Real life needs active management

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E.Q Trendwatch™

When you see a bear in the woods, its best to stay very, very still…

We are indebted to another client this month that referred us to another excellent book entitled, "*The Winning Investment Habits of Warren Buffett & George Soros*." by Mark Tier. "This is an excellent book for your clients but not for you" the client told us. Of course this made us very curious to read it. We have long studied the discipline and wisdom of the world's few great investors and this book is a wonderful reminder of the most important habits to employ. Patience is number one:

> ***"Both Buffett and Soros know, and have accepted, that by sticking to their investment criteria there will be times, possibly extended periods, when they cannot find anything to invest in. Both have the patience to wait indefinitely. As Buffett quips. 'When there is nothing to do, do nothing.'"*** (Tier, p. 148)

Contrary to this necessary wisdom, the investment world is one driven by a compulsion to recommend something to do at all times. Most of its players are paid to stimulate buying. Patiently waiting for good opportunities is a strategy that does not fly on Wall Street.

> ***"Master Investors like Buffett and Soros don't suffer from these same constraints. There is no institutional imperative that forces them to act when their investment system dictates that there's nothing sensible to do. Unlike a typical fund manager, they don't buy "defensive" stocks (i.e., stocks that will lose less money in a declining market than the market as a whole) when it makes more sense to just sit on a pile of cash."*** (P.151)

It takes discipline, conviction and fortitude to go against the consensus of crowds. Even when you know the crowd lacks wisdom, some days, it is still hard to stand by and watch. Recently a client noted this fact and told us, "I wouldn't want your job for a moment. If things go down its your fault, and if clients miss out on market gains its your fault." Yes we know, tough gig. But we accept periods of modest performance as a necessary part of keeping money safe and investing the right way. When needed, we do take some solace from looking at some of the wise company we are keeping.

This month we came upon ww2.dowtheoryletters.com. It is a web site run by Richard Russell, author of one of the longest running market newsletters in US history. Mr. Russell is credited with having called every major market top and bottom for the last 50 years. We were interested to read that he has been bearish on equity markets since 2005 for the same reasons (credit bubble, falling US dollar, secular bear market) we

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have been writing about. In the US the super safe t-bill rates are at 5% and in Canada t-bill rates are at 4%. Mr. Russell is patiently waiting in t-bills and cash: ***"I'm sitting tight. I feel no urge to load up with common stocks. Stocks are expensive."*** (Oct 12, 2006, Richard's Remarks, p.6). And for what its worth, Russell does not think the correction in the housing market is over just yet…

Over the past three years, Buffett has been increasing his cash holdings year over year and this has been muting his fund's performance. In Q3 2006, he held 42.2 billion in cash only down slightly from the 46 billion he held in cash at the end of Q3 2005. It's hard to meet your target of 10% annual returns when you've got a huge weight of your assets sitting in cash earning 4%. (Something we have lived first hand!) In fact the share price of Buffett's fund has recently been sluggish: 2004 (4.2%), 2005 (.82%), 3% through June 2006. This resumed talk among some circles that he may have lost his touch. We remember these same rumblings back in 1999, when the stock markets were up over 20% versus Buffett's miserable .5%. But there is a reason that Buffett's fund has earned double the returns of the S&P since 1965, he in unwavering in his commitment to his investment rules:

> ***"Disciplined investors like Buffett and Berkshire Hathaway refuse to play when the potential for profit isn't high enough. He's got a major advantage over the funds that raised money on Wall Street for buyouts: He doesn't have a hoard of outside investors clamouring for above-market, short-term returns on their money and forcing the managers of these funds to invest in deals, whether profitable or not, rather than keep their money on the sideline."*** ((Jubak's Journal, MSN Money 11/28/2006)

We are happy that we too have the independence and freedom to stick to our discipline and not get pressured into popular trends by other agendas. We are grateful for our clients who have the wisdom and patience to stick with the discipline. The reward will be sweet.

Buy and Hold of Equities has not worked over the past 6 years

With all the market noise we think it is important to keep our eye on the big picture. The fact is that even with the positive market gains of the past 5 months, investors that have continually held equities for the past 6 years since the last market peak in 2000 have been sadly underpaid.

Market index gains over the 6-year period from November 2000 to November 2006*

	For Cdn investors	in U$	
TSX 60	1.67% per year*		
DOW 30	(-1.5%) per year*	1.71%	per year
S&P 500	(-.42) per year*	.21%	per year
NASDAQ	(-10.33) per year	(-8.41)	per year

*This does not include dividends, which have averaged an abnormally low 2% a year over this period

These dismal market returns are also gross of management fees investors in equity mutual funds would pay over this period. An international study reported in ROB Magazine, in the December 2006 issue by Doug Steiner (p.33) found that Canadians suffer under the highest level of total mutual fund fees (MER + commissions paid to the company selling the fund) in the whole world by a huge margin: ***a whopping 4.7% annually versus an overall average of 1.9% worldwide, and 1.7% in the US.*** The international authors looked at why Canadians are getting soaked so much more than other investors and found that the higher the concentration of banking assets in a country, the higher the management fees. In Canada the banks have a virtual monopoly on financial products and "advice". *"The Big Five banks have 84% of all banking assets, they own the largest investment dealers and they have their own house-brand mutual funds."* Canadian investors have long been a captive and trusting audience and the big banks have profited handsomely literally at the expense of their customers. One of these days, Canadian investors are going to wake up and say, "I'm mad as hell, and I'm not going to take this anymore!"

A couple of must see documentaries available at Blockbuster this month:

This November has been remarkably warm, and undoubtedly pleasant, especially for golfers who were still on the greens. But warming weather trends are an issue that we need to think more fully about.

We recently were referred to some excellent documentaries available for rent this month through Blockbuster. They are,

"Who Killed The Electric Car?"(The good news is GM announced plans to refocus on electric cars yesterday);

"Why We Fight" (on the protectionism of oil production) and

"An Inconvenient Truth.**"** (On what we can do now to fix global warming.)

Ok so you may have guessed, these films are not exactly celebrating Bush and company. But politics aside, they are important films that we think all thoughtful humans should see. And the good news: is that there are many things we can quite easily do now that will solve the global warming problem.

We all need to look at Hybrid cars for our next vehicle purchase. This technology has come a long way. We were also delighted to learn that as individuals we can easily switch our hydro usage to green power generated from water and wind rather than fossil burning. To find out more on making the free switch visit www.bullfrogpower.com or call 1-416-360-3463.

"The problems of our world are manmade and so they can be solved by men."– John F. Kennedy, 1962.

"Pray, but while you pray, move your feet." – ancient African proverb

REPORT ON BUSINESS TELEVISION (ROBTV- Channel 64 on Cable)

For those that are interested, **Cory** will be the **guest Technical Analyst on *Stars and Dogs*, Monday December 4 at 5:45 pm and on *The Chart Room,* Friday December 29, at 3:30pm,** and **Danielle** will be the **guest Portfolio Manager on *The Street* at 9:20am on Wednesday December 20.** The clips can also be viewed for the week following the appearances on the ROB website at http://www.robtv.com/shows/past_archive under past video archive for the date and time in question as well as through a link on our web home page at www.venablepark.com.