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Assante

WEEKLY COMMENTARY

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Assante All-Fund Index

Period ending: 01-02-03	1-Wk. Rank	Wkly %	YTD %	52-wk %
All-Fund Index	n/a	+1.8	+1.8	-12.5
European Equity	1/16	+3.3	+3.3	-23.9
International Equity	2/16	+3.0	+3.0	-20.4
Asian & Pacific Rim	15/16	-0.1	-0.1	-18.0
Canadian Bonds	16/16	-0.3	-0.3	+5.9

Key Indices

Period ending: 01-03-03	Wkly %	YTD %	52-wk %
TSX Index	+2.7	+2.4	-13.5
S&P 500 $US Index	+3.8	+3.3	-22.5
MSCI EAFE $US Index	+3.8	+1.9	-17.2
Scotia Cdn. Bond Index	-0.6	-0.7	+8.2
Cdn. Dollar	+0.1	+0.5	+1.9

HEADLINES

- U.S. President George W. Bush is expected to outline an economic growth package costing an estimated U.S.$600 billion over the next 10 years. Specifically, the proposed legislation would include the elimination of taxes individuals pay on stock dividends, accelerated income-tax-rate cuts that were approved two years ago, as well as giving U.S.$400 rebate checks to middle-class parents.
- All was quiet on the Canadian economic front as investors focused on the impact of colder weather and the subsequent volatility in natural gas prices. Industry experts predict the commodity to have an up and down ride throughout 2003.
- The recent strengthening of the euro versus the U.S. greenback negatively impacted European exporters, putting pressure on the European Central Bank to further reduce interest rates.

OPINION

A recent study put out by U.S.-based ***Financial Research Corporation*** showed that rising redemption rates, and conversely shrinking holding periods, leads to poorer performance. The study followed mutual fund investors in the U.S. from 1990 through 2000 and found that the three-year average return for U.S. equity funds was 10.9%, whereas investors took home a mere 8.7% on average over the same period. The difference in part would be attributed to the fact that the average holding period for U.S. mutual funds was most recently 2.9 years versus 5.5 years in 1996. What this means is that the average fund holder stateside is turning over 100% of their funds in just under three years. Of note, the type of investor with the shortest holding period are self-directed, while those who use professional advice tend to hold onto their funds longer. By implication, the longer holding period would have parlayed into superior performance over the prior decade. Another pitfall impacting fund investors south of the border was the chasing of hot funds or sectors. In particular, net fund in-flows are higher when these funds have had exceptional returns in previous quarter. On the flip side, investors are quick to unload funds after a short period of underperformance. In the world of investing, empirical evidence suggests that patience is a virtue with rewards coming to those who consequently buy low and sell high.

FOCUS

Market watchers have now observed several years of mixed corporate growth, and international equities have largely reflected an uncertain and volatile future. While traditional thinking has inexorably linked growth in sales and earnings to rising shareholder value, there may be some room to debate this old "rule of thumb." In a recent article in the ***Financial Analysts Journal***, Cyrus Ramezani, Luc Soenen and Alan Jung question the long-accepted axiom that stronger corporate growth equates to increased shareholder value.

While the authors concede that the studies questioning the virtue of "growth for the sake of growth" are not entirely new, the post-Enron world has brought new meaning to this avenue of research. "Enron's rise and fall is a primer on the dangers of out-of-control growth." The analysts studied some 2,156 companies between 1990 and 2000, tracking both their sales and earnings growth. Using multivariate analysis, the researchers sought to identify the relationship between a company's earnings or sales growth rate and its profitability. Secondly, they attempted to divine if maximizing corporate profitability necessarily enhanced shareholder value. The results of their analysis run counter to traditional thinking. "The investment industry demands that managers maximize sales and earnings growth over time. This prescription is based on the presumption that growth is synonymous with shareholder value creation. Our empirical results indicate that maximizing growth does not maximize corporate profitability or shareholder value. On the contrary, companies with moderate growth in sales or earnings show the highest rate of return and value creation for their owners."

For investors, it appears that traditional straight-line linkage between corporate growth and shareholder value is less than absolute. Clearly, the evidence suggests that companies that pursue growth at all costs may be doing more harm than good to their owners. "Corporate managers need to abandon the habit of blindly increasing company size and investors need to carefully consider the drawbacks of diseconomies of scale. That is, growth should not be the input to strategic planning but the outcome of a sound investment strategy that is geared to accepting value-creating projects."