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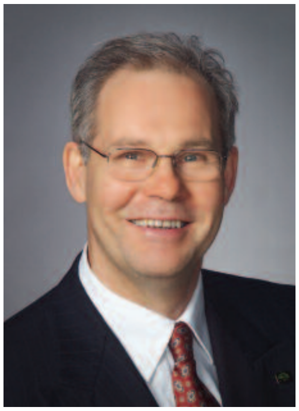


Rod Tyler, CFP, R.F.P., CLU

Watch the Companies, Not the Countries

It is early July and I'm writing to you in this issue of *Sound Advice*. Like you, I receive a daily reminder of the news world around me. It comes by e-mail, it comes by texts on my cell phone, or by glancing at a website on my Ipad, or from a newspaper while enjoying an early morning breakfast. Today I'm reminded that a Brit, Andy Murray, has won the men's Wimbledon tennis championship for the first time in 77 years. Meanwhile reports are similarly arriving describing the dramatic political changes in Egypt. The situation is in this country is very fluid and the outcome is uncertain. The question I ask is this, "When we are making investment decisions, should we be watching the countries, or should we be watching the companies we own?"

In other words, how much time should we, or our investment managers, spend on watching and trying to decide whether to invest based on what is happening to countries or economies? For the answer to that question, let's consider other historical periods of rapid and sometimes very challenging political and economic change.

Let me start with the 1930s. That period of history has been dubbed the Great Depression. It was a period of severe economic and political disruption and which predated the hostilities of World War II.

Certainly, like all of you, I can remember the stories of millions of unemployed people, the dust bowl stories of western North America, and the failure of banks in the Canada and in the US.

But while all this dramatic change was happening, something else was unfolding. The company we now know as IBM, or Big Blue, was just entering its critical period of growth towards what would become one of the most successful of all US companies. IBM's leadership was headed by Thomas Watson, and he had a plan for growing his computing company at the very time that the rest of the country was recovering from the great depression. Watson not only **did not lay off** IBM employees, **he hired lots more** smart people. He introduced a group life insurance program for all of his employees, which was a quite an innovation at the time. Watson focussed on advancing IBM's technological capability. As a result IBM would for the next four decades, become synonymous as the embodiment of a leading technology company. In the process, this growing technology company multiplied by many times the wealth of IBM shareholders. **Score one for investing in companies, not countries, at a time of maximum pessimism**.

Let's jump ahead to a starting point 30 years later. The year is 1961, and another round of extreme political and economic change is about to engulf the US and the world.

In 1961, the Soviet dominated East Germany erected what was to become known as the Berlin Wall, mostly to prevent East Berliners from leaving, or the western world from entering. In another landmark event in 1961, John Kennedy gave his famous speech about putting a man on the moon by the end of the decade, and was then assassinated in 1963. In another historic occasion, only months before JFK was shot, Martin Luther King delivered his famous "*I Have a Dream*" speech, pleading for an end to racism in the United States before 250,000 people at the Washington Memorial. By 1968 King was likewise assassinated. By 1969, an early version of the Internet, a military application called Arapanet, was introduced. By July 20th 1969, Neil Armstrong, aboard Apollo 11, fulfilled JFK's prediction by being the first person to set foot on the moon. Oh yes, and Woodstock marked the first major summer rock concert when 150,000 people descended on this little up-state New York town to listen to all the emerging musicians of the 1960s. The most common theme of this period was absolutely the rapid pace of change and political uncertainty.

So in the middle of all of this turmoil, was this a good time to invest? Surely it would have been better to wait until everything was calmer and more predictable. For the answer to that, let's consider another great U.S. technology company, Intel. Now while you may be more familiar with the use of the word Intel as a military or police abbreviation for intelligence about a certain critical area or enemy, the Intel Corporation I'm speaking of is the largest producer of the main computer chips in the computers we all use. Indeed, Intel has had a commanding presence in this field of technology since the early 1980s. If you look at most PC computers today, they carry the label "Intel Inside." Intel was originally founded in Mountain View, California in 1968 by Gordon E. Moore (of "Moore's Law" fame, a chemist and physicist), and Robert Noyce (a physicist and co-inventor of the integrated circuit), and Arthur Rock (investor and venture capitalist.) Intel was led by Gordon Moore, a remarkable and visionary CEO. Moore, when asked about the technology business, famously quipped, "Only the paranoid survive." What he was referring to was the constant need in technology to continually innovate. Moore also famously predicted in a 1965 research paper, that the power of computing would double every two years. 48 years later, that prediction has proven remarkably accurate. So let's ask again if the tumultuous period of the 1960s was a good time to invest. As it turned out, the S&P 500 index which measures the value of the 500 largest US companies rose from 59.5 at the beginning of the decade to end at 93.81 by end of 1969. From that point on until the end of the recession in 1981, the same index went up and down only to end up at about the same level. Meanwhile, Intel continued to innovate and produce better, faster computer chips. Under Gordon Moore's leadership, all of Intel's efforts were directed to producing a product that would revolutionize the use of computers by the average person. Today we take all of this for granted as we flip open our laptop or place a call on our cell phone. So the question I am posing was this, were the 1960s, a good time to invest in emerging technology companies like Intel? Now as you can appreciate, I am not trying to convince you to invest in Intel, even if it is now a very mature and large corporation widely owned in many portfolios. Nor am I suggesting that all you have to do to become wealthy is to buy shares in some start up technology company. That could easily result in a complete loss of capital. Instead, I am suggesting that you leave those investment decisions to the experienced investment managers we have chosen to manage your savings. However, to give you a sense of the results of owning the shares of Intel, I have consulted the public historical record. I have also ignored all of the 1960s and moved ahead to 1972. Here is where to look: **http://www.intc.com/stocklookup.cfm?historic_Month=7&historic_Day=9&historic_Year=1972**.

This covers the period for which time Intel was a publicly traded security. For the record, the results available are very interesting, and exclude any dividends paid during the last 41 years. **Score another one for investing in companies at a time of economic and social upheaval!**

Finally, let's consider a more recent period, the financial crisis of 2008-2009. I am pretty certain you can recall your own feelings as you watched the news reports of failing banks in the United States, or the declining account value in your investment portfolio statements.

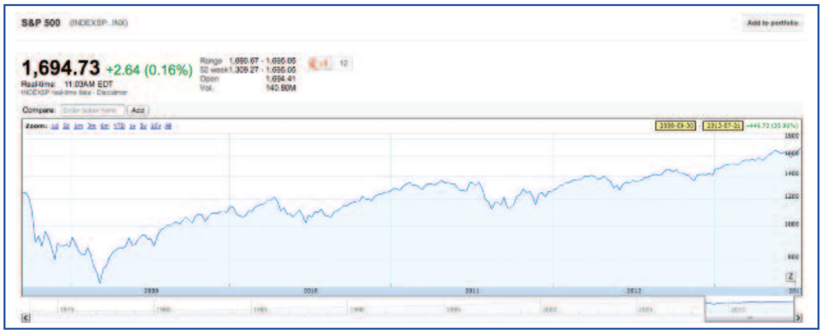
You may also remember the news reports that "predicted" a return to the depression of the 1930s, or that the United States was going to go through some other horrible outcome. Canada probably seemed a bit safer, but that may be just because of our resource based economy was still functioning reasonably well. I recall being asked to go on the CBC radio as an "expert" and being asked whether the federal government was doing the right thing backstopping the Canadian banks. I guess the CBC was short of experts on that day! And you may recall that we were meeting with clients, hosting Annual Client Evenings and writing you about this very event. For a record of just what was said, you may wish to browse our newsletters from that period: **http://www.tylerandassociates.ca/newsletters/**.

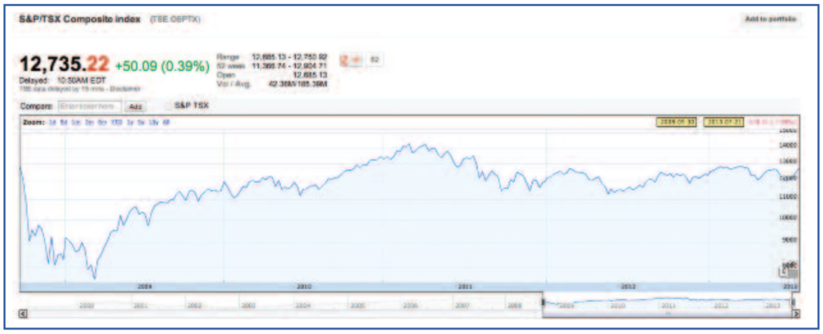
I have often been asked how our clients made out during this period. My answer is that virtually all our clients either retained their holdings, and many continued to add to their accounts. I can report that I definitely **did not counsel anyone to take all their money out of their carefully constructed investment portfolios and put the money into a savings account, or some similar seemingly "safe" investment.**

I absolutely did recommend to clients that they add to existing investment portfolio based on the simple concept that we may never see such low prices again. I can report that many clients did exactly that and have now benefited from that decision. Many of those same investment portfolios did, and still contain significant portions of investment in United States and international companies. The simple reason for that recommendation was addressed in a *Sound Advice* article titled *Saturday Morning Shopping*.

You can read it on our blog here: **http://www.tylerandassociates.ca/saturday-morning-shopping/**.

Now just for the record here are the results of investing at a time of economic and financial turmoil:





Source: Google Finance

My Life as a Computer Gamer

By Rod Tyler, CFP, R.F.P., CLU

As you probably know, I spent several years as a member of the board of the Saskatchewan Science Center and I continue to be involved in a related capacity as part of the Saskatchewan Science Foundation. You may also know that the Kramer IMAX is probably one of the finest theatres in which to watch a movie, especially an IMAX 3D movie. What you may not know that it is also a magnificent venue in which to watch digital movies or anything else that you might want to watch on any computer or high definition television screen. The recent acquisition of a cutting edge digital projector has made this possible. This digital projector also allows youthful computer gamers to congregate and go head to head in competition playing all the popular games offered through Microsoft's XBOX or the Sony's PlayStation. When I say youthful gamers, I don't only mean 12 to 18 year olds. I do know that certain unnamed Saskatchewan Roughrider players have challenged new teammates to these very same games! Of course, I won't comment on the exact games because I will embarrass myself with almost no knowledge of modern computer gaming. However, that wasn't always the case. I used to be quite involved with computer games as you will find out as my story unfolds.

I recently was introduced by my good friend, Al, to a new game I hadn't tried in a long time. This is a game that most Canadians know well, even if they don't play it very much. I am speaking of playing a game of hockey using hand operated controls. Not only did Al reignite my sense of athletic competitiveness, but he did so on a much nicer version of the same old game of hockey that I played as a kid. His game came complete with his own personal home team (for him, it was the Edmonton Oilers), and an automatic scoring system complete with the sounds of the game. Just for the record, in the best of five, Al thoroughly whipped me four games to one. Well, after all, he has the time as well as the game to practice with. Maybe I'll start practicing too, and eventually I may be able to beat him in a best of seven series! But probably not.

It was shortly after playing this game that I remembered a time that I too was once a computer gamer, of sorts. For those of you with a long enough memory I can tell you that I was present at the dawn of computer gaming. It was the 1970s and I am referring to a game called Pong. It was truly one of the first video arcade games. It was basically a game of tennis played on a video screen with each player operating a joy stick attempting to score on the other player, just as you would in tennis. In the 1970s a very entrepreneurial friend of mine had introduced this game into a few of the beverage rooms in northern Manitoba where I was living at that time. He and I were friends and competitors in the business of truck rentals. We regularly competed for rental business. He had the advantage of owning a big automotive dealership, as well other business ventures in the town. I had the advantage of focusing completely on the rental business. Over time my focus on my rental business turned to be successful. I eventually dominated the rental business in our town. In his case his much larger business enterprise allowed him to try lots of new ideas. One of those was to buy Pong video consoles and place them in strategic locations.

Now as you can appreciate, the winter nights in northern Manitoba can be very long. Playing Pong games was a way to relieve the boredom for lots of folks. My friend knew this and before long he would tease me about literally making bags of money on these Pong games. In fact, he contracted with another friend I knew to visit the various locations once or twice a week to service the games and consoles, and of course to empty the machines of huge cache of coins! At one point he offered to sell the games to me and for some reason I agreed to buy them. Then I contracted with the same person to service the consoles, collect the money and expected to receive this virtual deluge of coins being dropped into the machines. Of course the service person saw and experienced the same thing. After a couple of months he called and asked, and then literally begged, for me to sell the business to him. This is where it gets interesting. I quickly calculated that if I didn't sell it to him he would probably set up one of his own competing consoles. At the least, I was sure he would quit servicing mine. Therefore, I agreed to sell them to him. Then I forgot all about it for about six months or so.

About that time I was told that this person had decided to leave town. I asked why, and I found out that the Pong game fad had quickly passed and the games are now being replaced by something else more lasting, like shuffle boards. Apparently the money that he had borrowed to buy the games was now overdue. I think he eventually repaid the bank, but not for several years.

Here is my point. **I was very lucky.** I had ventured into an area of business I literally knew nothing about. I was the luckiest person to have someone else take off my hands what would have been for me a certain, and not inconsequential, financial loss. **Avoiding that loss was, on my part, just dumb luck!**

Today I reflect back on that time, and while I feel somewhat sad for the person who relieved me of my silly venture, I also realize it's been a great lesson in life. Here's what I learned:

1. **If you don't recognize the risks of investing in something you really know nothing about, you will soon receive your education and it will likely involve a very costly tuition.**
2. **Technology advances faster than you can recognize or calculate. Therefor you must also manage your exposure to this wonderful, but fickle, part of modern invention and innovation. The best way to do that is to allow a professional fund manager who is an expert in this area to select your technology investments.**
3. **I'm never going to become a real gamer. I'm just not smart or quick enough.**

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