



Tell Us How We're Doing

Like what you see? Think it can be better? Let us know. Simply [email us](#) today with your thoughts and suggestions on how we can improve your newsletter.



Inflection points: Catching market opportunities on the upswing

History shows that staying invested in volatile markets is often the best course of action.

In mathematics, an inflection point is the point on a curve where it changes direction, up or down. No one knows for certain whether today's markets are at an inflection point, ready to turn up. What we do know from experience is that markets traditionally rebound. Staying invested can help capture the gains, especially if rebalancing your portfolio lets you take advantage of buying opportunities during the lows.

Having some investments in the equity markets is the best way to build wealth over time for those with the requisite risk tolerance. The trick is to have the nerve

to stick to your long-term asset allocation targets, despite the inevitable changes in the equity markets along the way. A customized investment plan, a well-diversified portfolio, and a long-term focus are keys to success.

The lessons of history

How have the markets responded to bear markets in the past? According to data from Ibbotson Associates, a leading market data research firm, markets have posted sizeable gains in the 12 months following a downturn. Ibbotson data covering the 13 bear markets between

1948 and 2002 show that the S&P 500 index gained an average of almost 36% within a year of a bear market's ending.

Of course, timing precise changes in the market's direction is never a good idea and often unachievable. That's because no one ever knows for certain when the markets will turn around. But history shows that markets always eventually pull back from extreme sentiment, so it pays to be prepared and engaged.

A resilient market

The Canadian stock market tells a similar story. From 1997 to 2007, investors in

In this issue

Inflection points: Catching market opportunities on the upswing....	page 1
Embracing the unconventional	page 3
Trading on the Shenzhen Stock Exchange	page 4
Client Corner.....	page 6

Canadian stocks had to contend with considerable challenges.

As 1998 unfolded, the global economy was in the grips of the Asian currency crisis. From 2000 to 2002, the technology bubble was deflating, corporate scandals were in the news, and the terrorist attacks of September 2001 were fresh in the minds of investors.

And yet in the 10 years ending December 31, 2007, the S&P/TSX Composite Index delivered an annual compound return of almost 9.5%. If you had bailed out of the markets at the point of maximum negative sentiment early in 2003, you would have missed out on large gains.

Things change, and stay the same

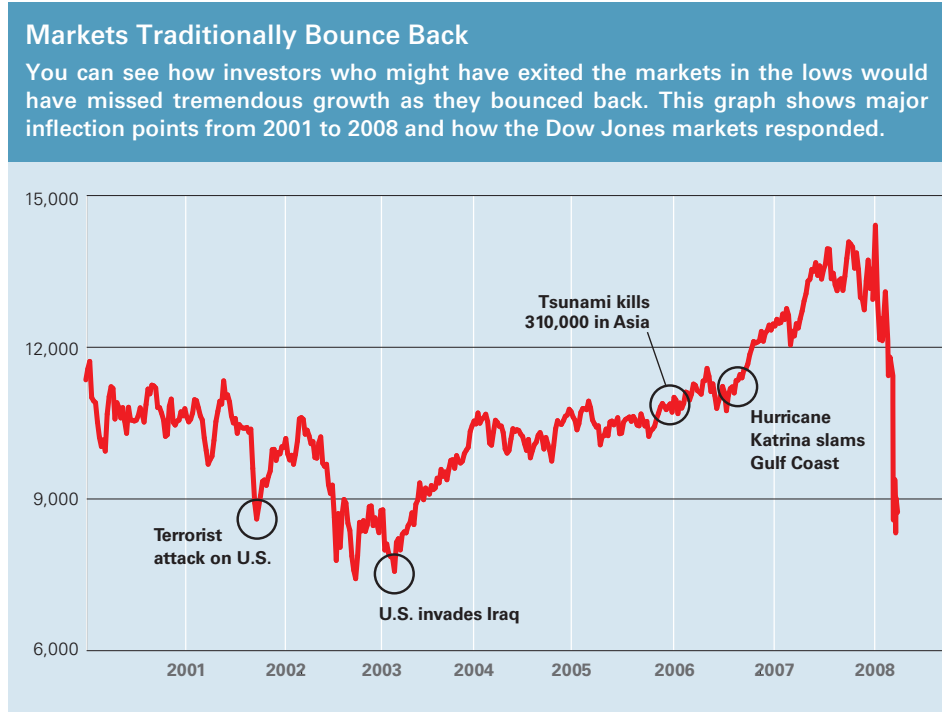
Most of today's market shaping events can be traced back to the housing and subprime meltdown in the U.S. But the temptation on the part of investors to exit the markets and wait for a better time to invest is the same today as it was five years ago.

When the current market snaps back, it will likely happen quickly, leaving investors who chose to stay on the sidelines missing out on the gains. Volatility is a fact of the investment world, but so is growth potential. And over time, the direction of the markets is up, so it makes sense for investors not averse to risk to take advantage of this.

Action plan

Take the time to prepare for the next leg up in the markets. This will involve ensuring your portfolio is properly diversified and that your asset allocation continues to reflect your goals and appetite for risk. Successful investors will be those who stay focused on their long-term goals.

"Volatility is a fact of the investment world, but so is growth potential."



© Dow Jones & Company. All rights reserved.



“In a quantitative role, the BoC would become an outright supplier of new capital by printing money.”



Embracing the unconventional

Bank of Canada looking at credit and quantitative easing?

The Bank of Canada (BoC) cut rates by 50 basis points (bps) on 3 March 2009 and by 25 bps on 21 April 2009, reducing its target rate for overnight funds to a historically low 0.25%. The rate cuts had been widely expected. What was unexpected, according to a recent report published by HSBC Global Research, was the introduction of the topic of credit and quantitative easing in the 3 March 2009 post-meeting statement.

In this communiqué, the BoC implicitly acknowledged that monetary policy, anchored around a rate targeting system, is essentially running out of room and potentially becoming obsolete as rates approach zero. In keeping with this view, the BoC announced that it was looking at

“refining” its approach to the execution of monetary policy as rates approached zero. Indeed, quantitative easing – the adoption of a monetary regime based on targeting the supply of money rather than the cost of money – is the logical extension of a near-zero cost-of-funds rate structure.

Fire up the presses?

As the U.S. Federal Reserve has already traveled this route and detailed some of the bumps along the way, the market has a decent sense of how a program

of credit and quantitative easing may unfold and what the BoC framework could reasonably be expected to look like.

In its most basic form, the price of money breaks down into the formula $P = MV$. When the velocity of money (V) craters, to avoid having the price of money (P) turning negative requires the central bank to pump up the money supply (M) as an offset to declining velocity.

Operationally, for the BoC, quantitative easing could merely entail an expansion of its current market operations (term purchases and resale agreements) aimed at taking in assets and providing 30- and 90-day funding on the other side. From a philosophical standpoint, introducing the quantitative element would entail the BoC moving away from operating as a redistributive mechanism in the marketplace – defined as taking funds from those with excess cash by selling bills and using the proceeds to





“The Shenzhen Stock Exchange (SZSE) was created in 1990 and is the principal market for Chinese companies looking to trade their stocks domestically.”

fund those bidding for cash through the BoC’s term purchase and resale agreements. In a quantitative role, the BoC would become an outright supplier of new capital by printing money.

However, with the 21 April 2009 decision to lower the overnight rate to 0.25% and its pledge to keep it there through to the end of Q2 2010, the BoC, while still holding out the possibility of its use, has signaled that it may no longer be an inevitability.

For now, the BoC is content. “It is the Bank’s judgment that this cumulative easing, together with the conditional

commitment (to keep overnight at 25bps until mid 2010), is the appropriate policy stance to move the economy back to full production capacity and to achieve the 2 per cent inflation target.”

The year ahead

The 21 April 2009 statement also contained the BoC’s revised growth forecast for the near future. Changes to the BoC base case from January include a significant downward revision to 2009 GDP -3.0% (from -1.2%), a revision to the optimistic 2010 forecast which moves from 3.8% down to a still respectable 2.5% (about the rate at which the economy can grow at capacity). 2011 is expected to see significant economic recovery with GDP forecast at 4.7%. HSBC is forecasting GDP to contract by -2.2%/y/y followed by +1.9%/y/y in 2010.



Trading on the Shenzhen Stock Exchange

HSBC InvestDirect understands that the modern investor demands access to the world’s markets. We provide you with the ability to invest beyond the borders of North America in order to take advantage of global opportunities. In this issue, we examine the Shenzhen Stock Exchange (SZSE).

History: The Shenzhen Stock Exchange (SZSE) was created in 1990 and is the principal market for Chinese companies looking to trade their stocks domestically. According to its website, a broad spectrum of market participants – including 540 listed companies, 35 million registered investors and 177 exchange members – create the market.

Operations today: The SZSE has a market capitalization of around RMB 1 trillion (US\$ 122 billion). Approximately 600,000 deals, valued US\$ 807 million are traded daily on the SZSE.



“The SZSE has a market capitalization of around RMB 1 trillion (US\$122 billion). Approximately 600,000 deals, valued US\$ 807 million are traded daily on the SZSE.”

Index: The SZSE Composite Index and the SZSE Component Index are the SZSE’s two key indices. The Composite Index was introduced on 4 April 1991 and had a Base Value of 100. The Component Index was introduced on 23 January 1995 and had a Base Value of 1000.

Market hours: The exchange has pre-market sessions from 09:15am to 09:25am (local Shenzhen time) and normal trading sessions from 09:30am to 11:30am in the morning and from 1:00pm to 3:00pm in the afternoon on all days of the week except Saturdays, Sundays and holidays declared by the Exchange in advance.

Trading on the Shenzhen Stock Exchange through HSBC InvestDirect: HSBC InvestDirect only trades B shares on the SZSE, and only day orders placed at market price or at a limit price are accepted. If a trade is not executed and filled the same day that it is requested, it will expire and you will be required to submit a new trade

for the next trading session. Orders received when the market is closed are cancelled and will not be placed in the next trading session when the market is open. Settlement for B share is T+3 (local Shenzhen time). B shares on the SZSE settle in Hong Kong dollars (HKD).

To initiate a transaction on the exchange, contact an HSBC InvestDirect investment representative at 1 (866) 865-4722.

Special terms: No special terms (such as all or none, on stop, or on stop limit restrictions) are allowed.

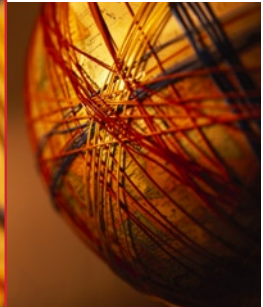
Accounts: Trading on the SZSE is permitted in cash, and margin accounts. Please note: foreign securities will not be granted margin loan value.

Quotes & trade execution: You can contact an investment representative to obtain the latest quote, make a trade or inquire on the order status of a particular SZSE-traded security. Our investment centres are opened continuously from 10:00am Sunday

until 8:00pm Friday, and Saturdays between the hours of 10:00am and 6:00pm (all times Eastern Standard Time).

Multi-currency settlement: Our multi-currency settlement feature allows you to trade, settle, and maintain an account in HKD – the settlement currency of the SZSE. Not having to convert to CAN to HKD – and back again – whenever executing a trade allows you minimize your exposure to fluctuations in the value of either currency and avoid paying commission on the currency exchange. Even commission on the trading of securities is charged in HKD, further reducing your exposure to foreign exchange risk.





International Quotes Online

HSBC InvestDirect was the first to offer online international quotes for the following international stock exchanges:

- ▶ Hong Kong
- ▶ London
- ▶ Frankfurt
- ▶ Euronext Paris

Canadian tax implications: Income from Chinese investments received by a Canadian resident investor is generally treated as foreign income and may be subject to tax withholding at source. As a result, dividend income from Chinese companies is subject to tax in Canada at your marginal tax rate. However, only 50% of any capital gains from the investments that are held as capital properties will be subject to tax. All foreign investors (including residents of Hong Kong) investing in Chinese companies may be subject to a non-resident tax when receiving dividend income from these companies. Please be sure to consult with a professional tax advisor before acting upon any of the information presented in this article.

The above tax considerations are general in nature and not intended to be tax advice. Income tax consequences may vary depending on a number of factors. Please consult a professional tax advisor to discuss your personal tax situation before acting upon any of the information presented in this article.



Client Corner

Question: What is a GIC and how does it work?

Answer: A Guaranteed Investment Certificate (GIC) is a type of fixed-income investment issued by a financial institution (such as a bank or credit union) that returns the amount invested (the principal) plus interest on its maturity date.

GICs can often be purchased for as little as \$500 and mature in as little as 30 days, three months, six months or a year. Some GICs take as long as ten

years to mature. Generally speaking, the longer the time to maturity, the greater the interest a GIC pays.

Unlike a corporate or government bond that can be sold to other investors before its maturity date, there is no secondary market for GICs. In other words, when you invest in a GIC, you're agreeing to lend your money for a set period of time. With some GICs, if you need to get your money back before they mature, you won't earn any interest and may have to pay a fee or penalty.

Investing in a GIC with HSBC InvestDirect

HSBC InvestDirect provides you with access to HSBC and third-party GICs. Clicking the "GIC" tab located in the "Market Performers and News" section of the HSBC InvestDirect [homepage](#) will take you to a listing of the top two listed GICs with the highest interest rates available for the terms of 1 through 5 years. To view a more comprehensive list of GICs, click on "GICs" within the trading section located on the left hand navigation. Should you wish to place an order, please contact an Investment Representative and they will execute the transaction for you.



FAQs

Have a quick question or want more detail on HSBC InvestDirect accounts, services and tools? Consult our list of [Frequently Asked Questions](#).

Depending on the maturity date of the GIC, you may get paid interest monthly, every three months, once or twice a year, or only upon maturity. Always be sure to be mindful of interest rates when purchasing a GIC. Interest rates on GICs can vary from issue to issue and vary on where you buy and the options you choose. You should also be reminded that Canada Deposit Insurance Corporation (CDIC) coverage may apply to each issuer up

to prescribed limits. To assist investors in this regard, HSBC InvestDirect always features a broad inventory of GICs issued by such financial institutions as:

- ▶ HSBC Bank Canada
- ▶ HSBC Mortgage
- ▶ HSBC Trust
- ▶ BMO Advantage Trust
- ▶ Home Trust

Tell Us How We're Doing

Like what you see? Think it can be better? Let us know. Simply email us today at globalconnections@hsbc.ca with your thoughts and suggestions on how we can improve your newsletter.

Global Connections is issued by HSBC InvestDirect, a division of HSBC Securities (Canada) Inc. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC InvestDirect does not provide investment advice or recommendations regarding the purchase or sale of any investment. Investors are responsible for their own investment decisions and should carefully evaluate their investment objectives and risk tolerance before making any investment decision. The content is not intended to provide specific tax advice and should not be relied upon in this regard. Please consult your tax advisor to find out which strategies suit your tax situation. HSBC InvestDirect makes no guarantee, representation or warranty and accepts no responsibility or liability as to the tax treatment of these services. This document has been based on information obtained from sources believed to be reliable but which are not independently verified. Expressions of opinion are those of the investment professional only, and are subject to change without notice. HSBC Securities (Canada) Inc. is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada. Member CIPF. ©Copyright 2009. All rights reserved.

www.investdirect.hsbc.ca
 ph: 1-866-865-4722
 fax: 1-866-336-8471
 email: contact@hsbc.ca