



WEALTHY & WISE

THANE STENNER

The ability to see opportunity within a crisis is a distinguishing feature of the millionaire mind, writes Thane Stenner

Take a look at the graph with this story. Tell me what you see.

Over the past few weeks, I've asked this question to many of my wealthy clients. Every one of them has come to the same conclusion: We are on the cusp of an investment opportunity of a lifetime. This is not coincidence. The ability to see opportunity within a crisis is a distinguishing feature of the millionaire mind.

First, they notice that over the past 198 years of U.S. stock market history, the rolling 10-year average compound rate of return (i.e., 1810-20, 1811-21, and so on) has been 8.4 per cent.

Second, they see that periods of below-average market returns are typically followed by periods of above-average returns. Specifically, at every point when the market returned less than 2.5 per cent per annum, the next 10 years produced strong returns that averaged 13.3 per cent per annum. The lesson: What goes down must (eventually) come back up. My clients aren't the only ones who see better times ahead. The Institute of Private Investors, a U.S.-based research and educational group, completed a survey in December that measured the sentiment of high-net-worth individuals worth a minimum of \$20-million (the survey also included a number of billionaires). Nearly two-thirds of survey respondents said they were either planning to invest the cash they held in their portfolios, or had already done so.

Here's a small sample of some of the sectors my clients are reviewing or investing in now.

U.S. real estate

Last week I met with a client who had just returned from Scottsdale, Ariz., where he's been scouting luxury properties. Like many clients, he's interested in taking advantage of the housing meltdown in "sun belt" destinations such as California, Arizona and Florida. The end of 2009 might be an ideal entry point. U.S. housing prices have been falling for about 2 1/2 years; by the end of 2009, most of the bad news should be priced in, and savvy buyers should be able to snap up high-end properties at a further 15-per-cent discount to today's prices. The

possibility of a stronger Canadian dollar is another reason to be patient.

Another opportunity we've been discussing is U.S. and global real estate investment trusts. Many of

Intuitively, he knows it's a smart move. With his corporate experience and connections, he knows big business is hurting, but it isn't dying. Because of the fear over defaults, investors can enjoy equity-like returns (7 to 9 per cent for investment grade; 15 to 16 per cent for high-yields) while also benefiting from the protection of being a bondholder.

Canadian dollar

Many clients have asked me about the outlook for the Canadian dollar. Given the size of the U.S. federal deficit, and how fast our dollar fell against the greenback (it lost about 20 per cent of its value in the final four months of 2008), we wouldn't be surprised to see the loonie appreciate up to 10-15 per cent

against the U.S. dollar over the next 12 to 18 months.

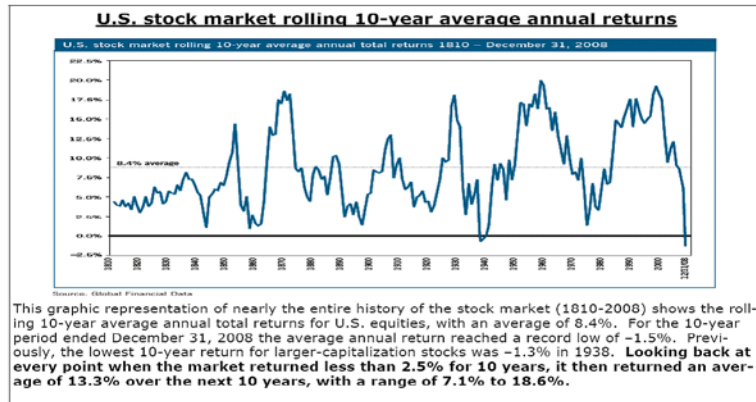
We use a variety of hedging strategies to protect existing U.S. holdings from currency fluctuations. We've also been selecting investment managers who hedge their exposure back to Canadian dollars. This takes some of the risk out of big currency movements, and keeps the focus on investment selection, rather than currency speculation.

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these offer exceptional yields (in some cases as high as 20 per cent). With some REITs trading 40 to 75 per cent below their highs, averaging in over the next six months would be an ideal way to profit from market pessimism.

High-quality, dividend-producing equities

Many clients have started building positions in high-quality, dividend-producing equities. By focusing on the "best of the best," investors can limit risk while positioning themselves to take advantage of a market rebound when it happens. Clients have started to nibble at Canadian financial stocks. Case in point: A client who recently initiated a position in two of the Big Five Canadian banks based on our recommendations. The Big Five have come down about 50 per cent from their highs, and with an average yield of about 7 per cent, investors get paid to wait out the downturn.

Investment-grade and high-yield corporate bonds

Last week I met with a retired chairman of a public company and his wife. He sold a concentrated position in company stock when he retired, and the couple now lives on the income from their well-diversified portfolio. In previous years, we've built the bond portion of the portfolio on government issues. This past month, we recommended adding investment-grade and high-yield corporate bonds.