



Surviving 2009 – What’s the Right Decision for Me?

Much has been written about the horrors of 2008 and the effects of the enduring global recession. Investors in the US and global stock markets would have seen wealth erosion to the tune of trillions of dollars. Closer to home, Trinbagonians were not left unscathed as investors, large and small alike felt the pain of seeing their portfolio values fall.

Investors experienced the full gamut of emotions as 2008 unfolded; beginning with denial, then on to hope that things won't get too bad, then fear as the situation deteriorated, then sheer panic and eventually regret. 2009 is currently unfolding and headlines featuring words such as "Recession", "Mortgage Meltdown" and "Bail-out" unfortunately, still dominate the local and international media. The general rule of thumb is that the stock market is a leading indicator and therefore will begin to recover at least six months before the upturn in the economy. Consensus forecasts predict the beginning of an economic recovery by 2010. Many individual and institutional investors are now asking themselves what would be the prudent thing to do at this point in order to preserve capital and maximize wealth.

The temptation to hastily liquidate in order to stem those feelings of panic and regret is almost irresistible at this point. However, as investors and market practitioners, let us ask ourselves, "Having survived the worst of the market declines, is liquidating and more importantly realizing losses when asset values are at or close to the bottom the most cost effective decision to make for your portfolio?" Further, to those persons who have the means but are not invested and are looking on with relief, ask yourselves, "Instead of shying away in order to avoid feeling regret, wouldn't it make more sense to begin investing my extra monies now when asset values are at or close to bottom?"

Historical data presents compelling evidence that the answers to both questions are "No," and "Yes", respectively. According to Standard and Poor's, based on analysis done on bear markets from as far back as 1956, the US stock market has retraced or recovered on average 87% of the market's previous high in the year following the end of the downswing. The data showed a wide range of values, from a minimum 35% recovery to a maximum 157% recovery. However, even assuming the historical minimum, a 35% recovery makes more sense than realizing losses. This assumes of course that you are invested in sound companies that can survive the current economic upheaval and we are indeed at or close to the bottom of the market cycle.

A report presented by Morningstar, also added support to this argument of positioning for a recovery either by remaining invested or starting to buy now. The report showed the cumulative returns on the S&P 500 following major events in the US such as Pearl Harbor and September 11th; the returns increased as the investment horizon following the event increased. However this performance deteriorates significantly if one factors in missed days because of attempts to "time the market" that is, attempting to predict when to sell and then trying to predict the precise moment to buy back the share. Over the past

five years ending November 2008, a fully invested large cap investor would have lost 1.39%. However, the same investor who missed the best 10 days of performance would have lost 13.04%. The analysis supports the argument that it is important to stay invested, and that market timing only increases the chance of missing positive market moves.

One may argue that the current situation of the bursting of the US housing bubble and the tightening of US credit markets and a subsequent Global recession have not happened before and the wide-spread effects unprecedented. In other words historical performance while useful may not provide all the answers. Then perhaps a look at current views and opinions by some of the most influential fund managers may provide further evidence.

A survey by Watson Wyatt Investment Consulting, conducted at the end of 2008 revealed managers hold overall bullish views of returns on public equities, investment grade bonds, high yield bonds and emerging markets over the next 5 years. However they did caution that 2009 will be a year where single digit returns are expected and volatility while expected to be lower than 2008 will persist. Regarding the crude oil price, the consensus is that it is expected to reverse its current sharp downward trend and move to around US\$60 a barrel during 2010 and to US\$80 a barrel in 2012. This presents a starting point for determining a possible a recovery in the local stock market since the local economy is highly correlated to the price of oil and gas.

Popular billionaire, Warren Buffet was also featured as saying he evaluates companies based on their stability, their competitive advantage and what he thinks they will be worth years in the future. He knows that economies move in cycles and he is not worried about trying to call the bottom but investing based on where he sees value for his money. Other fund managers such as Bill Fleckenstein and Marc Faber have reportedly begun to wind down there short positions. In other words the feeling is that downside risk is now outweighed by the upside potential for stocks.

Remaining invested and averaging in when stocks are lower seems to be the decision to make. However, adopting a longer perspective doesn't negate the short term volatility expected in 2009. Temporarily rebalancing your portfolio to more conservative strategies rather than liquidating is the recommended action. Several options are available including increasing your portfolio's allocation to fixed income through increased investments in Government-issued bonds and US investment grade corporate bonds or partially hedging your positions to lower the expected volatility. Purchasing preferred shares which offer a guaranteed yield are another option.

The more adventurous of investors may want to consider Long-short mutual funds which have the advantage of benefiting from stock upswings but with much less volatility because of their ability to take short positions. Finally, hedge funds which follow a Global Macro strategy have emerged as the top performers in 2008. Macro Investing also has some advantages as the financial crisis runs its course. They use very little leverage and since they trade in the very liquid futures and FX markets, there are few constraints on asset size.

The bottom line then, is that while a one year outlook presents a fairly subdued picture, the potential for significant returns post-2009 is likely. The key to surviving 2009, in our opinion, lies in the ability to make objective rather than emotional decisions.

Current Happenings in Local and International Markets:

- CIBC eyes CL stake in Republic Bank
 - TCL considers buying back Cemex's stake
 - JMMB safe from takeover – Duncan
 - Scotia Bank lends Government of Jamaica US\$100 million
 - PM assures Parliament that the Jamaican dollar will stabilise soon
 - Belize government bond ratings upgraded
 - Stimulus Aims Two-Phase Jolt at U.S. With Tax Cuts, Spending
 - China's Economy Shows Signs of Recovery on Stimulus
 - Europe's Economy Contracts Most in at Least 13 Years
 - Brazil Real Falls on Concern U.S. Plan Won't Ease Recession
 - Australia Senate Rejects A\$42 Billion Stimulus Plan
 - U.K. Unemployment Hits 10-Year High
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Table 1: Regional Market Performance (as at 12 February 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
TTSE Composite	845.54	-0.25	1.44	0.31	-13.73
All Trinidad	1,150.03	-0.11	1.93	-0.41	-3.05
JSE Index	83,516.30	-2.60	-2.80	4.20	-25.14
JSE Select	1,841.75	-6.15	-7.73	-7.20	-40.68
All Jamaica	68,910.22	-5.65	-7.05	-6.87	-38.94
BSE Composite	914.58	-0.20	-0.43	-0.57	-10.60

Table 2: International Market Performance (as at 12 February 2009)

Index	Closing Value	Weekly Change (%)	Monthly Change (%)	YTD Change (%)	1 Year Change (%)
S&P 500	835.19	-1.26	-4.03	-7.54	-38.08
Nasdaq Composite	1,541.71	-0.29	0.19	-2.24	-33.55
Dow Jones Industrial	7,932.76	-1.62	-6.39	-9.61	-35.89
German Dax	4,407.56	-2.28	-6.61	-8.37	-36.74
FTSE 100	4,202.24	-0.63	-5.06	-5.23	-28.90
Nikkei 225	7,705.36	-3.07	-12.80	-11.91	-40.83
Hang Seng	13,228.30	0.37	-5.32	-8.06	-42.29
DJ Eurostoxx	2,214.95	-3.41	-9.66	-9.65	-41.77

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