



Capital Wealth Management

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ISSUE 3 SEPTEMBER 2008

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Market Overview—Volatile Markets

I am writing to provide you with a brief comment on the situation in the financial markets. The fallout from the U.S. credit crunch has deepened resulting in an unprecedented volatility on global stock markets.

The Canadian market has also been affected. Our market is home to a number of oil and gas and other resource stocks. It had fared well earlier this year, relative to many other world markets, thanks to increasing commodity prices. This summer, however, growing concerns about a global slowdown sent commodity prices sharply lower, and the S&P/TSX Composite Index followed. To date the Canadian stock market has fared the best among the largest stock markets world wide.

In the United States, unfortunately many financial institutions have fallen victim to the credit crunch. Included in these are investment banks Lehman Brothers and Merrill Lynch, as well as AIG, formerly the world's largest insurance companies. These companies have taken a stock beating due to poor lending practices over the past 5 years. The U.S. government responded to this crisis with plans for a massive US\$700 billion bailout, in which it would purchase the troubled mortgages that are the source of the current problems.

For many investors, staying true to a long-term financial plan in the current environment can be a challenge. It is natural to be concerned about the value of your assets, and what the

future will bring. It is important to remember, though, that market declines are a normal part of investing and are typically followed by even greater gains in the long run.

Given the stock market's longer-term rising trend, the current downturn can be viewed as an excellent buying opportunity. By staying the course and continuing to invest - buying when prices are down - you can create enhanced long-term gains.

You can also take some comfort in the fact that your portfolio is diversified. A portfolio that is diversified by asset class (equities, bonds and cash), sector and region will have more stable returns. A well diversified portfolio geared toward your financial goals and risk tolerance is still the best investment strategy.

A downturn in the market can be uncomfortable, but it's no time for emotional actions. The key is to look beyond the short-term volatility and to envision the inevitable recovery. The markets have responded positively to the U.S. government's plans.

History has shown that those who remained committed to their long-term investment goals despite short-term volatility will ultimately benefit. If you have any questions about your investments, we are here to answer your questions. Please feel free to contact us.

