Pain keeps coming

Markets lose ground despite bailout approval

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Last Updated: 4th October 2008, 3:01am

Traders watch on the floor of the New York Stock Exchange yesterday as the bailout bill vote is counted in the U.S. House of Representatives. It passed -- but markets still declined. (Richard Drew/The Associated Press)

Like it or hate it, a greased-up $700-billion US bailout package passed in Washington yesterday. But nervous investors weren't impressed.

Even after the bill passed with a 263-171 vote in the U.S. House of Representatives, Bay Street continued its brutal losing streak, wiping out an earlier 400-point gain and closing at 10,803.35, down 97.19 points.

With the market suffering two of its biggest point drops ever, that's a horrific 11% (or 1,322.64 points) in five days of frantic trading.

The Dow was also down yesterday, losing 157.47 points to close at 10,325.38.

Financial advisers are now warning September statements will likely show the biggest declines in equities and mutual funds in recent memory. And where we're headed no one knows, as global markets work through the most brutal financial crisis since the Great Depression.

"There is no guarantee that there will be a recovery in the immediate future," Carl Spiess, director of wealth management at Scotia McLeod says in a letter to his clients. But he tries to calm frayed nerves, pointing out markets have always recovered in the past.

His letter uses this quote: "The only person that gets hurt on the roller-coaster ride is the guy who jumps. The people who stay on have some thrilling ups and downs and enjoy a great ride."

But the question is does the investor have the stomach? And how long will a recovery take?

Ten of the worst market crashes in history don't include Black Thursday, Oct. 19, 1987, when the TSX and Dow both plunged by 500 points, with trillions wiped from share values around the world. That's because recovery after the 1987 crash was quick.

Not so for the granddaddy of all crashes, The Great Crash of 1929, with a $1,000 investment reduced to a mere $108 by 1932, for a 86% loss. Investors didn't recoup all their losses until 1954.

Adding to the misery is the fact that to make up for a 20% loss, you'll need a gain of 25%. Check out the Getting Back on Track calculator at investored.ca .

So what is an investor do -- especially seniors, who don't have time on their side?

Spiess says investors near retirement should balance their portfolios with GICs with staggered maturity dates, so they don't have to sell out equities at low prices.

For some, the best solution is all the money in GICs, but he cautions inflation is a risk, as are low interest rates. "This has been the case for Japanese fixed-income investors for the last decade," Spiess said.

SWEET DIVIDENDS

As for trying to time the market and buying up good-grade stocks with sweet dividends at bargain basement prices, Spiess points out that's what billionaire Warren Buffet is doing. Not only did Buffett's Berkshire Hathaway buy $5 billion of Goldman Sachs preferred shares that pay a lush 10% dividend, but he's also buying $3 billion of preferred General Electric stock, also with a 10% dividend.

Buffett's not the only billionaire on a buying streak. Last week Hong Kong's richest person, Li Ka-Shing, bought shares in the Bank of East Asia. As Sir John Templeton would say -- the best time to invest is the point of maximum pessimism.

But are we at maximum pessimism yet? Wall Street hedge fund trader John Paulson, who last year earned the biggest paycheque on the street after correctly betting the subprime bubble would burst, is now gambling that U.K. bank shares will fall further.