



## ***One Size Does Not Fit All***

A palpable sense of apprehension exists in the investment world of late. This uneasiness seems quite pronounced specifically with regard to equity investing. With all the references to economic slowdowns and recessions, declining company profits, possible bankruptcies, and bailouts that are being thrown around, investors seem to be waiting with bated breath. Those that have experienced negative returns both realized and unrealized and even those who are not yet invested are staying away from this scary monster called “equity investments”. Being swept up in a tidal wave of gloom and doom should not be your main deciding factor.

Now let's be clear, equity investing is not for everyone and by no means should you throw caution to the wind but if you assess your personal situation you may find no good reason to shy away from equity investing completely. There are a number of factors to be considered that would determine if investing in the stock markets is suitable for you. These include your personal financial situation, risk tolerance and time horizon.

As an asset class, stocks / equity have been shown to outperform other asset classes such as bonds or treasury -bills over the longer term. In the short term, other asset classes may yield higher returns as stock prices tend to fluctuate. Attempts to “time the market” for short-term gains can be quite tricky as in the shorter term stock prices experience swings in both directions. However, in the longer term share prices generally trend upward implying that the holding period for equity investments should generally be at least 3 to 5 years. The implication here is that you should be sure that the portion of your overall portfolio that you decide to invest in equity will not be required for use in the immediate future.

Your personal financial situation should be such that you have a readily accessible source of funds for any unforeseen circumstances. A general rule of thumb is that this reserve should be equal to at least three to six months of living expenses. Having this safety net – often referred to as an emergency fund – will prevent forced liquidation of stock holdings to access cash, possibly at negative returns due to the short term volatility of the market. With equity investing, there is the potential for higher than average returns and therefore, in line with the risk-return tradeoff, there is also greater risk attached. Given the potential downside risk associated with investing in the stock market you should carefully consider the size of your investment in relation to your overall wealth. It is also important to consider your job security and stability of income before allocating funds to the stock market.

Your risk tolerance is another major consideration. This can basically be described as your appetite for risk. Are you able to stomach variability comfortably? Would you be able to look at a 20% drop in a stock you own over a one year period and be at ease knowing that you are in it for the long haul? Or would a 5% decline in the price of a stock cause you to cold sweat and lose sleep? The more risk tolerant you are the less you will be affected by variations in price. If you are risk averse by nature then aggressively investing in the stock market may not be the most suitable option for you. You may have goals that

require growth in your capital which can be achieved through stock market investing but given your appetite for risk you may want to consider allocating a relatively smaller portion of your funds to this asset class. The challenge would be deciding on the optimal allocation to stocks versus less volatile assets such as bonds in order to achieve your growth objectives.

An overarching consideration is the investment time horizon. The time horizon is the length of time between the beginning of the investment and the point at which the funds will be required. So your goal (the reason that you are investing) will determine your time horizon. Throughout life you may have various goals such as funding your own education, purchasing a car, purchasing a home or funding your children's education and these would have different time lines attached to them. For many investors, the investment time horizon is usually relative to retirement age with the overall goal being to ensure that during retirement, you are able to sustain your preferred standard of living. This is an important factor as this indicates the time available to withstand downturns in the market and the likelihood of making higher than average returns.

It is important to note that your current age is not the primary deciding factor for whether or not equity investing is suitable for you. For example, a 59 year old may be investing to leave an estate for her grandchildren. This suggests that the time horizon is long and depending on other factors investing in equity may be quite appropriate. On the other hand, a couple in their early 30s may have saved a sum to purchase a home in the next two years. Though they would want this to grow as much as possible to contribute to the home purchase, they also would not want to risk their capital and as such equity investing may not be the most fitting option.

While you may have a strong inclination to avoid equity investing (or even investing as a whole) until things return to "normal", time does not stop. The goals that you had are likely to still exist. Inflation will continue to erode your purchasing power (albeit at an expected slower pace this year). Investing can help you achieve your goals and stem the impact of inflation on your funds. So assess your situation as an individual – what am I trying to achieve, what is my time horizon, do I have liquidity, what is my risk tolerance, how much of my overall wealth am I risking? The answers to these questions would guide you in terms of working on growing your own wealth. Should you decide to invest in equity markets, choosing to invest in companies that have strong prospects for future growth and exercising patience, should enable you to generate sufficient returns to compensate you for both the time and risk you have taken. Do not get swept away with the masses. Make investment decisions that suit your unique circumstances.

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### ***Current Happenings in Local and International Markets:***

- Central Bank Governor: Expect more job losses, zero economic growth
  - Jamaica PM says country will have to fund 2009-2010 budget gap
  - Scoria Group Jamaica hit by dividend tax
  - Venezuela bolivar drops to all-time low on falling dollar sales
  - Orders for Durable Goods in U.S. Fall 0.8%, Less Than Forecast
  - Bear Stearns, AIG Dumped \$74 Billion in Subprime, CDOs on Fed
  - U.K Financial Bailout Reaches 1.4 Trillion Pounds
  - U.S. Initial Jobless Claims Rose to 640,000 Last Week
  - Morgan Stanley First-Quarter Loss Exceeds Analysts' Estimates
  - Wells Fargo First-Quarter Profit Rises 53 Percent on Mortgages
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**Table 1: Regional Market Performance (as at 23 April 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	808.64	-0.03	-1.61	-4.07	-22.90
All Trinidad	1,102.83	-0.05	-1.71	-4.50	-17.75
JSE Index	79,080.92	-1.53	-0.74	-1.34	-27.18
JSE Select	1,656.29	-3.93	-0.93	-16.55	-44.40
All Jamaica	61,465.69	-3.58	-1.74	-16.93	-43.61
BSE Composite	874.31	0.01	0.80	-4.95	-14.79

**Table 2: International Market Performance (as at 23 April 2009)**

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	851.92	-1.55	3.52	-5.68	-38.26
Nasdaq Composite	1,652.21	-1.09	6.20	4.77	-31.31
Dow Jones Industrial	7,957.06	-2.07	2.33	-9.34	-37.66
German Dax	4,538.21	-1.55	8.66	-5.65	-33.21
FTSE 100	4,018.23	-0.86	1.66	-9.38	-33.95
Nikkei 225	8,847.01	1.05	7.69	1.14	-34.85
Hang Seng	15,214.46	-2.36	13.14	5.75	-39.84
DJ Eurostoxx	2,259.54	-1.78	6.50	-7.83	-39.96

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