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The Latest Risk

by *Alan Cranfield*

On Halloween, the Canadian government put a scare into our country's entire markets with the sudden announcement that the tax benefits of the income trust structure would be eliminated. This news took a bite out of most income trusts and reduced the value of many a portfolio, while sending shock waves through many investment advisors and money managers. The next day, the overall market as measured by the S&P/TSX Composite Trust dropped 294 points - a loss of 2.4 percent of its value in one day.

The drops were even greater for individual income trusts: Acuity Income Trust was down 13.7 percent in one day. The natural resources fund Dynamic Focus + Energy Income Trust was down 12.7 percent, Norrep Income Growth Class dropped 12.4 percent, and Bissett Income Trust Series A fell by 12.3 percent.

But the changes to the income trust law shouldn't be too critical for investors if they've already grown accustomed to the role of risk in their financial lives. For one thing, income trusts have only been a significant part of many people's portfolios for the past five years or so, since the dot-com bust of 2000. More importantly though, these kinds of tremors are predictable - maybe not the specific type of disruption that will happen, but the fact that there will be disruptions to one's portfolio over the course of twenty or thirty years is to be expected.

PREPARING FOR THE WORST

One of my roles is to prepare you for the risks that are ahead, whether they're governmental regulations, currency shocks, bear markets, or interest rate shifts. Any of these can play havoc with your portfolio. But they're all relatively short-term events, and the key for individual investors is to be prepared for changes when constructing long-term goals and plans.

When most financial advisors talk about risk, what they're referring to is the volatility in portfolios - the amount by which stocks move up and down each year. This movement is affected not only by the company itself, but by those external factors that move the market as a whole. Related to this are currency risks, legal changes, and other things that can affect the value of one's holdings.

But for individual investors, particularly ones who are planning for long-term goals like retirement, that's not the kind of risk they're most concerned with. They are worried about making their savings work for them in retirement and providing them with the kind of lifestyle that is their due. The risk is that their investments will not allow them to live as they wish.

Facing up to that risk requires accommodating the short-term shocks, but never at the expense of altering one's long-term plan. In other words, that risk felt by individual investors can only be ameliorated after a lifetime of investing. What happens in the short term is going to be washed away in the big picture by long-term concerns.

Properly constructed portfolios as part of a long-term strategy help prevent overreaction to the interruptions along the way. If your financial matters are structured properly today, they should be structured properly ten years from now or twenty years from now, no matter what

hiccups happen along the way.

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