



Live your dream.

Markets hate uncertainty – that's normal

It's time for our annual dose of uncertainty. Almost every year there's an event that makes the markets shudder.

The investment world loves certainty – knowing that companies' revenues will not change, that interest income from bonds will continue, etc. Any disruption to this predictability causes a haywire reaction.

Consider these recent causes of uncertainty:

- In 2008, we saw the uncertainty due to the U.S. financial crisis.
- In 2009, we saw the uncertainty due to Greece.
- In 2010, we saw the uncertainty due to Portugal, Ireland and Spain.
- In 2011, we are beginning to see the uncertainty in the Middle East.
- In 2012, the most probable cause of uncertainty will be the U.S. election.

What we have to realize is that this uncertainty is actually quite normal. Yes, there is always uncertainty. Once the fracas is over, we'll return to our normally scheduled program, which is: companies making revenues, bonds paying out income, people carry on brushing their teeth and eating their cereals, etc.

The worst thing you can do is fall for the panic that is being induced by the talking heads, the end-of-the-world prophets.

A big reason behind the current problems is that unemployment in the Middle East is about 30%. This large number of idle hands leads to trouble. The administration in most of these nations is separated from the public. This had to come to a head at some point – 30% unemployment cannot be sustained.

And what we've witnessed is rioting, bombings and changes in administration – uncertainty!

It would be wise, however, to look over the valley. Realize that the current regimes that led to dissatisfaction will be changed and nations will be rebuilt. This rebuilding will lead to less uncertainty. How long it takes and who does it, we do not know. But that it will happen is certain. Just remember an uncertainty from past years – headline-grabbing Iraq – no longer makes headlines and no longer is a cause of uncertainty. The administration has changed and the country is working to resolve its issues. It will be no different for these other areas now facing uncertainty.

What investors need to realize is that this uncertainty will lead to higher commodity prices; after all, the Middle East is one of the largest producers of oil. When you get resolution, you will also see a return to normal levels for these commodities. But this should not change your investment program. What should be understood in the context of an investment program is that every year there will be some uncertainty, and we should factor that into our long-term understanding of what we are investing in and why. The key is to have a sound intellectual framework, to not let our emotions corrode that framework, and to maintain a diversified portfolio, built to our own financial objectives not the objectives of someone else.

Most investors are intelligent people, neither irrational nor insane. But behavioural finance tells us we also have brains that are often full and emotions that are often overflowing. And that means **we are normal-smart at times and normal-not-so-smart at others. The trick is to increase our ratio of smart behaviour.** And since we cannot turn ourselves into computer-like people, we need to find tools to help us act smart even when our thinking and feelings tempt us to go off course. It is wise to have a dollar-cost averaging program that systematically adds to your portfolio and takes advantage of times when the market offers better opportunities. It also ensures you “pay yourself first,” a sound financial planning idiom. **Dollar-cost averaging is a good way to reduce regret – and make your head clearer for smart investing.** Activate your “noise-cancelling” device and tune out the media and market voices that detract you from your financial plan.

A Gallup Poll asked: “Do you think that now is a good time to invest in the financial markets?”

- **February 2000 was a time of exuberance and 78% of investors agreed that “now is a good time to invest.”** *It turned out to be a bad time to invest.*
- **March 2003 was a time of fear and only 41% agreed that “now is a good time to invest.”** *It turned out to be a good time to invest.*

I would guess that few investors thought that March 2009, another time of great fear, was a good time to invest. So far, so wrong. It is good to learn the lesson of fear and exuberance, and to use reason to resist their pull.

So, repeat after me: Gaddafi-Mawaffi, Mubarek-Shumarek, Tunisia-Whonisia – it doesn’t matter, because I have a sound intellectual framework and a good Advisor to help keep me on track toward my long-term goals.



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