

# TODAY'S ISSUES



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## DO-IT-YOURSELF INVESTING

More and more people are entering the investment game trying to maximize family capital through do-it-yourself investing. Undoubtedly, the existence of significantly more investment information (both in publications and on the internet) gives investors the yen to do it on their own. A few can do this successfully but there are a lot of shoals in the water – even for the shrewdest do-it-yourselfer. It's not as easy as it seems.

Do-it-yourselfers usually fit either into the value investor category or the growth investor category. Value investors seek out bargains in stocks (typically small cap) that are cheap and trade at a discount relative to normal returns. Growth investors are those who buy stocks (typically large cap) that are healthy with increasing revenues and profits relative to their peers. It's fine for the pros to be value investors but seldom should the do-it-yourselfer try that – except possibly for a small part of a portfolio with added protection through diversification. Being a growth investor is the safest way to go for most of us.

Back in the 50's, 60's, and probably even into the 70's, long term stay the course investing was the best option. Buy Ma Bell and hold it for 10, 20 or 30 years was pretty good advice and a common practice. But it isn't that way anymore. Diversification and constant vigilance are a must. Investing has become a more complex endeavour with the huge overhang of global, political and other influences. Corporations start up quickly and some end just as quickly.

The computer age has made rapid growth of new corporations possible. Investors can no longer rely just on industrials, mines and minerals, natural resources and banks. Witness the growth in information technology and communication stocks. Witness the development of a Shoppers Drugmart, Rogers, or a Cineplex – all fairly new companies and all modern age companies using a whole new way of retailing.

## Core Holdings

So what is one to do and how should one structure an investment portfolio. It's simply too difficult today for most do-it-yourselfers to make good choices by going beyond the largest and healthiest corporations. Most professional advisors believe that a core part of any portfolio should include large cap dividend paying Canadian stocks. We subscribe to that proposition whether your portfolio is designed for long term growth or income generation.

## Diversification

There are other investments that have a proper place in a well balanced portfolio. They include fixed income investments, preferred shares, small cap companies and possibly international and country based stocks. Unfortunately, it is difficult, sometimes expensive and usually a risky proposition to purchase these investments on a one off basis. The recently invented exchange traded funds (ETFs) provide an excellent and inexpensive way to diversify a portfolio without the need to pick or choose a particular stock only to see it fail.

There is another diversification opportunity through income trusts – primarily in real estate and a few other investments not organized as corporations. Pending tax laws in Canada have narrowed the field of income trust choices.

## Being in a Crowd

My belief is that do-it-yourself portfolios should only hold a combination of large cap Canadian equities, ETFs and possibly some income trusts in their portfolios. The Canadian equity component should be confined to large cap dividend paying stocks. ETFs can be used to buy investments that are difficult or expensive to purchase on a one off basis. For example, investors could easily put their portfolio in danger by picking individual small cap stocks. Higher protection and better reward is available in a small cap ETF. The same is true for portfolio selections of international and country based stocks. How for example, is an investor supposed to select a stock in China and why would an investor even take that risk when a China ETF would be far safer and a less expensive way to invest. Some of the ETF categories that can help portfolio diversity include the following:

- ◆ TSX 500 or S&P 500 index
- ◆ Bonds
- ◆ Preferred shares
- ◆ Small caps
- ◆ International or regional
- ◆ Country based

There is infinitely more protection in being in a crowd than being alone when owning certain investments.

## A Disciplined Strategy

Investors must and should take a disciplined approach to investing in these days of uncertainly and financial turmoil. If large cap Canadian dividend paying stocks are your core portfolio holding, security of your capital should be as good as it gets. You also need diversification and a discipline to get out of an investment when it has changed or has run its course.

Choosing investments is not always as difficult as some would suggest but most people do not have the time, knowledge or the patience to seek out their own investments in a disciplined way and then stay on top of them. For those who wish to manage some or all of their portfolio, there is a higher chance of success if they follow the above basic but unalterable rules.

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