The Stan Clark Financial Team's

PERSPECTIVES

An excerpt from "Perspectives" - Volume 4 - Issue 10

Economics and asset allocation

Five reasons stocks help preserve and grow wealth

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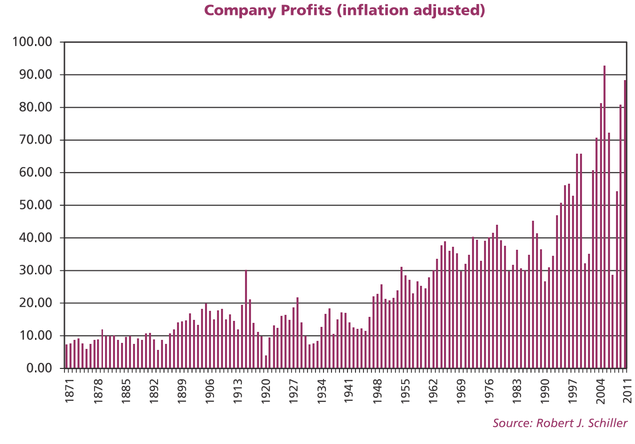
The number-one goal for most of our clients is to preserve and grow their wealth. One of the very best tools available for protecting and growing wealth over longer periods of time is a well-diversified portfolio of carefully selected stocks.

I'd like to give you five reasons why stocks can be one of the best investment choices for conservative long-term investors.

Reason #1: Strong historical market return.
Over the past 100 years, the average return generated by stocks, 10.9 percent per year, is much higher than any other major asset class – including cash, bonds, real estate, and even gold. This period included many destructive events: the 1918 Spanish Flu pandemic, which killed 50 to 100 million people; World War I; the Great Depression of the 1930s; World War II; the assassinations of JFK and Martin Luther King; the impeachment of President Nixon; and the devastating stagflation of the 1970s.

Even after all of those negatives, the return still averaged 10.9 percent per year for stocks. These returns are an average of thousands of companies. Some companies did much better; some did much worse. But, as an average, the long-term returns from the stock market as a whole have been VERY strong.

Reason #2: The sources of these returns are persistent company profits.
The underlying sources of stock market returns are company profits. When you own stocks, you own businesses. And the fact is, most of the established businesses in the major stock markets make money.



According to data from Robert Shiller, in the 140-plus years that accurate records have been kept, there has never been a year when the companies making up the stock market as a whole have lost money. Never, in spite of all the negative events over that time. As an owner of businesses, those profits belong to you. And they are returned to you in the form of dividends, or are reinvested to increase the value of the shares you own.

Reason #3: Inflation protection.
Business profits may be protected from inflation over time because company revenues tend to increase with inflation. By definition, profits equal revenue minus costs. So, if revenue and costs both increase with inflation, profits will also increase with inflation.

Reason #4: Flexibility to adjust to changing times.
The future is always uncertain. One of the best ways to deal with uncertainty is to invest in things that have flexibility to change with the times. Businesses do this. With almost any change, good or bad, there is an opportunity for some businesses to increase their profits. Good companies are always on the lookout for ways to adjust to changing times to improve their profits – so *you* don't have to.

Reason #5: Ease of diversification.
Not every company adjusts equally, and it's often hard to know which companies will benefit the most from changing times. Companies that *don't* adjust well will see their profits being transferred to companies that *do* adjust well. But the overall profit "pie" should continue to grow. The stock market allows you to own many different companies, providing many sources of profits – and increasing your chances of owning the companies that most successfully adjust.

The stock market is volatile. Many individual companies do not succeed, so investing in stocks must be done with care. It's not suitable for everyone. But the average returns have been high, and the nature of the returns makes them one of the best tools to use to preserve and grow your wealth over time.

Jocelyn Johansson is an Associate Investment Advisor for the Stan Clark Financial Team at CIBC Wood Gundy. She is responsible for the day-to-day monitoring and maintenance of client accounts and investment portfolios.

To learn more about CIBC Wood Gundy, The Stan Clark Financial Team and the many ways we can help manage your wealth, please contact us by phone or by email as listed below.

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