

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2009 NEWSLETTER

Carl Eppstadt, CLU, CHFC, CFP, CHFS

Carl's Comments

Certainly much has happened since our last newsletter. The market has rallied. Ponzi schemes continue to pop up and the fraudsters continue to be put in jail. Investors are adjusting to the new market realities. And, at the end of the day, there are still two camps with extremely compelling arguments as to which direction the market is likely to go.

As most of you know, I have been in the business for over 30 years. Nothing disappoints professionals more than when fraudsters surface and harm our reputations. How do investors guard themselves from becoming the next victim? In the case of Earl Jones, my understanding is that he was not licensed to sell or give any advice on any financial products. Investors have tools at their fingertips like never before. The main body to consult would be Advocis. Advocis is the financial advisors association which provides platforms of knowledge, advocacy and protection which enhances the professionalism of financial advisors in the best interests of the consumer. To see Advocis media coverage you can log on to www.advocis.ca/content/media-news.html.

So, the first question that should have been asked is "Are you a member of Advocis?" Other questions that should have been addressed would have been what licenses and credentials do you hold? These questions would have been the beginning of the due diligence process in selecting an advisor. The advisor's response would have produced some very important information: No Advocis, no licensing and no credentials of any kind would simply lead to "No money for you Mr. Fraudster."

Due diligence can be taken even further. There are numerous articles on how to select a financial advisor. The company we keep is very important. We're only as good as our weakest link.

Future Financial is a trade mark of Carl Eppstadt. Carl Eppstadt is a representative of Worldsource Financial Management Inc. Worldsource Financial Management Inc. is owned by Guardian Capital Group Ltd., which is a publicly traded company on the TSX.

Worldsource's roll is to support the entrepreneurial approach that its independent advisors bring to their professional practices. They position themselves as strategic partners providing compliance support by making sure that their advisors are the most knowledgeable and compliant in the industry. As clients are well aware, compliance has completely taken over our industry. Business cards, letterhead, envelopes, websites, newsletters, etc. must meet strict compliance guidelines. It is a function of Worldsource to ensure that their 600 advisors from coast to coast meet these guidelines. Worldsource also provides an innovative technology platform known as Worldport, making them market leaders in administrative tools and support. This state-of-the art platform allows our clients to view their holdings on a daily basis and be very comfortable with the integrity of the data. Clients can receive a history of their accounts and, in addition, Worldsource sends complete transactional histories on a semi-annual basis. As well, individual fund companies send quarterly statements and clients receive confirmations directly from these companies for purchases and redemptions. Once again, long story short,

you are only as good as the company you keep.

Simple questions can go a long way in the due diligence process and it is apparent that a number of investors who got caught in Ponzi schemes did little to no due diligence at all.

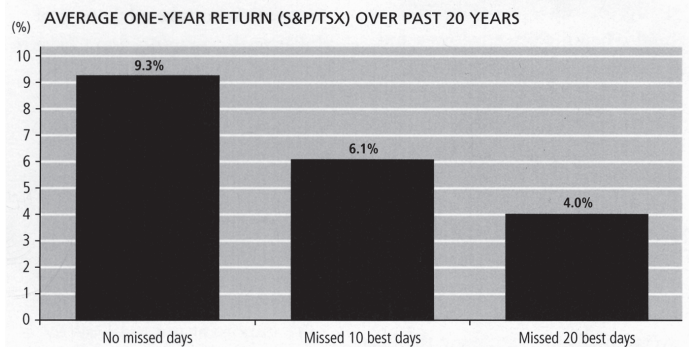
On another topic, the camps appear to be divided as to whether this is a bear market rally or the beginning of a bull market. One thing is for sure. If you have been out of the market you have missed close to a 50% increase since the bottom was reached. And, if you have been waiting for good news to appear before deciding to invest, chances are that you missed some of the best days the market had to offer.

I am not really sure what is likely to happen. A pullback from current levels is likely but do you look week to week or do you have a much longer horizon. If you have a week to week approach to invest or, worse yet, a day to day approach you really shouldn't be in equities at all. We have always advocated more of a Rip Van Winkle approach as evidenced by the recent market recovery. Sometimes the trade you don't make is often your best trade.

Several camps are looking at recent surprise, positive corporate earnings and commenting that they are the highest percentage surprises that they can remember in a quarter. Earnings generally lead to higher share prices. The positive camp is also looking at the stimulus money. They feel that only about 20% of this money has been spent and that there is a 9–12 month trickle-down effect. They are optimistic for the next 12-18 months. The negative camp feels that there is a shoe to drop in the American commercial real estate market. A number of these properties have mortgages coming due and they feel that the value may not be there. This is referred to as the final stage of deleveraging.

My advice has always been to invest moderately. We're quite proud of the fact that our book fell only 20% while the world markets fell 50%. This makes it much easier to stay in the game. Staying in the game increases the

probability of good, long-term, positive results. (See Figure 1)



Source: Global Financial Data, October 27, 2008. For illustration purposes only. Average one-year return calculated by annualizing the average daily return, assuming 280 trading days in a year. May not exactly match actual annualized returns due to calculation methodology.

E TFs (Exchange Traded Funds) vs. Mutual Funds

Last fall's blowup undermined the credibility of the active approach to investing. It left investors saying that even the brightest minds couldn't guard against the downturn. Would it not be better to just put your money in the index and take your chances?

There has been much research done on this topic as ETFs have gained popularity. They are available in many shapes and sizes. I believe that they have grown in popularity due to their perceived low fees, not their performance.

DO ETFs PERFORM BETTER THAN MUTUAL FUNDS? A fair "apples to apples" comparison would be to pit an ETF against an F Class mutual fund. For example: The performance of Ishares Canadian Composition ETF, which is by far the largest and broadest Canadian equity ETF and the only ETF in the category that can be appropriately compared to traditional mutual funds, on a 12 month rolling basis outperformed a little over one-half of the F Class series funds in the same asset class category. That is pretty good but it is not an argument for abandoning active management. Moreover, in the same period the ETF considerably underperformed beating only 15% of the F Class series Canadian equity funds. With many of the new and more elaborate ETFs a comparison is not easy because the

more complex the ETF the more likely it is to employ leverage and then tends to be more volatile.

ARE ETFs CHEAPER? The answer is yes but only if the investor doesn't trade. The most widely acknowledged downside of an ETF is when they have lower management fees their costs can mount rapidly if the investor wishes or needs to trade. And, of course, they will. Diversification and rebalancing will require the sale and purchase to maintain your desired asset allocation. Inside a mutual fund, this is done automatically. Should you be a regular saver, ETFs would be quite expensive because they are designed for a designated investment. An example: \$400 invested twice monthly, assuming a minimum \$10 trade would represent 2.5% annually in fees. Unlike mutual funds, there is a bid-ask spread whenever an ETF is bought or sold. This creates a potential for incremental trading losses that can mount up especially if trading volumes are low. With wider spreads on purchasing and selling, it can add up to hundreds of dollars on as little as \$10,000. So, while ETFs are initially cheaper than mutual funds, they will only remain so if the investor is resolved to trade as little as possible.

ARE ETFs TAX EFFICIENT? Once again, an ETF is tax efficient if the investor buys it and holds it. On the other hand, if an investor bought a mutual fund in a corporate class structure they would have the flexibility to switch and rebalance their non-registered assets without triggering any immediate tax consequences.

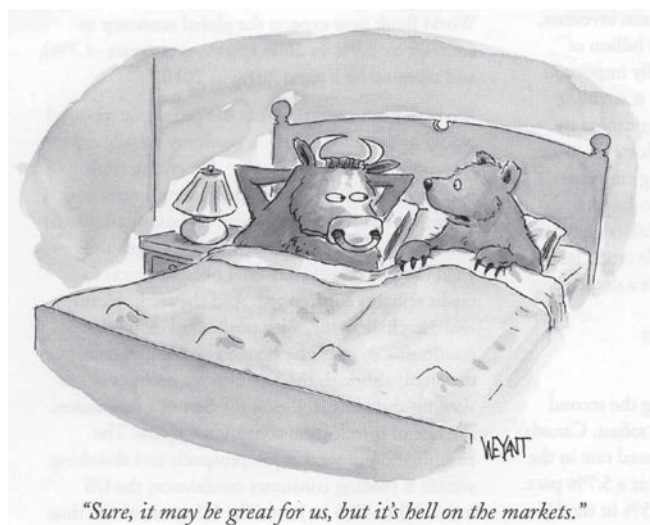
DO ETFs PROVIDE AUTOMATIC DIVERSIFICATION? Most ETFs simply mirror the index they are tracking which can make them very well diversified or not. The problem can occur when a company or sector has an extremely large weighting in the index. A good example was Nortel at its peak. It represented one-third of the index. Investors seeking diversification found themselves heavily over-weighted in one particular company. ETFs may prove to be a useful tool for specific situations for talented, knowledgeable do-it-yourself investors but they do not necessarily offer the performance, flexibility and diversification with the services that advisors and fund managers provide.

We have all seen how important it is to stay invested. Investor behavior and emotion is usually the number one killer of a good, consistent return. This is difficult to measure but, with the ability to buy and sell ETFs, jumping in and out of the market at the wrong time as investors do can dramatically affect long-term returns.

Another concern with this huge buffet of ETFs is which one to buy, hold or sell. I believe that good fund managers bring much value to the table. They may stay away from overweighting a portfolio in a specific company or sector or they may underweight

and, from time to time, take money off the table when it is appropriate and to bargain hunt when amateurs are jumping out of the market. The number one problem that I see is amateur investors doing the wrong thing at the wrong time. We have evidence of this time and time again. As recent as March 2009 there were massive outflows from the equity market into money market funds. Last summer when the TSX was hitting 15,000 we had massive inflows into equity markets.

Having a tool like an ETF can be extremely costly in the hands of an emotional, amateur investor. For years I have been preaching that it's all about investors' behavior. Nothing has changed. We just have another tool on the shelf.



Disclaimers

The information contained in this communication is for general information purposes only and is based on the perspectives and opinions of the owners and writers. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call 613-728-0589 to discuss your particular circumstances.

Commissions and trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the CDIC or any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. Worldsource Financial Management Inc., sponsoring mutual fund dealer. Additional products and services provided through Future Financial.



FUND REPORT

Compounded to August 31, 2009



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %	Globe's Rating
CANADIAN EQUITY							
Trimark Cdn First Class	Y	M-H	-22.32	-9.58	2.03	6.39	***
BMO Dividend	Y	M	-12.83	-2.67	4.91	8.87	*****
Dynamic Power Cdn Growth	Y	H	-28.59	-0.93	10.79	10.10	*****
Fidelity Canadian Growth Company	Y	M-H	-24.63	-4.86	2.81	5.04	**
Fidelity Cdn Disciplined Equity A	Y	M-H	-18.14	-0.07	8.40	9.03	*****
Front Street Growth	Y	H	-19.11	-4.50	13.38	17.84	*****
BMO Monthly High Income	Y	M-H	-20.59	-5.49	5.47	10.89	*
IA Canadian Conservative Equity	Y	M-H	-13.75	-2.75	5.42	8.29	**
IA Clarington Cdn Leaders	Y	M	-14.65	5.32	8.08		*****
IA Clarington Cdn SmCap	Y	H	-20.08	-6.32	5.05	10.89	***
IA Clarington Dividend Inc-T4	Y	M	-16.05	-5.71	2.52	6.50	***
Sprott Canadian Equity	Y	H	-29.30	-7.51	7.00	22.09	*****
INTERNATIONAL EQUITY							
AGF European Equity Class	Y	M-H	-11.08	-7.81	2.77	4.11	*****
Dynamic Global Value Class	Y	M-H	-12.86	-5.64	2.43		*****
Fidelity NorthStar A	Y	H	-14.87	-5.26	0.67		***
Mackenzie Cundill Value A	Y	L-M	-8.89	-5.10	1.21	6.04	**
Trimark Europlus	Y	M	-23.42	-10.19	-0.55	2.41	*****
BALANCED FUNDS							
Acuity Canadian Balanced	Y	M	-6.78	-2.53	4.21	6.20	*****
AGF Canadian Balanced	Y	L-M	-6.05	0.96	5.30		*****
Dynamic Value Balanced	Y	M	-9.01	0.75	7.50	8.20	*****
Fidelity Canadian Asset Alloc A	Y	M	-6.31	2.63	6.86	6.07	*****
Renaissance Cdn Value Balanced	Y	L-M	-5.41	-1.36	3.28	5.58	***
Fidelity Cdn Balanced	Y	L-M	-6.41	2.85	6.44	7.66	***
Dynamic Power Balanced	Y	M-H	-7.91	4.83	10.08	8.86	***
OTHER FUNDS							
Vertex	Y	H	-4.39	3.37	11.25	16.84	***
Arrow Multi-Strategy	Y	L	-5.96	-1.49	3.04		***
BluMont Hirsch Performance	Y	H	-17.58	-5.86	2.64	11.75	***
Hillsdale Cdn Long/Short	Y	H	-20.13	-2.95	4.67		**
Hillsdale Cdn Performance Equity A	Y	H	-38.21	-11.65	-0.86	8.78	***
Sprott Opportunities Hedge Fund LP	Y	H	-1.89	6.85	20.01		*****

All Mutual Funds Sold by Prospectus Only & Hedge Funds Sold by Offering Memorandum

Future Financial Newsletter is an information service. It does not render accounting, legal or other professional advice. It is recommended that the reader consult professional advisors with regard to any matter in this publication. Future Financial is an independent financial, estate and tax planning firm dealing with many financial instruments offered through trust companies, insurance companies and mutual fund companies. Mutual fund license sponsored by Worldsource Financial Management Inc.

* Funds sold by Insurance Companies Source of Data – Globefunds.com

FINANCIAL, ESTATE, TAX AND RETIREMENT PLANNERS SINCE 1978

2-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589 www.futurefinancial.com