

# Business Outlook

## This is market fluctuating!

**VINCENT EGAN**



On Business

When they asked J.P. Morgan for his opinion about the stock market, the late financier used to say, "It will fluctuate."

Boy, is this market fluctuating! The Dow-Jones Industrial Average on some days this year — such as Feb. 23 — has been swinging like a flag-pole-sitter in gale-force winds.

In that Monday session, the DJIA — comprising 30 major stocks listed on the New York Stock Exchange — dropped 30 points by mid-morning, recovered nearly all of its losses by mid-afternoon, then turned again and fell more than 18 points by the close.

Earlier, on the way to a record-breaking rise of 348 points or 18.4 per cent just since the beginning of 1987, the DJIA had scored its largest one-day gain ever (52 points), the next day its biggest intra-day drop in history (115 points in under 90 minutes), and volume records of about 300 million shares in a day and one billion in a week.

Canadian activity hasn't been far behind. The composite index of 300

stocks listed on the Toronto Stock Exchange moved ahead 495 points or 16.2 per cent from the start of the year, then on Feb. 23 plunged nearly 54 points or 3.36 per cent — largest loss of any single day since June 29, 1982.

Behind the most recent sell-offs was the anticipated announcement by Brazil that it was suspending interest payments on its debt to foreign banks, amounting to the equivalent of \$93 billion Canadian (including between \$6.5 billion and \$7.1 billion owed to Canadian banks).

Brazil had long ago defaulted on repayment of principal on its foreign bank borrowings. Other Third World countries are believed to be equally unable or unwilling to meet their debt obligations to North American banks.

Other and more esoteric reasons are cited by various market commentators: The 46-year (or is it 52-year?) Kondratieff cycle is now past the point in time at which, according to the late Russian economist, an international recession should have begun. And in the 12-year Chinese cycle, this is the Year of the Rabbit — not an outstanding time for stock prices in past years.

"We believe this long rise in stock prices will last at least another year

or two yet, thanks in part to recent declines in interest rates and continued economic growth," comments Investment Reporter, a Toronto-based newsletter.

"There will of course be temporary setbacks along the way as investors lock in profits, but such setbacks are unlikely to be of such depth or duration that they justify the risks of selling short."

Short-selling is a stock-market tactic employed by speculators who expect prices to fall. They sell shares that they don't actually own, in the hope of making a profit by buying them at a lower price and pocketing the difference.

The practice acquired a bad name before and during the Great Crash of 1929. On strictly logical grounds, however, it is as reasonable to sell short when prices are falling as it is to buy when prices are rising.

Recently the U.S.-based Fidelity Select Portfolios announced that its most active clients would be offered the opportunity of short-selling Fidelity's mutual funds — a move never taken previously by any mutual-fund organization.

For most individual investors, the pitfalls of short-selling are considerable, however. Your broker has to borrow the shares from the account of another client, and if any dividend is distributed the short-seller is responsible for seeing that the actual owner receives it.

And, of course, a short-seller loses money to the extent that the stock goes up — which means that there is no theoretical limit to the extent of the loss.

In contrast, when you buy stock, your loss can never be greater than the entire amount you paid — and rarely does a stock's value disappear altogether.

## Small business financing

Strengthening the relationship between a small business owner and his or her banker is one of the best ways to avoid financial trouble.

Most bankers would rather say "Yes" than "No" to an application for a loan. That's just good business. But the banker needs all the information that can possibly be provided about the business, its financial position, future plans — and yourself.

Most small business experts agree that lack of financing is not a major cause of failures, but inadequate financial information can be. Money problems are usually the symptoms of a failing business, rather than the cause.

When applying for a loan, be it for operating purposes or for capital expenditures such as renovating, refurbishing, expansion or new equipment, the proposal should state clearly how much money is needed, when it will be repaid, the source of repayment, what security is available, and the value of that security. A first-time borrower should also include a personal resume to substantiate his ability to run the business.

The application should be backed up by as much relevant material as is available — such as a business plan,

financial statements, important purchase or sales orders, contracts, and probably most important of all, a cash flow projection indicating that your business will generate sufficient funds to service your loans.

This seems like a lot of paperwork, but if the information is lacking, the loan decision will at best be delayed, and perhaps turned down.

Once the loan has been approved, the on-going relationship with your banker is equally important. Accurate and prompt assessment of interim results by both yourself and your banker goes a long way toward ensuring a successful business operation. Lack of current financial information and planning seems to be one of the few common denominators in business failures. Businesses cannot make prudent decisions on the basis of stale or incomplete financial information.

(This column is provided as a public service by the Canadian Bankers' Association, Box 348, 2 First Canadian Place, Toronto, Ontario, M5X 1E1)

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## ASK YOUR PHARMACIST Suffer from headaches? don't take ASA lightly

Most of us suffer from headaches, fever and sore muscles at one time or another. For relief, our usual reaction is to reach for a couple of ASA tablets in the medicine chest. However automatic this practice becomes, it still pays to stop and think about the potential risks of ASA use, especially for small children.

According to the Journal of the American Pharmaceutical Association, salicylates (the base for Canada's most used headache tablets) are involved in more accidental poisonings in children under five than any other single drug or household product.

In 1983, Canadian Poison Control Centres reported 8,657 cases of ASA poisoning. Almost half involved children four years of age and younger. Thankfully, there wasn't a single death caused by ASA poisoning and the number of cases has dropped since the introduction of child-proof closures.

However, as few as 10 tablets can cause very serious harm to a child weighing 22 kg (about 45 pounds) or less. Overdose and accidental poisoning sometimes result from giving youngsters adult ASA tablets rather than the children's type.

Safety is the most important reason for giving children's ASA to youngsters, not just because it tastes good and is easily swallowed. The dosage is adjusted for children, whereas adult tablets can cause serious illness in small bodies.

If you suspect ASA poisoning, call your local Poison Information Centre or family doctor. For immediate emergency treatment of an overdose, whether in a child or adult, use Syrup of Ipecac. Inexpensive, and available in most drug stores, it is an invaluable emergency remedy for not only ASA poisoning, but for some other drugs as well. In the case of ASA poisoning, a child should be given one tablespoonful as soon as possible; for an adult, the dosage is two tablespoons.

—Courtesy of Shoppers Drug Mart

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