

## **Speaker Notes for: The Markets – Where Are We Now?**

Hello and Welcome!

My name is Mark Huber and I am speaking to you today to engage you in a conversation about the economy, to provide you with an update and to serve as a sounding board...

Why am I doing this!

Because I believe that one of my primary roles is to act as a filter to help individuals sift out actionable facts from the vast array of speculation and hearsay that is out there - so that they can and will make informed decisions...

**So: Where We Are Right Now? Is the Sky Falling? No!**

Stock market gyrations have always been with us.

In fact, I have always come to expect them - whether on the upside or on the down side...or somewhere in between.

Over the course of the past 22 years as an advisor I have been through ALL of the upside the markets have delivered.

And

5 of the "downside" times...right along with my clients...

1987, 1990, 1994, 2000, and 2008.

I can certainly empathize with those people who find the current environment troublesome and disturbing.

When the markets turn as volatile and confusing as they have over the past year, even the most patient investors may come to question the wisdom of the investment plan that they've been following.

I am sure that you have you heard the expression, "circumstances don't make the man - they reveal him (or her)?"

I find that these market conditions have revealed three types of investors:

1. Those who are shell-shocked and have no idea what to do: In other words they are wondering what in "heavens name" has happened?
2. Those who are pessimistic and playing defense: In other words they are watching things happen!
3. Those who are responding, adapting and striving to position themselves to capitalize on these conditions: In other words they are making things happen!

**Now: "Where would you categorize yourself?"**

Financial success is a matter of choice - not chance.

Is it any wonder then that only 5% of Canadians are wealthy?

They have embraced their goals of financial success and proceeded to make informed choices – leaving nothing to chance...

They succeed because they will not allow themselves to succumb!

It may sound trite, but if you want to make things happen, we have to boil things down to pure fundamentals.

Let's have an effective conversation today – both on a rational and an emotional level.

Let's begin with the emotional side of things...

Let's look at the magnitude of the stress that many are feeling, exacerbated by the non stop, 24-7 media coverage of "today's economic crisis."

Now here's the part where it becomes "interactive" for you...

### **Where we are right now**

Lets begin by talking about the current challenges facing the market.

Now, take a piece of blank paper and write "Today" at the top:

then draw a line vertically right down the middle:

Let's talk about where we are right now....

Jot down your concerns on the left hand side of the page – this is your chance to vent your fears.

What are the issues that concern you about the market over the immediate period ahead?

Now, of those which are you most anxious about?

Are you worrying because of something you may have read or heard that maybe you have misinterpreted?

For example do you feel like selling everything because you have heard that the credit crunch would devastate the economy?

Perhaps what is not understood is what a credit crunch is - beyond that it's a bad thing?

Did you know that we have been in credit crunches before?

Yes, typically in every bear market there is such an amount of uncertainty that lending institutions are much more reluctant to lend to other than to their best customers...that is essentially what a "credit crunch" means...

Now, certainly not on the magnitude that we have seen recently – but it has always been a fact with market downturns.

And yes, there are certainly there are causes to be concerned about.

Let me mention a couple of other things that are hanging over the market right now.

Here are some of my candidates for the left hand side of the ledger:

**Causes of short-term concern:**

- The housing crisis
- Falling consumer confidence

- The threat to financial institutions and the financial system
- A credit crunch and reduced access to capital for companies and consumers
- A recession both at home and globally
- The impact of the bailout on the economy and whether \$700 billion will be sufficient
- The impact of falling oil and commodity prices on the economy and stock market

So at the end of this exercise, you will have created your list of reasons to be anxious in the short term.

Feel free to borrow from mine if you want to!

OK!

Now, it's time to shift your attention to the right hand side of your page and say:

"Are there any offsetting positives in the short term?"

### **Offsetting positives in the short term:**

Given the fixation in the media and among many investors on bad news, you may need some help with this so here we go:

Among the candidates for the right side of the page which will represent short-term positives – we have:

- The Canadian financial system is simply not in the crisis that some of the other banking systems are in. We are currently the envy of the world...We're much better capitalized; we don't have the same mortgage issues as they do in the US.
- Central banks have intervened in a coordinated fashion to contain the financial crisis to prevent bank failures and provide liquidity to the system.
- Banning short selling in financial institutions should help stabilize some of the extreme speculation.

- Dropping oil prices have reduced concerns about inflation around the world, giving central banks the ability to cut interest rates to add stimulus to the economy and putting dollars into the hands of consumers.
- We appear to be turning the corner in Iraq, and the prospect of withdrawing will take away a big drain on the US budget.
- We can gain some confidence from strong leadership from people like Henry Paulsen and Ben Bernanke and European leaders like Angela Merkel, Gordon Brown, Nicholas Sarkozy, and Jean-Claude Trichet of the European Central Bank.
- The market correction has created what appear to be real bargains for investors who are selective: witness the large investments in Goldman Sachs and General Electric by Warren Buffett. There's reason to believe we may look back upon this as an outstanding buying opportunity, particularly among some solid companies that have been beaten down and as a result are paying dividends of 3, 4, or 5%.

OK we have built up our list of short term positives...

Now lets begin putting the current concerns in perspective

At every given point in time, there are causes for optimism and causes for concern.

If we had done this same exercise 10 years ago, in the fall of 1998, we would have listed threats from what was then called the "Asian contagion" - with the collapse in currencies in Asia and the Russian ruble and the implosion of Long Term Capital, a massive hedge fund that blew up.

And if we'd done this exercise at the end of 1990, when the market was down sharply as well, we would have listed the recessions in the U.S., Canada, the UK, and Australia, the S&L lending crisis (the last time the US government had to intervene), the broad slump in residential and commercial real estate, and the huge uncertainty about the how to respond to the invasion of Kuwait by Iraq that took place earlier that year.

In fact, a December 1990 article from the newspaper chain Knight Ridder ran with the headline:

Bank crisis risks turning recession into depression!

The causes for concern in this gloomy article could be used verbatim today...

- Banks going under at a level not seen since the 1930s
- A resulting credit crunch and pullback on lending
- Plunging consumer confidence
- A 50% decline in stocks of leading banks like Citicorp

As an interesting side note: "Psychologists tell us that the human brain is unable to recall pain accurately. If we were able to do so, probably many fewer women would have a second child.

And so as a result, we overestimate the level of pain we're feeling today compared with the past. Whenever we enter these kinds of market conditions, it always feels like it's much worse than it's ever been before.

Remember, the tech bubble in 2000? It was rationalized then by investors who said, 'It's different this time.'

Today, we're hearing people using the same words, saying today's downturn can't be compared to those of the past.

The aftermath of the tech crash reminded us why the words 'It's different this time,' are considered so dangerous and costly for investors.

It wasn't different in 2000, and a strong case can be made that it's not fundamentally different today.

And in fact, that when it comes to market cycles, it's never really different."

In fact, human nature and how it reacts both in "bull markets" and in "bear markets" is all too predictable...

How so you may ask?

Well, from personal experience, investors left to their own devices tend to "buy into the market" near or at it's peak because they feel overconfident in the continuance of the markets upward trend and then sell near the bottom in a "bear market" because they are overcome with an overwhelming sense of gloom, dread and panic...

I have seen this activity repeated time and time again!

But now...

### **Let's begin looking to the future**

Turn over the piece of paper in front of you and write, "Five years from now," at the top, drawing the same line down the middle.

#### **Five years from now concerns:**

Let's shift our thinking out five years from now.

What are the things that concern you about the market in five years' time?

I'll let you think of a few of your own...

Now, you may well wish to include perhaps the lingering after-effects of the current financial crisis and the budget challenges faced at home and by other developed countries, especially in light of an aging population—both legitimate concerns.

OK, once you have identified your 5 year midterm causes for concern, shift your attention to the right hand side of your paper

On the right hand side of your paper I want you to write down all the reasons to be optimistic in the midterm.

#### **Five years from now positives:**

Here are some reasons for optimism that I came up with:

- The positive effect of technological innovation on productivity, economic growth, and corporate profits. Despite the economic crisis, we're still seeing more investment in R&D around the world than ever before, and the Internet is helping disseminate new discoveries more quickly so that we get a bigger bang from every research dollar invested.
- A continued expansion in global trade and a trend toward reducing trade barriers. This is a hugely positive development for markets.

- No reason for concerns about inflation and the ability to keep interest rates low as a result—a big positive for markets.
- Good news economically and politically from most of Eastern Europe and Latin America.
- The continued opening up of economies in China, India, and throughout Asia and the resulting rapid growth of the middle class in those markets.

So feeling a little more chipper now?

I truly hope so!

You see, the true purpose of this exercise today is to give you a sense of balance when it comes to our perceptions – and our reality.

Far too often our perceptions are NOT the reality!

As you know, I am a big fan of Warren Buffett and like to quote him allot.

I mean after all he is the richest man in the world so he must have gotten some wisdom along the way – Right?

One of his most quoted quotes goes something like this:

(Begin quote)

"When it comes to the stock market, it's impossible to forecast what's going to happen in the next six minutes, six days, six weeks, or even six months with any confidence. And that's especially true these days."

"What we can be confident about is the positive outlook for the next five or six years—that positive midterm outlook is the reason we're invested.

"If you decide that you want to pull back as a result of the current uncertainty in the markets, we can certainly talk about that. Remember, though, that all the bad news that we're aware of is already reflected in stock prices."

"That doesn't mean that the market won't continue to be volatile and that there's not a chance we could see more declines over the next while. Nobody can predict short-term movements, and stocks can stay undervalued for long periods, just as they can stay overvalued for a long time.

"Over time, however, stocks revert to their true value. And the risk we run if we go to cash is that we'll miss out on a dramatic turnaround, and history shows that when markets come back, they often do so faster than anyone anticipates. Yes, there will almost certainly be continued volatility along the way, but there is a strong case to be made to be very optimistic about the mid- and long-term."

(End quote)

Now, even though I am a market "cheerleader", and even though I have been through 5 "down markets" I am going to offer up some of my objective advice.

I wish you to agree and realize with me that this time is in fact NO DIFFERENT and yes, we will continue to see uncertainty and volatility ahead.

However, it's equally important to recognize that after the market downturns there are correspondingly rebounds...

For example...

Buying high and selling low is a tough way achieve long-term, mid-term, and short-term financial goals...

Be a "contrarian" and invest when markets are low – then sell when they are high. It's a simple formula to make money...

Appreciation	1 year later (%)	2 years later (%)
1948-49 Berlin blockade	-3.3	13.2
1950-53 Korean War	28.8	39.3
1962 Stock market break	32.3	55.1
October 1962 Cuban Missile Crisis	33.8	57.3
November 1963 Kennedy assassination	25.0	33.0
August 1964 Gulf of Tonkin	7.2	3.1
1969-70 Stock market break	43.6	53.9
1973-74 Stock market break	42.2	66.5
1979-80 Oil crisis	27.9	5.9
1987 Stock market crash	22.9	54.3
1990 Persian Gulf War	23.6	31.3
Sept. 11, 2001 Terrorist attack on U.S.	-3.8	6.0
Mar. 31, 2003 Invasion of Iraq by coalition forces	29.6	31.4
<b>Average appreciation</b>	<b>23.7</b>	<b>33.4</b>

Sources: Contrarian Investment Strategies: The Next Generation by David Dreman, 1998, Simon and Schuster Performance of the Dow Jones Industrial Average through 11 major post-war crises.

So I firmly believe that "rather than throw it out – wait it out"!

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I mean, just look at the individuals who constantly emerge as leaders during times this, people like Warren Buffet whose approach has stood the test of time...

Why? Because they don't deviate from fundamentals.

And while people recite tired old mantra's like "buy low, sell high".

This is exactly what it feels like to buy low!

It's a contrarians approach.

Here's an analogy for you...

Firefighters are hero's because they run into a burning building while everyone else is running out.

Want to become a financial "hero" today?

Well, do what savvy investors are doing today. Running to the markets – to buy solid companies while they are "on sale" and average down when they have to – while the masses are running away.

You don't buy a stock high and then hope it goes higher, you buy a stock low and hope it doesn't go lower.

And if it does, you don't give up on it – you average your price down and hold on to it and wait until this the masses re-engage and drive the value of your holdings back up.

Sir John Templeton said it best, **"A Bull market begins on pessimism, grows on skepticism, matures on optimism and dies on Euphoria."**

If you really believe that, as I do, then we are in the early stages (albeit very early stages) of a bull market right now.

The key is, the first to realize it, believe it, adapt and act - will be the winners!

If you are like many individuals out there you may have a mindset of self-preservation.

I can certainly understand this.

After all we are human and have “human emotions”.

But we can't let our emotions overtake our ability to reason.

As an advisor with over 22 years of experience, I've seen a lot of difficult markets come - and go!

And survived and prospered through each one – right along side with my clients I might add!

During times like these, it's a good idea to invest the past into the future.

By that I mean history has proven that while circumstances may be different, human nature and the emotional reactions to the rise and fall of the markets have and will continue to remain unchanged.

22 years ago, I learned a definition of the phrase "bear market" which has served me extremely well ever since. A bear market is a period of time during which common stocks are returned to their rightful owners.

When stocks of great companies are “re priced” at lower valuations does this mean that all of a sudden the management of these companies suddenly became stupid over night? Or that they suddenly stopped making the best product or service that they are noted for?

Of course not!

They are still showing up for work and continuing to manage their business to make profits and increase shareholder values...

While it is true that the economic and financial market news at the moment is difficult to digest and, on the surface, even more difficult to act on - when you step away, it isn't that different — or that much more difficult — than at any other times in the past several decades.

In the short run the stock market is a voting machine, and in the long run it's a weighing machine.

As a voting machine, it responds to people's emotions. There's no literacy test for voting. You vote according to how much money you have, not according to how smart you are. So the stock market does some very silly things in the short run.

However, over the long run, it behaves quite rationally.

There is opportunity in every adversity...

And, you know, five years from now, 10 years from now, we'll look back on this period and we'll see that you could have made some extraordinary buys.

I do know that the American economy, over a period of time, will do very well, and people who own a piece of it will do well.

Actuarial projections show that the average couple will live 30 years past their retirement.

The risk here is not of losing their money, but rather of outliving their money, as inflation erodes purchasing power by an estimated 3% per year. At that rate, it will take \$2.40 at the end of the 30 years, just to buy what cost \$1 today.

There is only one asset class that can historically be shown to provide the returns needed to offset this erosion of purchasing power. It might make one uncomfortable, but one needs a healthy dose of stocks in their portfolio to reduce the real risk of outliving their money.

Let me ask this to any of you listening in here today that have a defined benefit pension plan.

Do you think that your pension fund managers have just called up the banks, asked for their best GIC rate – sold off all the pension holdings at market prices and bought billions of dollars worth of GICs?

Then went out on the golf course feeling that their obligation to the current and future individuals drawing pension moneys was over?

Of course not!

Nor should you!

Am I changing my approach to investing or re positioning clients' portfolios for what lies ahead?

The answer is...no!

Well, maybe some minor adjustments but certainly nothing wholesale!

Why?

Because when designing a portfolio, I begin from the perspective that three out of every 10 years, the markets will behave bearishly.

However, if I provide adequate diversification at the outset of the investment plan design, when the bears behave badly, our portfolios will perform less badly.

Make sense?

So what do we do when we see and hear a lot of fear and irrationality.

Nothing!

Why?

Because we are grounded in the basics!

I say, "wait it out – Don't throw it out!"

On the equity side - Value investing in quality companies. (Warren Buffet just bought \$8 billion of GE stock in October, 2008!)

I believe that times of great crisis also present great opportunity!

But only to those that understand this and ACT accordingly to capitalize on this fact!

It's all a matter of orientation...

**Now, honestly answer these 3 questions for your financial security and peace of mind**

- 1.** Do you see your home and more broadly the real estate market being higher or lower 10 years from now? Yes or No.
- 2.** Do you see North American stock markets higher or lower 10 years from now? Yes or No.
- 3.** Do you want to be personally and financially better in 10 years time – than where you are now - today? Yes or No.

Now, what are you going to do?

Anyone who is willing and able to act decisively now will be buying into the market at prices we have not seen for a long time and will be poised to begin creating real wealth for themselves and for their families over the years to come.

It is true that the largest fortunes are made during times of economic struggle.

There's certainly no shortage of information in our society, yet information alone does not equal wisdom.

As you know, in the massive market correction of 1987, the news was on TV a couple of hours a day.

Today, it's on 24/7. The combination of that coupled with the limitless media formats out there creates a velocity and quantity of information that is mind boggling.

No wonder that many of today's investors feel inundated, intimidated and confused by the barrage of information that hits them daily.

Now here's the next part on our interactive conversation today...

Repeat after me...

"I will limit my consumption of news, remembering that there are big differences between data, information, knowledge, and wisdom. When I feel fearful, I will seek out facts and not allow myself to be swayed by emotionally loaded words and phrases used by the media and public figures."

Now, doesn't that make you feel better?

In fact, keep that piece of paper we just filled in together handy and use it for another "grounding" reference point at any time in the future you feel that you are wavering between:

### **"Succumbing OR Succeeding"**

As a financial advisor, I strive not just to add value - but to create sustainable value - value that's going to last and hold strong over the long haul. I endeavour to continuously deliver on the three things what will always be in short supply: time, wisdom, and trust.

Working on creating more time in my client's lives and being their primary source of financial wisdom is something that I continually strive for.

My Mission Statement reads as follows:

***"I lead a comprehensive wealth management team that specializes in providing customized solutions to individuals and their families.***

**"My goal is to assist my clients in the creation and preservation of wealth for themselves and future generations."**

So that:

- My clients will have a retirement without compromise in lifestyle nor any real concern about outliving their income.
- My clients will be in a position to make a meaningful intervention in the financial lives of their children.
- My clients can assist in the education of their grand children.
- My clients will have the financial wherewithal to care for their parents if and when they need it.
- My clients will be in a position to leave an important legacy to the institutions or charities that they believe in.

This is what I am passionate about and also what resonates for me and for my clients...

As an active and engaged adviser, I am passionate about keeping my clients focused and invested in a way that is consistent both with long-term economic and financial history so they will achieve their life's goals and ambitions with confidence and with peace of mind.

Remember, "No one can go back and make a brand new start - but anyone can start from here and make a brand new end."

So begin to prepare for YOUR "Incredible Journey!"

Because to become truly successful will require you to change your old ways of thinking and behaviour and the ways in which you make investment decisions...

So:

**Your action plan for today:**

Continue to invest with confidence in both the real estate and North American stock markets.

Use common sense and have patience – you WILL be rewarded!

Now, turn off CNN and begin dreaming of your better life ahead of you...

You have my permission to begin starting right now!

However, just before I sign off from this broadcast...

I wanted you to know that as a courtesy to you I am making myself available to provide a “2nd opinion” consultation to any of your family members, friends or colleagues that may wish to speak to me.

In fact, I have been very busy recently doing just that.

I would be pleased to also assist them in facing the future not with apprehension – but with anticipation!

And so in closing...

I want to thank you for your time and attention and trust that this conversation has been of value to you and that it will serve as a beacon for your financial success!

If you would like to learn more about me and the services that we provide please visit us at:

<http://HowToBeSetForlife.com>

and

<http://HowToGetRidOfYourMortgage.com>

Oh and remember...

I would love to hear from you and am always interested in you comments so don't be a stranger – join in the conversation today!

You can begin by typing in your thoughts on this or whatever else is on your mind in the “Leave A Comment/Reply” section below...

I do "moderate" these comments so it may be a few hours until you see them "posted"...

This is Mark Huber signing off until next time...

Cheers!



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*Mark Huber, CFP*

Mark Huber, CFP (Certified Financial Planner) is an accomplished author, industry speaker and practitioner in the financial services industry.

For over 22 years, Mark has lead a comprehensive wealth management team that specializes in providing customized solutions to individuals and their families.

Innovative cash flow and financial planning techniques form the basis of Marks (British Columbia, Canada based) boutique practice.

More information is available at:

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**The End**