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## Advisors agree: Market panic leads to opportunity

Bryan Borzykowski / September 15, 2008



With yet another major American financial institution hitting the skids over the weekend, nervous investors may be about ready to pull all their cash out of the stock market. But advisors must guard against reckless action, even though some are calling this the worst financial crisis in decades.

Robert Abboud, CFP and president of Orleans, Ont.-based Wealth Strategies, is well aware that his clients will "see their funds get hammered, and it's going to scare the hell out of them," but he says it's not time to jump ship yet.

"People have to really hunker down," he explains. "It will be a tough one for clients. It's worse than the tech crash, and it will affect everyone, but now's not the time to put our heads down."

So what should advisors do? "Not much," explains Abboud. "Everything's getting pounded. When we set up portfolios, we set up a strategy for a reason, and we don't usually change course."

One lesson advisors and clients can learn from this is the importance of diversification. Frank Wiginton, a CFP and senior financial partner with Toronto-based Tri-Delta Partners, finds it astounding that a 158-year-old company like Lehman Brothers would have so much exposure to one sector — in this case, sub-prime mortgages.

"It reiterates the fact that it's important for all investors to take a look at their overall portfolio and reassess their overall risk profile," he says. "If anything accounts for more than 10% of a portfolio, you're exposing yourself to more risk than you need to."

To drive home the point, Wiginton says you never know what's happening at a company's highest levels. "If Lehman, Enron and WorldCom can fail, you just can't be sure who's cooking the books and who's making bad investment decisions."

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With these types of huge financial failures occurring over the past few years, Wiginton says, more people are getting anxious.

Bob Gorman, TD Waterhouse's chief portfolio strategist, says apprehensive investors shouldn't pull out of the market; if anything, they should look for buying opportunities. "Very often, when it's a bad time to be a seller, it's a good time to be a buyer," he says. "We're seeing weakness in the U.S. insurance sector — AIG is a good example of that — and that represents a pretty good place to be for people who want to be opportunistic in situations like this."

He adds that Canadian insurance companies, including Manulife, Sun Life and Great West Life, are good places to invest today.

Sun Life Financial has revealed that it holds \$349 million worth of exposure to Lehman Brothers Holdings, which filed for bankruptcy protection in the U.S. on Monday.

The insurer holds \$334 million in Lehman bonds, with an additional \$15 million in net value in derivative instruments. Sun Life pointed out in a press release, however, that it holds collateral security agreements for the derivative exposure.

Sun Life said it expects to take a charge on its third quarter results, but has declined to estimate how much that might be, as that will depend on the value it is able to secure from the bonds when Lehman is liquidated.

Sun Life was trading lower by about 1.75% in the mid-afternoon, indicating investor confidence is only mildly shaken.

A solid balance sheet that is well diversified is a good determinant of whether or not a company will succeed long term, and many American banks, despite the financial sector's crumbling reputation, are still strong, Gorman says. He points to Bank of America, which bought Merrill Lynch for \$50 billion over the weekend, and JPMorgan, which took over Bear Stearns, as two examples of financial institutions that will come out of this crisis stronger.

"The strong will carry on," adds Paul Vaillancourt, senior vice-president and director, portfolio strategy, at Franklin Templeton Managed Investment Solutions. "They will have taken a few body blows, but it's the weaker players with levered-up balance sheets that won't survive."

While Canadian banks are feeling the pressure of America's financial meltdown, investors shouldn't worry that their nearest Scotiabank or BMO will have a "For Sale" sign on it anytime soon. Vaillancourt explains that Canadian financials are a "different breed."

He says the banks didn't participate in the sub-prime market like their counterparts south of the border, and they haven't levered their balance sheets to the same degree. "Of course, the Canadian real estate situation is on much more solid ground, so it's not the same as this massive inventory correction that we're seeing in the U.S.," he says.

Still, some investors will be wary of financials. Luckily, many advisors have already accounted for the sector's issues, including Valerie Chatain-White, a Winnipeg-based CFP. She says that she started modifying her clients' portfolios last year, making them slightly less risky, though she still has a soft spot for financials. "It will continue to be an important source to have in a portfolio," she says.

Chatain-White is also buying, though she won't say exactly what. "I like the tried and true. There are a lot of excellent mutual funds out there and great companies where they're doing everything right, but because of the market adjustment, it's all on sale. That means it's time to go shopping."

Wiginton adds that the financial sector isn't taking as huge a hit as some would expect because money managers have accounted for the market turmoil. He also says in the near term, the sector will offer up plenty of buying opportunities, with some financial institutions possibly collecting a 5% yield off common shares. "Maybe in a year these things will be up 5% to 10%," he says.

So, the bottom line for advisors and clients is, as always, not to panic, stay invested and look for something to buy. "Take a deep breath and calm down a little bit," says Wiginton. "We'll look back at this in a few years from now and say this was a great opportunity to pick up some stocks at very low valuations."

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