



Money Management Goal Setting  
Retirement Planning Estate Planning

# PERLER FINANCIAL GROUP

CMG-WORLDSOURCE FINANCIAL SERVICES INC.



Financial Planning Investment Planning

#405 - 2963 Glen Drive, Coquitlam, BC V3B 2P7 Phone: (604) 468-0888 Fax: (604) 468-0887

Vol. 6, Issue 5



Fraser McDowell

VISIT US  
ON THE WEB  
AT

[www.perlerfinancial.com](http://www.perlerfinancial.com)

EMAIL

[fmcowell@perlerfinancial.com](mailto:fmcowell@perlerfinancial.com)

## THE SPREAD OF SANS

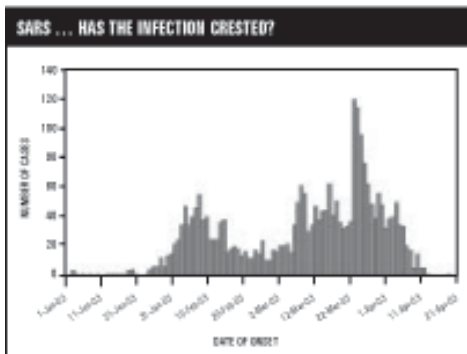
### *Severe Acute Negativity Syndrome*

A few weeks ago, one of the hosts of a financial news program made a positive comment on a bit of company news. Catching himself quickly, he then apologized to a gloomy co-host for putting a positive spin on the news. The strange thing was that it seemed to be a sincere apology – as if he felt some kind of moral responsibility to be perpetually gloomy.

Many war commentators seemed to have had a similar mindset. A few days into the war, we quickly heard all about how “the plan had failed.” Some prominent reporters fretted about a Vietnam-style quagmire. No sooner had the statue of Saddam fallen, earnest hand-wringing began about “losing the peace.” As one pundit said, with the war all but over, the media herd was quickly “on to the next quagmire.”

Now, just in time for peace to break out, we have SARS to worry about. To be sure, the “killer pneumonia” that has infected more than 7,000 worldwide and killed more than 400 is a serious matter. The economic impact on travel and tourism in some areas has been severe, although the global impact has so far been limited.

The good news, though, is that aggressive public health counter-measures in the developed nations seemed to have worked. According to recent data, the pace of new infections appears to have crested (see Chart 1). Some medical experts are now concerned that the media hysteria about the disease could ultimately be more harmful than the disease itself. As Dr. David Baltimore, Nobel laureate in medicine, recently observed: “This disease’s reach is far, far smaller than countless other risks we face routinely.”



## *Why Do I Need Travel Insurance?*

Many Canadians travel outside the province or county every year for business or pleasure. Those who travel without travel insurance put great risk on their health and finances. Today's medical costs, especially if you are traveling outside of Canada, are very high. If you require medical attention, medication, a visit to a physician or a hospital stay due to an unforeseen accident or illness, without travel insurance you can be putting you and your family into a financial bind. Many British Columbians do not realize that their provincial health care coverage (Medical Service Plan or MSP) may not provide full coverage in other parts of Canada and could leave them without any medical insurance if they are traveling in the US or a foreign country. MSP covers you for specific health expenses such as services performed by a general practitioner and specialists (with a physician's referral), diagnostic procedures and laboratory services in your province of residence. But if you do happen to incur medical expenses outside of the province or Canada, keep the bills or receipts and send them along with a detailed description of services performed to MSP and you may be reimbursed for part of the cost.

### Types of Travel Insurance

Travel insurance should cover costs such as prescription drugs, ambulances, hospital expenses, emergency dental care, and other medical bills not covered by the Medical Service Plan (MSP). Other travel insurance options that are also good to consider include:

- **Canadian Travel Medical Insurance** – Single trip and annual multi-trip coverage for trips anywhere in the world
- **Trip Cancellation Insurance** – should you need to cancel or change trip plans for reasons that are out of your control, this type of insurances will protect you from paying for these expenses.
- **Rental Car Physical Damage Protection** – covers cost for damages to rental vehicles from scratches and dents to collision and theft.
- **Baggage, Personal Effects, Currency Coverage** – protects you against financial set-backs should your belongs be lost, stolen, or damaged.
- **Flight Insurance, Common Carrier Insurance, 24 Hour Accident Insurance** – protects against unexpected accidents.

Some gold and platinum credit cards come with some travel insurance coverage which may be included in the credit cards annual fee. Be sure to read the fine print for this type of insurance coverage before deciding not to buy additional travel insurance. There may be requirements such as age restrictions or pre-existing medical conditions, limitations on length of individual trips for coverage, and any steps that need to be taken should you require out-of-country medical assistance.

### Purchasing Travel Insurance

Prior to purchasing travel insurance, find out how much coverage you have for travel in your employee health benefit plan. Then consider how

much traveling you will be doing, where you will be going, and how you will be traveling. This will allow you to choose your options for the type of coverage you would like. A trip to Europe will require different coverage than more frequent trips to the US. If you are traveling with family members, it would be less costly to purchase a group package than individual policies for each member. As a general rule, you should purchase a policy that has at least \$250,000 in coverage.

### Things to Keep in Mind When Traveling in a Foreign Country

Traveling in a foreign country can be an exciting experience, but on the rare occasion can become a disaster. Many of these unexpected problems can be prevented with some common sense prior to the trip. Some tips to consider before you go traveling:

- Always carry a valid Canadian passport, your most important travel document. Renew your passport if it will be expiring in the next few months. Processing of new passports can take up to 6 weeks or longer. It is also wise to carry your birth certificate along with your passport.
- Some countries require visas to cross their borders; you may want to find out if one is required for your next trip to a foreign country. Visas can also take several weeks to process, so do this well in advance.
- If traveling to a country where English is not the main language, it would be wise to learn a few phrases in the local language before you leave for your trip to avoid a lot of miscommunication.
- Accustom yourself with some of the political, cultural, religious, and legal differences of the country you will be traveling to.
- Some countries require proper dress for men and women and some enforce high penalties for behavior such as swearing, chewing gum, spitting, or being drunk in public which is usually just found rude in Canada.
- Churches, temples, mosques and burial sites demand particular respect, while some are off-limits to foreigners or people of different faiths.
- Never agree to carry anything from one nation to another for someone you don't know because it may lead to trouble.
- Visit your family doctor prior to departure to certain destinations such as tropical regions where you may require vaccinations or booster shots for diseases such as malaria, meningitis, hepatitis, polio, measles, tetanus, or yellow fever.

For peace of mind on your next trip, plan ahead. Be sure to get adequate travel insurance coverage for you and your family as well as plan ahead for any unexpected emergencies that may happen. For more information on travel insurance contact your travel agent or financial institution.

## The Next Economic Quagmire?

Perhaps what we have here is a case of SANS – Severe Acute Negativity Syndrome. After several years of unrelenting bad news for the global economy and financial markets, it has now become fashionable for the media to accentuate the negative. Many economic commentators have been only too happy to help. “Risk of recession is 50/50,” proclaimed one major U.S. brokerage firm in early April. “War + SARS = Recession,” warned another. Differences of opinion are what markets are all about. There is always some risk that another recession lurks around the corner. There are still major imbalances in the world economy, with stagnant conditions in Europe and Japan offsetting the expansion in North America. However, investors should resist being influenced by media hype, either when it is excessively negative or excessively positive.

At the risk of sounding like Iraqi Information Minister Mohammed Saeed “All is Well” Al-Sahhaf, there are a number of positive economic trends that are now developing. None of these trends guarantees that we have entered a new bull market, but they do suggest that many bears may need to consider hibernating for a while.

### Ten Positive Trends

First, there is the stock market itself. Since hitting a low on October 9, 2002, the S&P 500 Index gained nearly 18% by April 30. It now looks increasingly likely that October 9 marked the bottom of the bear market.

Second, there was the quick end to the war. As we noted last month, what did not happen was probably as important as what did happen. None of the disaster scenarios such as a jump in the price of oil to \$80 US a barrel, or widespread instability in other nations occurred. Markets have breathed a sigh of relief and rightfully so. Risk aversion is abating.

Third, oil prices have come down. The oil shock that preceded the war is reversing, with futures markets now anticipating oil prices settling down to around \$25 a barrel over the course of the year. As shown in Chart 2, that suggests that oil prices will be posting substantial year-on-year declines in coming quarters. That means that inflation rates should fall around the world and that consumers’ real incomes and purchasing power will be boosted substantially. Call it the Donald Rumsfeld tax cut.

Fourth, thanks to the above factors, consumer confidence has rebounded strongly in the U.S. According to the Conference Board, its consumer confidence index for April rose to 81 from 61 in March, as shown in Chart 3. Consumer expectations for the next six months rose even higher, to 85 in April from 61 in March. This suggests that consumers should begin to provide support for the economy again, which should be a plus for stocks.

Fifth, U.S. corporate profits are doing well. S&P 500 operating earnings per share were up in the first quarter nearly 12% from a year ago, and are up nearly 20% from their 2001 low. The government’s

gauge of non-financial firms’ profits has risen by a similar amount over the past year and is up nearly 26% from the 2001 low. This improvement in corporate cash flow, along with very restrained corporate borrowing, has permitted many corporations to strengthen their balance sheets considerably over the past two years.

Sixth, corporate access to the capital markets has picked up considerably. This is true across the board, and includes both blue chip investment-grade companies and more speculative high-yield borrowers. Reflecting remarkable strength in the corporate bond market this year, corporate bond yields have fallen to their lowest level in 35 years. High-yield bonds have seen their yields fall from 14% a few months ago to 9.6% currently. In addition, banks are finding their net interest margins are under pressure. That creates a strong incentive for them to increase their high-margin lending to corporate customers, instead of parking their funds in government bonds.

Seventh, capital spending is rising, especially in areas like technology spending where old equipment is rapidly becoming obsolete. One clear sign of the increase is in durable goods orders for technology equipment, which bottomed out in late 2001. Because of an overhang of inventory, orders fell behind the pace of shipments from late 2000 until late 2002. As Chart 4 shows, however, technology equipment orders were outpacing shipments in the first three months of 2003 – for the first time in over two years. Against that background, a rebound in technology shipments is a reasonable expectation for the second half of the year.

Eighth, pro-growth monetary policies should be in place in most of the world for the balance of 2003. The U.S. Federal Reserve is in absolutely no hurry to raise interest rates and might even cut rates again in coming months if weakness in the labour market persists. Accordingly, short-term interest rates are likely to remain at

historically low levels for some time to come. Moreover, if inflation falls in coming quarters as we expect, there is a good chance that stocks can continue to rise in coming quarters without having a sharp rise in bond yields choke off the economy and the stock market rally. Prospects for lower interest rates from the European Central Bank in coming months and more quantitative easing from the Bank of Japan should also be supportive factors for global equity markets.

Ninth, the weakening trend in the U.S. dollar has occurred without igniting inflation expectations or causing a sharp rise in bond yields. If anything, the dollar’s slide is likely to boost the earnings of U.S. multinationals while

it also creates pressures for lower interest rates in other regions, especially in Europe. Even the Bank of Canada eventually may have to relent on its current move to tighter monetary policy given the sharp rise in the Canadian dollar.

Tenth, market-friendly tax policies will be pursued aggressively by the Bush administration. President Bush is determined not to repeat the

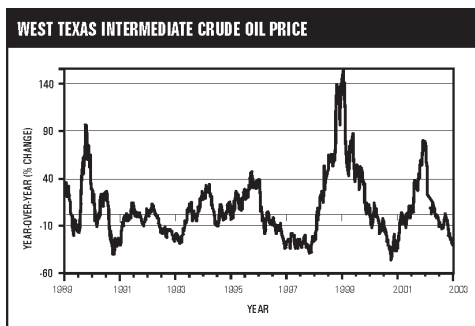


Chart 2: Declining oil prices should bring inflation down and substantially boost consumers’ spending power.

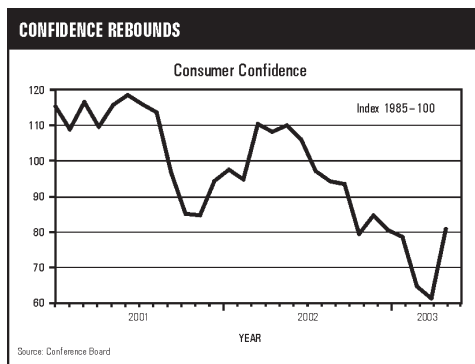


Chart 3: U.S. consumer confidence posted a major jump in April in response to a quick victory in Iraq, declining oil prices and a bounce in stock prices.

Cont'd from Page Three



Chart 4: For the first time in over two years, technology orders have begun to outpace shipments. This suggests that business spending is finally beginning to recover.

proposals, as is likely, tax cuts will likely be designed to have maximum impact in the period ahead of next year's presidential election.

### Valuations Favour Stocks

These positive economic trends are occurring against a valuation backdrop that clearly favours stocks over bonds. Currently, stocks in the S&P 500 Index trade at about 17 times their expected earnings over the next year. That's not far from stocks' average price-earnings multiple of 15 over the past three decades. And it's far cheaper than the index's P/E multiple of over 30 in early 2000, when investors felt exuberant about future prospects. In contrast, the "P/E multiple" of bonds – the inverse of the 10-year government bond yield – is currently around 25 times. In other words, it takes a \$25 investment to get one dollar of annual income from a 10-year government bond. That compares to a historical average of about 12 times.

As for completely "safe" investments like three-month U.S. Treasury bills, the P/E multiple is around 90 times! In other words, it takes nearly \$90 to get one dollar of annual income from investing in U.S. T-bills. That compares to a historical average of about 15 times, which means that investors continue to pay an incredibly high price for safety.

Are stocks downright cheap? No. However, when compared with other financial assets like bonds and cash, stocks have now become the cheapest asset class by a wide margin. And if "irrational exuberance" was the psychological marker of the late 1999 and early 2000, it could be that many investors have now succumbed to "irrational despondence."

### Media Virus?

As Dr. Baltimore observed with respect to SARS: "The Internet, e-mail, and satellite-enabled saturation media coverage have put public fear on steroids – and lent a dark twist to the old dot-com hype about the promise of 'viral marketing.'"

Based on the recent tone of the business media, the description of "public fear on steroids" could well apply to the financial markets themselves over the last year or so. Consider what's been thrown at the public since 9/11: terrorist warnings, Afghanistan, Enron, WorldCom, snipers, surging oil prices, India-Pakistan, Iraq, North Korea and now SARS.

Maybe, just maybe, it's time for a string of good luck.

William Sterling, Global Strategist  
CI Global Advisors LLP

mistake of his father who won a war, but lost the next election due to a weak economy. He has made it clear that he will spend his political capital pushing for lower taxes, including substantial relief on the taxation of dividend income.

Even if Congress ends up scaling back some of the administration's

# Thank You!

Thank you to all our clients and guest who attended our 2003 Spring Seminar at Westwood Plateau on Thursday April 24th.

Don Drysdale of Feller Drysdale provided us with a fresh and informative approach to Wills & Estate planning.

Please keep a look out for information on our upcoming events and seminars.

If you have any suggestions for future seminars please email us at [info@perlerfinancial.com](mailto:info@perlerfinancial.com), visit our suggestion box at [www.perlerfinancial.com](http://www.perlerfinancial.com), or call us at 604-468-0888.

## Mortgage Rate Update

(as of May 20, 2003)



Lender/Broker fee may apply to non-traditional applications

Mortgage rates quoted for first mortgage as of  
June 4, 2003

Term	Posted Bank Rates	Our Best Rates
6 MONTHS	5.95%	4.95%
1 YEAR	5.05%	3.95%
2 YEARS	5.35%	4.20%
3 YEARS	5.6%	4.20%
4 YEARS	5.90%	4.55%
5 YEARS	6.00%	4.79%
7 YEARS	7.00%	5.25%
10 YEARS	7.50%	5.65%

Mortgage rates provided by  
Karen Hall, Invis Financial Group