN FOR HOURS.

IGNORE HOT TIPS, RECOMMENDATIONS FROM BROKERAGES, AND 'CAN'T MISS' SUGGESTIONS FROM YOUR UNCLE RALPH. KNOW YOUR ADVANTAGES.

USE THE KISS PRINCIPLE. STOCKS HAVE BEEN THE BEST ROUTE TO BUILDING WEALTH. BUY A PORTFOLIO OF HIGH-DIVIDEND BLUE CHIP STOCKS AND HOLD FOR LOWER RISK AND HIGHER RETURNS. WORK YOUR PLAN.

'KNOW THYSELF'. COURAGE AND PATIENCE ARE THE MOST IMPORTANT CHARACTERISTICS FOR INDIVIDUAL INVESTORS! FINALLY, BE OPTIMISTIC – WE ARE NOT IN AS BAD A SHAPE AS MANY WOULD HAVE US BELIEVE. REMEMBER, WE HAVE ALL THAT THE WORLD NEEDS, LITTLE EXPOSURE TO U. S. GOVERNMENT DEBT, THE STRONGEST FISCAL POSITION OF ALL G7 NATIONS, AND A GOVERNMENT BASED ON STRONG DEMOCRATIC VALUES. THANK YOU FOR YOUR ATTENTION.