

FINANCIAL FIR\$T AID

FOR CANADIAN INVESTORS

Stop the Bleeding. Start the Healing
and Get Your Portfolio on the Road to Recovery



MICHAEL GRAHAM, Ph.D., BRYAN SNELSON
with CINDY DAVID, CFP, CLU

Table of Contents

[Praise](#)

[Title Page](#)

[Copyright](#)

[Preface](#)

[Acknowledgements](#)

PART ONE: DIAGNOSIS

[Chapter 1: The Past Is Prescient: *Let History Be Your Guide*](#)

[Chapter 2: Trust, but Verify](#)

[Chapter 3: Self-Inflicted Wounds: *The Most Common Strategic Errors Made by Investors*](#)

[Chapter 4: Tactical Errors: *Mind Over Matter*](#)

PART TWO: PRESCRIPTIONS

[Chapter 5: You Need Professional Help!](#)

Chapter 6: It's Always About You: *Working With an Advisor*

Chapter 7: Balancing Act: *Asset Allocation Strategies to Minimize Risk and Maximize Return*

Chapter 8: Show Me the Money: *Investing for Income*

Chapter 9: Building Blocks of Wealth: *Ownership Through Equities*

Chapter 10: Toys in the Attic: *Three Ways to Own Equities Indirectly*

Chapter 11: Running With Scissors: *Prescriptions for Managing Risk*

Chapter 12: Gimme Shelter! *Using Insurance to Protect Your Assets From Risk*

PART THREE: STAYING HEALTHY

Chapter 13: The Unfair Advantage: *Using Reliable Research to Make Better Decisions*

Chapter 14: Pay to Play: *Fees and Commissions*

Chapter 15: What's Your Number? *Benchmarking Performance*

Chapter 16: Follow the Yellow Brick Road: *Investment Policy Statements*

Chapter 17: Outpatient Treatment

[Index](#)

[About the Authors](#)

More Praise for the Previous Edition, *Portfolio First Aid*

“ *Financial First Aid* for Canadians provides comprehensive and sensible solutions to heal any investor’s wounded financial plan.”

—Paul Allison, President and Chief Executive Officer, Raymond James Ltd.

“We all make investment mistakes. *Portfolio First Aid* is packed with advice on how to avoid them—and with profit. Eminently readable and practical, it is a prime and welcome addition to the thoughtful investor’s library.”

—John Crow, Former Governor, Bank of Canada

“The authors of *Portfolio First Aid* have taken the principles of investing, which are often presented in overly complex terms, and made them simple and actionable. Moreover, they have done so in a highly engaging and entertaining style! This book will be invaluable to investors and their portfolios, not just as first aid, but also as preventive medicine.”

—David F. Denison, President and Chief Executive Officer, Canada Pension Plan Investment Board

“Portfolio First Aid offers just what investors need—a deep understanding of financial markets, the right tools to nurture and grow investment assets, and a good dose of tender loving care in its purest form: wisdom, distilled from the co-authors’ long investment experience. All of this is put together in a readable style that is accessible and astute. Investors have rarely been treated so well.”

—Dr. Mark Mullins, Former Executive Director, The Fraser Institute

Copyright © 2009 by Michael Graham and Bryan Snelson

All rights reserved. No part of this work covered by the copyright herein may be reproduced or used in any form or by any means—graphic, electronic or mechanical—without the prior written permission of the publisher. Any request for photocopying, recording, taping or information storage and retrieval systems of any part of this book shall be directed in writing to The Canadian Copyright Licensing Agency (Access Copyright). For an Access Copyright license, visit www.accesscopyright.ca or call toll-free 1-800-893-5777.

Care has been taken to trace ownership of copyright material contained in this book. The publisher will gladly receive any information that will enable them to rectify any reference or credit line in subsequent editions.

Library and Archives Canada Cataloguing in Publication Data

Snelson, Bryan

Financial first aid for Canadian investors: stop the bleeding, start the healing and get your portfolio on the road to recovery/Bryan Snelson, Michael Graham, Cindy David.

Includes index.

ISBN: 978-0-470-67750-6

1. Investments. 2. Investments—Canada. 3. Portfolio management—Canada. 4. Finance, Personal—Canada.
I. Graham, Michael R. II. David, Cindy, 1973- III. Title.

HG5152.S59 2009

332.60971

C2009-904807-8

John Wiley & Sons Canada, Ltd.
6045 Freemont Blvd.
Mississauga, Ontario
L5R 4J3

Preface

“The behaviour of your investment portfolio will be driven largely by your behaviour.”

—Dr. Benjamin Graham, author, *The Intelligent Investor*

The opening decade of what was heralded as a glorious new millennium has brought mind-boggling changes in the world's markets—painful and wealth-destructive ones, too. Whether evolutionary or revolutionary, they are changes once again validating celebrated economist Joseph Schumpeter's theory of Creative Destruction. Concomitantly, they are changes that are bringing an urgent need to rethink long-held approaches and assumptions in the art and science that is investing.

It has often been stated that the financial market is a pendulum that forever swings between unsustainable optimism and unjustified pessimism. Intelligent investors are realists, driven by facts and reasoning. The man often credited as the father of modern securities analysis and value investing, Benjamin Graham, was noted for advising his Columbia University students (including a young Warren Buffett) that the secret to your financial success is inside yourself. By honing your skills and self-discipline you can refuse to let other people's mood swings govern your financial destiny.

Buffett, unquestionably the best-known student ever to have studied under Benjamin Graham, noted in the preface

to the fourth edition of Graham's *The Intelligent Investor* that "to invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework." A significant aspect of our mission in writing this book is to give you the understanding of how we've collectively arrived at this point in financial history, and to provide you with some basic framework for making informed financial decisions.

"Those who can not remember the past are condemned to repeat it."

—George Santayana, philosopher, essayist

An understanding of what happened to cause the most severe economic breakdown since World War II, maybe even since the Great Depression, is essential to setting and resetting new investment approaches and starting points. Such an understanding also puts the savage bear market of 2007–2009 into clearer perspective. We hope *Financial First Aid* helps in all of these respects, as well as in reassessing and mounting today's daunting investment challenges.

Besides updating a real-life drama that Hollywood couldn't script better, we wanted readers of our 2005 book, *Portfolio First Aid*, to come away from *Financial First Aid* impressed by its freshness. All investors should also be encouraged by the products and tools available to them in today's investment marketplace—not the structured and derivative products that almost brought down entire financial systems, but genuine products that add value and reduce risk.

Innovative investment products developed by the Canadian life insurance industry couldn't be a better example of the ever-expanding toolbox available to today's

investors. We welcome Cindy David for the vast experience she brings to *Financial First Aid* in an area of continuously growing importance.

At no point do we intend to upstage an industry that is more experienced and professional than ever. Nor do we wish *Financial First Aid* to compete with the efforts of dedicated, top-flight professionals who are far better equipped than we are—or will ever be. Instead, our intent is to help you make the most of your hard-earned savings; that means to make them grow the way you want, and need!

To know more about the essentials of investing, to learn from past experience and to capture the excitement of an increasingly globalized world in which investment is more necessary than ever—and in which a “new look” Canada is an increasingly enviable part—these are the goals of the updated three-section “conversation” to follow.

If *Financial First Aid* were to leave you with an improved and excited understanding of what contemporary investing should be all about, this repeat labour of love will have been even more worthwhile.

*Michael Graham & Bryan Snelson
Summer 2009*

Acknowledgements

Many people are referred to in this work. Some expressly allowed us to use their names and materials. There are also the many others without whose expert knowledge Financial First Aid would hardly have been possible. We are most grateful to them all.

* * *

Bryan wishes to thank his clients for the trust and confidence they have placed in him. He is thankful to his partners on this project; Michael Graham and Cindy David for their keen intellect, good humour and generosity of spirit.

Bryan also wishes to thank the two women who are the backbone of his professional life. Two women whose friendship and wise counsel has meant so much to guide him through a particularly difficult year; Linda Stragliotto and Carrie Hathaway. Above all, Bryan thanks his daughters Laura and Sydney for their love and encouragement. If ever a father needed a demonstration of a child's unconditional love, Laura and Sydney were just that throughout this project.

* * *

Michael particularly wishes to thank Bryan Snelson for his enthusiasm and "we can do it" leadership in getting the manuscript written and submitted within a time frame he would never have believed possible. He is also indebted to

Gilda Stein for her electronic input skills and Rena LePage for her ever-willing assistance in preparing his charts and tables. By no means least is his wife, Nancy, for her considerable editing, text-reading and transcribing skills—often in demand late at night or early in the morning—and her invaluable all-round help. The Graham children—Julia, Richard and Hugh—were similarly supportive, with a special tip of the hat to Hugh, who makes his living as a writer, editor and subeditor in London, England, and took a keen interest right from the outset.

* * *

Cindy would like to thank Michael and Bryan for the opportunity to contribute to the book.

Thank you to the many Investment Advisors and their clients who give her the opportunity to make a difference in their financial lives and the tireless contribution of her associate Julia Chung.

Nothing can replace the support and encouragement of a loving husband, thank you Rene.

* * *

A final note of thanks by all three of us is in order to Karen Milner for her constant reassurance and also to the Wiley team for once again steering us ably to the finish line.

PART ONE

DIAGNOSIS

CHAPTER 1

The Past Is Prescient

Let History Be Your Guide

A little knowledge can be a dangerous thing. For investors, a dearth of knowledge could be even more dangerous in times of unprecedented—some might also say revolutionary—change, like now.

History is not a diagnostic tool, per se. But stand back from today's madding crowd, and a working knowledge of what has gone before can only help, not just in the benchmarks needed to compare with and measure against, but also in the compelling challenge we should all be wanting to undertake for the rewards and financial independence it can bring in a McLuhan-like global village whose future is now.

The truth is our savings are needed as never before for deployment in a multitude of different ways. Whether to cover burgeoning government deficits for shovel-ready infrastructure projects, to replenish impaired bank capital, to help clean up the environment, to provide investment for productivity-enhancing plant and equipment, or to fund “lifeblood” research, the demand is almost limitless.

Governments everywhere are awakening to this reality and introducing tax and other incentives designed to

encourage fresh savings and investments; this also at a time when chastened populaces, worrying about their futures are feeling compelled to save more for investing anyway. And this time not the toxic type of supposed investments that all but wrecked a greedy and overzealous Wall Street and inflicted massive damage on investors of every stripe—pension funds, registered retirement savings plans, you and us, et al. In fact, don't be surprised if we investors emerge from today's turmoil as "king"—our position is that strong; the need for our savings that great.

It's not that we lack for decision making information now available to us in a dazzling, mind boggling profusion. A search on the Internet, the click of a button or the push of a mouse and you'll have at your fingertips access to investment laden media. In fact, if there is a problem, it is more likely than not one of information overload in our quest for constantly necessary portfolio care—and first aid!

There is also the accompanying challenge of providing for our retirement and attaining personal goals through investments that last longer than we do as our life expectancies lengthen. Keen knowledge of history will enable us to examine what has happened in the past to better prepare for the future. There is also the accompanying comfort of its parallels. Perhaps Mark Twain summed up these sentiments best when he famously declared, "History doesn't repeat, but it rhymes."

PAST AND FUTURE

As we suffer through what may well prove to be the worst economic downturn since the Great Depression of the 1930s, it's useful to know that the Hoover administration set up the Reconstruction Finance Corporation to inject capital into stricken banks, just as the Bush, and now the Obama,

administrations have implemented a Troubled Asset Relief Program (TARP) for the same purpose.

Dig deeper and we see that a big difference between then and now is the inflexible resolve back then to keep budgets balanced, even if it meant raising interest rates and taxes at the worst possible time. There was also the fixation that currencies had to be wholly backed by gold, despite the complication of gold reserves varying widely between countries. How things are different today, as pump-priming deficit budgets come back into vogue and money supplies are dictated, not by gold backing, but by central bankers' pens.

It is also useful to be reminded that recessions and bear markets come and go like the seasons, assuredly to be followed by recoveries and bull markets. Sir John Templeton, the towering mutual fund pioneer, lived by 10 steps for investment success, his seventh summarizing that bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria. And following from this, that the time of maximum pessimism is the best time to buy, and the time of maximum optimism is the best time to sell. Past investment history can usefully help gauge these "best times," as we shall illustrate later.

FEAR AND GREED

Human nature being what it is, one can never remove the emotional side of investing. However, history can help us get a better grip on the two most dangerous investor emotions: fear and greed.

Three centuries ago, after losing a fortune in the South Sea Bubble, Sir Isaac Newton lamented that he could calculate the movement of the stars, but not the madness of men. Several decades ago, John Maynard Keynes soberly reminded us that markets can remain irrational longer than

you and I can remain solvent. In late 1974, towards the end of a severe two-year bear market that Michael still remembers as frightening him the most, an elder statesman of Wall Street observed that the stock markets of that time seemed to him to be made up of 15% confidence, 85% fear and 0% judgment. We wonder how much different these ratios were in the market swoons of 2008-09.

There are just as many examples of irrationality at the other extreme. Remember the high-tech craze that ushered in the new millennium and took Nortel stock above \$100? Also, remember the ill-fated boom in exotic structured products and the improbable returns they were supposed to bring? History can certainly help us get a better grip on fear, greed and judgment during extremes like these.

Vince Lombardi instilled in his Green Bay Packers teams the belief that winning wasn't *everything*, it was the *only* thing. Today's investor well might want to take a leaf from his playbook and think in terms of perspective as the only thing. Better still, combine perspective with history and there'll be even more validation of the warning that those who fail to learn from the lessons of the past are doomed to repeat them.

Black Monday Redux

In a moment of quiet reflection while researching content for this book, Michael was tempted to encapsulate a career spanning 6 recessions and 10 bear markets—and shortly, he hopes, a 7th recovery and an 11th bull market.

There were also his teenager memories of the extreme pessimism that set in after World War II when the economic problems then left many believing the Dow Jones Industrials might never again see 212, its post-war recovery high.

We also thought about the 17 years, from 1966 to 1983, that it took for this most famous of stock market bellwethers

to break the 1,000 threshold. Those years included the fear-filled summer of 1982, when even a perennial optimist like Michael was left wondering whether Chicken Little might indeed be right. We didn't know that one of the greatest bull markets of all time was in the process of being spawned.

Black Monday 1987 saw Michael en route to Brandon, Manitoba, to speak at an investment seminar that evening. A call from the Winnipeg airport to check the closing markets brought news that the Dow had closed down 508 points—a staggering 23%, the largest single-day decline in history.

Black Monday 2008 found him passing through Calgary where he experienced a similar numbness as the Dow dropped more than 400 points, or close to 7%, in six minutes as the U.S. House of Representatives voted down the Bush administration's first bailout proposal. Bryan remembers without a trace of fondness the nausea-inducing plunge as he sat staring in disbelief at his computer screen.

How does one give presentations—in Brandon in 1987, in Edmonton in 2008—after stomach-churning declines like these? By repeating the golden rules of balance and diversification, by putting what was happening into historical perspective, and by being very brave!

In October 1987 it wasn't long before freshly minted Federal Reserve Board Chairman Alan Greenspan (later of "irrational exuberance" fame) reassured investors the Fed would not stand idly by and would provide all the liquidity the markets and the economy would need. Similarly in 2008, Mr. Greenspan's successor Ben Bernanke reiterated that the Fed stood prepared to pull out all the stops to help keep a crisis-hit U.S. economy functioning.

If those fateful six minutes didn't usher in a "new normal," they certainly triggered the unprecedented, coordinated, synchronized, pedal-to-the-metal global stimulus that is described separately in chapter 2. Suffice to say that if the supportive efforts worked in 1987, why not again in 2009

and beyond, given global fiscal, monetary and political unanimity as never before?

Today, Black Monday of October 1987 is but a blip on stock market charts and screens. The jury remains out on Black Monday of September 2008, but if both brought one overriding reminder it was of the bargain-basement opportunities they provided those with properly positioned portfolios and the wherewithal to take advantage. In other words, those investors who could keep their heads—and maintain historical perspective—when all around others were losing theirs.

Icons Speak

Shortly after the September 2008 crash, Warren Buffett wrote that it was a time to be greedy when others were fearful, because “if you wait for the robins, spring will be over.” He concluded that both his money and his mouth said “equities.” So too did his acerbic Berkshire Hathaway partner Charlie Munger in a separate article written at that time. Mr. Munger concluded the markets could be setting the base for a 10-to 15-year bull run stemming from a repositioned, streamlined corporate America.

It wasn’t long before both were being criticized for their poor timing, as the stock markets resumed a headlong retreat that was to continue through October and November, and on into January and February of 2009. They were criticisms that reminded Michael of that same long-to-be-remembered summer of 1982 when Sir John Templeton boldly predicted the Dow, then floundering in the 750-770 range, would reach 3,000 within five years. It eventually reached this target in the spring of 1991, four years later than Sir John had predicted. Nevertheless, what prescience in the depths of investor despair! In a similar vein, history could well prove Buffett and Munger to be right, regardless

of shorter-term timing, and what are a few years, give or take, in what should essentially be a long-term undertaking?

John Bogle, founder of the Vanguard mutual funds, reminds that investing isn't just about probabilities, but also about "consequences," for which you have to be prepared. Mr. Bogle believes this to be a very good time to put money into equities—not for short-term trades, but as part of a diversified portfolio to be held for many years. He adds that "if you were to put your money away and not look at it for many years, until you were ready for retirement, when you finally looked at it you'd probably faint with amazement at how much money is in there."

In late 2008, still another respected veteran, Barton Biggs, the former Morgan Stanley international strategy chief, confessed to being wrong on the severity and duration of the panic, and admitted to having no idea when the next bull market would start, but he nonetheless saw us setting up for "the mother of all bear market rallies," after which we would have to see.

Jeremy Siegel, author of the acclaimed *Stocks for the Long Run*, is another who admits to misjudging badly the 2008 decline, but nonetheless believes "today's markets present a rare opportunity for long-term investors to reinvest the proceeds of higher dividend yields at deep-discount prices."

At the one-of-a-kind Berkshire Hathaway annual meetings, Warren Buffett regularly reminds that the future is never clear, investment never easy, and you pay a very high price in the stock market for a cheery consensus. Buffett is fond of stating "uncertainty is actually the friend of the buyer of long-term values."

Is Greed Good?

The 1980s brought the junk bond and its offspring, the leveraged buyout (LBO), along with LBO leviathans like T.

Boone Pickens, Carl Icahn and Alan Bond, to drive markets higher in their hunt for the next seductive takeover target. It was an era personified by Oliver Stone's film *Wall Street*, in which Gordon Gekko, played by Michael Douglas, in a classic gunslinger pose declared that "greed is good." How nice if an older, more experienced Gordon Gekko were to repent of this credo in the sequel we hear Hollywood is currently planning.

In the 2000s came two new types of gunslinger—hedge funds and private equity groups—who were to feature front and centre in the next LBO boom and the craze for alternative investment products. It's not that there is anything wrong with sensible hedging against investment risk, or raising needed capital from private sources. It's when these practices are used to leverage returns to extreme—dare we say obscene—levels that financial systems and investment markets become exposed in dangerous ways that can bring down the entire house, as was to happen in escalating fashion in 2008.

The risks became more dangerous still when exacerbated by unregulated, hard-to-measure, specially structured products called derivatives. Some estimates put the national value of what are essentially contractual bets as high as \$200 trillion. Never before have financial markets had a "Gordian Knot" like this to unravel, or anything of this magnitude to deleverage. Warren Buffett's 2008 annual letter to Berkshire Hathaway shareholders contains a stark, one-sentence reminder of an oft-repeated warning: "Derivatives are dangerous." There is also—as happened—the risk of a breakdown in that most vital investment ingredient of all: trust. It's a topic we shall return to in the next chapter. Gordon Gekko, we pray you have repented, because greed is not good. As Mr. Buffett keeps repeating, it is also very dangerous.

ENTER THE BEAR

Bull markets are born in the depths of pain and despair, while bear markets tiptoe in at the heights of euphoria, to be succeeded in due course by the returning bull in the timeless market cycle. However, few could have appreciated the gauntlet of troubles that were to lie ahead not once but twice over the opening decade of what was going to be a glittering new millennium and century. The bursting of that grossly inflated tech bubble (the biggest speculative bubble in history); the horrors of September 11, 2001; growing corporate malfeasance and an accompanying breakdown in sacred trust; the Iraq war and its aftermath; a contagious subprime mortgage crisis and banking system breakdown; the humbling of the once mighty U.S. dollar; government bailouts and takeovers of financial institutions judged too big to be allowed to fail; and coordinated, synchronized rescue actions by governments and central bankers—it's all a real-life movie Hollywood couldn't have scripted any better, and continues to play out with no certain happy ending.

BE PREPARED

Rather than a glorious millennium, investors have found themselves pitchforked into their second bear market in less than a decade—a brand new experience for a whole generation of beginner investors, and a painful reminder for the ill-prepared to always be prepared.

Bear markets typically average 12 to 15 months in length and take the stock market down about a third. Two bear markets that stand out are those of 1973-74 (in 21 months, down 48%) and 1980-82 (in 20 months, down 27%). After the great bull market spawned in the depths of despair in 1982 came an equally unexpected bear market to usher in

the new millennium, lasting 30 months and bringing a correction of close to 50%. On its heels came the bear market that began in October 2007 and, if it turns out to have ended with the lows of March 2009, will have lasted 18 months for a correction in the broad markets, as measured by the S&P 500 Index, of close to 60%.

Rather than healthy restoration, these successive new millennium bear markets have subjected investors to what could well have been perfect stock market storms, one after the other, in which almost every portfolio lost value big time, and those not properly structured were blown clean over—a great many never to return.

In due course, as they have always done, bear markets end and new bull markets are born. It's a timeless cycle in which the lessons learned and the magnitude of past versus present declines help maintain all-important investor perspective.

WALLS OF WORRY

The lexicon of Wall Street is peppered with phrases meant to remind, inspire and warn, including one that *investors must always be climbing walls of worry*. Over the years of making a living in the business of advising people on how best to invest their hard-earned dollars, we've learned the hard way that if you're not sweating the details—climbing walls of worry—a cavalier attitude and a degree of carelessness can creep into the decision-making process. In retrospect, there can be no doubt this happened again in the leveraged, get-rich-quick-guided, product-driven markets of recent years. Legions of battered investors could painfully testify how the result can be extremely costly—and often also lifestyle altering.

WHAT IF?

Writing in the *Wall Street Journal* more than a hundred years ago, Charles Dow, that great Wall Street theorist and the originator of the Dow Jones Industrial Average, recognized the most basic elements of investor psychology: fear and greed, which we introduced earlier and will return to in chapter 4. Dow wrote that “There is always a disposition in people’s minds to think that the existing conditions will be permanent. When [stock] prices are up and the country is prosperous, it is always said that while preceding booms have not lasted, this time there are unique circumstances which will make prosperity permanent.”

Eighty years later, Sir John Templeton was to put it even more succinctly when he stated that the most expensive phrase in the language of Wall Street is “this time it’s different.”

We’ll go one step further and say that the two most *profitable* words an investor can utter are “what if.” It’s often been said that armies are best prepared to fight the last war, yet we know that survival on the battlefield demands extensive preparations and a willingness to adapt to changing conditions once the enemy is engaged.

Economists, academics, portfolio managers and politicians all expend tremendous amounts of time and energy trying to get a fix on where the world is heading. This is as it should be, but who hasn’t heard of that guy Murphy and his law? Instead, please remember that for every risk there is an opportunity. In this knowledge, sift through the verbiage and use the resources around you to plan for the future as you let history be your guide. As you do, always be prepared to ask yourself, and your advisor for that matter, “What if...?”

Circumstances do change. In fact, in our world of instant communication and a 24-hour news cycle, change occurs

faster than at any other time in human history, leaving no standards to compare with and measure against.

If you've learned anything from this opening chapter, it should be that change is constant and seldom occurs when expected. To embrace this fact of life and to put it in historical perspective is to take a quantum leap forward in your development as an investor. You'll be better able to understand what is happening in the ongoing push and pull of the world's financial markets, the focus in the next chapter. It's all part of the careful planning, vigilance and discipline that makes for successful long-term investing.

CHAPTER 2

Trust, but Verify

“In God we trust; all others pay cash!” So reads the now legendary and often duplicated sign next to a cash register at a long since forgotten American diner. Trust is highly transitory, perhaps more so now than ever before. The best remedy we can prescribe to keep trust from veering into naiveté is knowledge. “If you don’t know it, you can’t say it.” We’ve never forgotten this credo of Aneurin Bevan, a distinguished Welsh parliamentarian and brilliant orator, who learned the hard way that you lose out if your adversaries across the floor know more than you do.

The same logic applies in investing: if you don’t know as much as you should about the overall economy and markets and what you should be investing in, you won’t do nearly as well as you deserve to. Your understanding and knowledge needn’t be exhaustive. This should be the responsibility of your trusted financial advisor. You should know that the next time you are offered something as off-the-wall as a “high-grade structured enhanced leverage fund,” you can say a categorical NO. (We promise you, there will be a next time.) And, more importantly, you should be able to understand what is having an impact on your savings and investments

in these times of tectonic change and radically fluctuating markets.

Just as there is a heightening need to look after ourselves financially, there also are emerging new approaches and thoughtful, effective, new investment solutions from the insurance industry that we will outline in a later chapter. You should know about them. With improved understanding, you'll also be able to keep better tabs on your assets and their ability to work within the context of a carefully structured plan.

Trust must feature front and centre in this whole process. It's a vital investment ingredient that has taken a beating lately, yet is more essential than ever in the "new normal" world outlined in chapter 1, and was very likely ushered in on September 29, 2008. Without trust you simply will not be able to get to your predetermined destination safely.

In turn, trust has a polar opposite called greed, the two forever locked in a timeless tug-of-war. Investors the world over have painfully rediscovered what it means when greed gains the upper hand.

BERNIE'S BILLIONS AND MISPLACED TRUST

Bernard Madoff (funnily enough, pronounced "made-off"), a former chair of the NASDAQ electronic stock exchange, was known for his respectable client returns. Year in and year out, good markets and bad, they were steadiness epitomized. Bankers, brokers, dealers, investment managers and clients from all over fed him business, and the referrals kept on coming. Unfortunately, as it turned out, his exemplary records were falsified, and the steady profits and returns he supposedly earned for his clients were merely an illusion.

This Ponzi-like swindle on a scale as never before could be kept going as long as the new cash inflows exceeded

outflows. But it became a different matter, and by Mr. Madoff's own admission the game was up, when the stock markets crashed and cash inflows began shrinking. Stealing from new clients to service existing clients could go on no longer, and in late 2008 a fraud of somewhere between US\$50 billion and US\$65 billion over 20 years was exposed as Wall Street's largest ever.

The list of names feeding Madoff business and entrusting him with their savings reads like a "who's who" and begs many greed-related questions. At the same time, we tip our hats to those who did their due diligence and decided against investing with him. One individual in particular questioned how an auditor so small and obscure could handle a firm so large. Not satisfied after getting to know more, he wisely walked away.

THE AMERICAN DREAM...

If Bernie Madoff wasn't bad enough, how about a scheme on an ultra grand scale that all of us were probably indirectly and unknowingly involved in?

You know the story about realizing the "American dream." Enter Wall Street and its creation of a "factory" through which billions of dollars worth of subprime mortgages were processed, thereby helping finance the biggest-ever U.S. housing boom on the easiest and most irresistible of purchase terms.

Take infamous NINJA ("no income, no job, no assets") and "no doc" (no documentation) loans, with nothing down and nothing to pay for the first year or two and low initial interest rates on the easiest of payment terms—with nary a mention of the triggers later on. Bundle or "securitize" these subprime mortgages into fancifully named investment packages, get them a top rating from the credit rating agencies, and sell them to banks, pension funds, hedge