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Life Choices... a newsletter from Latimer Financial Services

Retirement and Tax Planning   Education Funding   Portfolio Review
Long Term Care   Life Insurance   Critical Illness   and Disability Insurance

September 2008

An old, well-used Chinese proverb…

…reminds us that we live in interesting times. And interesting is what they really, truly are.

Think about it: sitting down to read a newspaper that has headlines that tell us about the worst natural disaster to befall Galveston Island in a century; John McCain reassuring everybody that "…the fundamentals [of the economy] are still strong"; the Dow Jones Industrial Index in the U. S. dropped by 504 points in one day; the S&P/TSX Composite Index dropped 187 points on the same day and not to be forgotten: Britney Spears mother wrote a book that forced Brit to speak out! (About what is a mystery.)?

Who said life is not interesting?

A quick review of relatively recent events

Roughly one year ago two of Bear Stearns hedge funds collapsed causing that large U. S. investment banking firm to be rescued by the U. S. Federal Reserve and JP Morgan Chase Bank.

This week, Lehman Brothers, the largest U.S. investment bank went bankrupt. The largest U. S. insurance group, AIG, indicated a need to raise quite a lot of billions of dollars in order to stay afloat and it appears that the Federal Reserve is again going to be the white knight in shining armor while Merrill Lynch & Co., yet another investment bank sold itself to the Bank of America.

This financial mess was caused by the sub-prime mortgage fiasco that fortunately limited itself to the United States…except that a couple of Canadian banks chose to invest in packages of these mortgages that were put together by the innovative and creative people at…guess where…Lehman Brothers, Bears Stearns, Merrill Lynch and others. What the fate of the "others" is going to be is anyone's guess, of course, but I think we need to be realistic enough to assume that there will be, in fact…others. I don't think we have seen the last of this particular dog, skulking around with his tail firmly wrapped around both hind legs.

So the Canadian markets have been affected, much to everyone's consternation.

And while a few weeks (it seems, days) ago we were complaining and concerned about the price of oil at $147 US a barrel, today (September 17), we are concerned about the price of oil being only – did he say: only (?) - around $90 because the Canadian stock market has dropped with the oil price. (It appears that we can't have it both ways – a strong stock market based on extremely unusual high oil prices and a cheap liter of gasoline.)

On top of this, we have an election coming up in Canada – the run-up to the election being, thankfully, much shorter than the elections in the U. S. which, although lengthy, highly entertaining while at the same time, somewhat tiresome are also adding to the uncertainty that many people feel.

Latimer Financial Services 820 – 363 Broadway Winnipeg, MB R3C 3N9 Phone: 204-942-6895 Fax: 204-956-1006 Toll free: 1-877-828-4637
Hugh E. Latimer: hugh@latimerfinancial.ca W.A. (Bill) Latimer: bill@latimerfinancial.ca Web site: www.latimerfinancial.com

Okay – now we know the basic problem, so…?

We heard this expression once that always seems to come to mind in times of stress: "It ain't what happens to you that matters, son! It's what you do about it that does."

And…it does!

Why do we invest?

We know, because we have met them, that there are some people who save purely to have a fatter bank account. That's it, there is no other reason – simply having a larger bank balance is all they really want. If you ask them what they are doing it for – what their dreams, objectives and goals are – they effectively, look at you like the deer caught in the headlights – they are stuck for an answer.

They have no dreams, objectives or goals that extend beyond a very fat bank account. There is no pleasing them because obviously, they have no concept of when enough will be enough.

Then there are those who say: "I don't worry. It will all work out." And they might have goals and dreams but they have no idea how to get there so they are leaving the entire issue in the hands of…who knows!

Then there are those – and this includes a very large proportion of the investing population that are quite clear: They want to pay off their homes, educate their children, eat regularly and well, have an annual vacation that does not break the bank and have a comfortable retirement.

For most, these are realistic goals – they may not have all those goals quantified in terms of how much they will cost…but they do have the objectives and know that they need to save and invest in order to get there.

How they define their objectives will differ from one person to another depending on their income levels and life experience, no doubt, but generally speaking, they will be realistic and attainable.

And finally, there are the speculators who think they are "investing" when they are merely "gambling" that if I do this or that, I will get there faster if things turn out well.

We are addressing this newsletter to those who have a fairly clear idea of where they want to go – what their dreams, objectives and goals are.

We are not addressing the speculators!

If you are still some distance from retirement

The Don'ts and Do's:

First of all, do not panic! Things are what they are and quite frankly, there is nothing you or we can do about what is happening. What you CAN do is manage your reaction to events.

Second, don't allow yourself to either get in debt or deepen what debt you might have. At the end of each month, make sure you owe at least one dollar less than you did at the beginning of the month – particularly if you have one of the famous lines of credit that allow you to manage your own debt.

Third, don't sell a thing! You will be selling whatever you might sell at low prices – as they say, at or possibly, near the bottom of the market and that is never a good idea – whether it be a stock, a car, or your old kitchen table.

Fourth, don't change anything! Don't switch from one investment to another purely on the presumption that one seemed to "go down" faster than the other.

Fifth – Do drag out your "plan." You know – that plan that you and your advisor devised would best suit your investment objectives, style, and risk comfort level. Read it and reassure yourself that the plan was created and implemented at a time that may have seemed more stable than today, but probably had its own set of problems and disturbances.

In all probability that plan still works and will continue to work.

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Sixth – Do understand that distressing as all the events might be, this is also a great opportunity to invest further. We would recommend that the investment take the form of monthly deposits – dollar cost averaging – possibly over a seemingly extended period of time – 12 to 24 months.

But because we agree that saving is the essential key to (a) having a plan and (b) eventually meeting those dreams, objectives and goals, the saving and investing needs to continue. There is no point in waiting till things get better – in a sense, there is no better time.

Last but by no means least – if you are feeling nervous or discouraged with your investments, we strongly encourage you to call our office – ask for either Bill or Hugh and have a chat about your investments, what their status is, and what our assessment of your plan is. For those of you who are not clients of ours (yet), we will be happy to provide you with the proverbial "second opinion."

If you have retired…

…and are concerned about the erosion of your assets because of all these things happening in the world, then there are some things you can do:

As with those who are yet to retire, retirees should also review their investment portfolios to ensure that you are "on plan". That is, the asset allocation strategies that you devised for your investments are properly balanced.

Like younger folk, remember that your investments need to be structured with the long view in mind rather than the short horizon. Most of us are going to live longer than we probably expected and therefore, we ought not to react hastily to short-term events.

Having said that, retirees need to examine their comfort level with the current structure of their portfolios. It is important for retirees to make sure they have a risk tolerance level suitable to their specific situation and a portfolio structure that reflects those objectives. All segments of the market have not been affected. Investors should meet with their advisors (that would be Bill or Hugh) and simply review things.

Often the only thing that is really needed is the reassurance that "we're on the right track" and that the track is straight and true.

You earned your retirement – a lot of years and work went into your ability to retire. And, because of the fact that we are, as we said earlier, probably going to live longer than we had ever anticipated, it is a really good idea to treat your money accordingly. As one client told us one day: "I know I have a lot of money. I just don't want to spend it all at once!"

Live the way you want to live but watch your spending nonetheless! You'll have lots of time to spend it later!

And by all means understand that we are "at the switch" and ready and anxious to receive your calls!

And speaking of saving…

Do not forget that on January 1, 2009 we will be able to arrange Tax Free Savings Accounts (TFSAs) for you.

This is not something you will want to overlook!

Considering TFSAs at the same time as your RRSPs is going to be important.

Call us and ask why!

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