

# Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

## FALL 2010 NEWSLETTER

**Carl Eppstadt, CLU, CHFC, CFP, CHFS**  
**Julie Westall, CIM, CFP**  
**Kristin Eppstadt**

Congratulations to my daughter Julie who has successfully earned the Certified Financial Planner (CFP) designation. Kristin is in the process of completing hers. We would like to thank all of our clients who have referred business to us from their friends and family. This is by far the largest compliment we can receive.

### **C**arl's Comments

There is a certainly lot of discussion out there about a double dip recession or something similar. I find people are extremely uneasy and in some cases unrealistic. The Toronto Stock Exchange has risen about 70% from its lows of April 2009. Recently, we had an 8% pullback and a number of people thought it was Armageddon. After such an unmolested run-up in the market, pullbacks are common. The only thing uncommon is that it didn't happen earlier and that it wasn't closer to a 20% pullback. The big question is; Are we in it for a week, a month, or a several years? If we're in it for the long term, then minor pullbacks should not be worrisome.

We are including a few comments by some of the most respected fund managers in the business to help you make sense of how they see things. It's my personal view that the economy and its recovery is still very fragile. I would say that the patient is definitely no longer in intensive care but, is still very much recovering and could relapse from time to time. What causes a relapse? Perhaps labour market weaknesses rekindling fears of the US economic recovery, perhaps lower retail sales or perhaps the Federal Reserve's statement

hinting that it may embark on a new round of monetary stimulus when some investors had been more optimistic about the economy's prospects.

There is some positive news out of this. The Feds are not likely to increase interest rates for the foreseeable future and this has helped the weak US housing market as evidenced by the rise in existing home sales in August.

What the market really needs to get this rally going is more conviction in the economic data coming out that shows the current recovery is improving better than street expectations.

So, the Yin and the Yang continue and will likely do so for the next 12 months or so. Many managers feel that this is a great opportunity to buy good companies at very reasonable prices.

I remain cautiously optimistic and stay cautiously invested which is what I recommend to all my clients. The key is to take what the market gives us and to not get greedy by trying to manufacture something that simply isn't there.

### **D**ynamic Funds' Portfolio Managers and Their Views on the Economy

**Noah Blackstein** "The European credit crisis has caused investors to become skeptical about the global economic recovery and unfortunately the current macroeconomic view is overshadowing some very positive company-specific news. Specifically, there are exciting things happening right now in technology, health care and consumer

discretionary but you have to be selective because there will be losers as well as winners.”

**David Taylor** “Canada should continue to be the top performing major market in 2010 and 2011. M&A activity is heating up and resource-related acquisitions are on pace to exceed the record set in 2007...with their clean balance sheets and record free cash flows, Canadian equities are trading at their lowest levels relative to fixed income in over 50 years. While the global economy remains weak with no recovery in sight, equities are discounting a return to the recession of 2008/2009.”

**Barry Allan** “Virtually all markets have become obsessed with technical support and resistance points and are generally ignoring fundamental economic data...As long as the economy is underpinned by government and central bank stimulus programs and is not collapsing, weak data is tolerated if not ignored altogether...As it is very difficult to have strong conviction or a strong fundamental view in these types of markets, we typically will reduce risk, and will remain cautious.”

**Changes to CPP Benefits (%)**

Age	Adjustment						2016 +
	2010	2011	2012	2013	2014	2015	
60	-30	-30	-31.2	-32.4	-33.6	-34.8	-36
61	-24	-24	-24.96	-25.92	-26.88	-27.84	-28.8
62	-18	-18	-18.72	-19.44	-20.16	-20.88	-21.6
63	-12	-12	-12.48	-12.96	-13.44	-13.92	-14.4
64	-6	-6	-6.24	-6.48	-6.72	-6.96	-7.2
65	0	0	0	0	0	0	0
66	6	6.84	7.68	8.4	8.4	8.4	8.4
67	12	13.68	15.36	16.8	16.8	16.8	16.8
68	18	20.52	23.04	25.2	25.2	25.2	25.2
69	24	27.36	30.72	33.6	33.6	33.6	33.6
70	30	34.2	38.4	42	42	42	42

4. What seems to be of most concern, is the proposed changes for those who continue to work and who also receive CPP. These working individuals will now be required to contribute the plan (required before age 65, an option after 65). This means that any pension payments to them between 60 and 65 will be offset by continuing yearly payments into the plan.

## **P** Re-Authorized Contributions

Do you contribute to your RRSP once a year, on or around March 1, and continue on the same course until the following spring? If so, you could be missing out on the potential for substantial, long-term compound growth by investing sooner within your RRSP.

A pre-authorized contribution (PAC) lets you contribute early, often, and effortlessly throughout the year. It can provide you up to 12 more months of compounding and tax-deferred growth. As well, by investing frequently, point of entry is less of a concern and you avoid market timing uncertainty.

If you choose to make regular PACs, you may qualify for a reduction in your withholding taxes at your employer. To apply you must complete a T1213 form annually.

Contact us if you would like to set up a pre-authorized contribution on your registered or non-registered account.

## **A** Amendments to CPP Retirement Benefits

The four areas proposed are:

1. Increasing the dropout percentage in the lower earning years from 15% to 16% in 2012 and 17% in 2014. Retirees should have a higher retirement benefit.
2. Work Cessation Test removed. You will not have to wait the two months to apply for the benefit. Good news!
3. Payments are reduced for those who take CPP benefits before 65, but enhanced for those who start after 65 (see chart). This seems practical given our longer life expectancies. The reduced benefits will be staged in starting in 2012. Changes for delayed receipt (increased benefits) will start in 2011 and be fully in place by 2013.

## **R** eal vs. Market Risk

There are risks related to investing, but it's not just market risk that must be considered. As financial planners, it is our job is to consider all the risks and plan for them as best as we can.

**Longevity Risk** – living beyond theoretical life expectancies

**Inflation Risk** – losing real value of savings because of the increased cost of living

**Asset Allocation Risk** – designing a portfolio that's too conservative or too aggressive

**Withdrawal Risk** – drawing down on savings too quickly

**Health Care Risk** – not having enough money to cover health related expenses

**Low Interest Rate Risk** – lack of earning power on fixed income investments

**Currency Risk** – changes in exchange rates can affect investment returns

## **W** e Are Living Longer

Canadian census data shows that life expectancy has been slowly increasing over time.

Life Expectancy at Birth		
Year of Birth	Age of Life Expectancy	
	Males	Females
1991	74.6	80.9
1996	75.5	81.2
2001	77.0	82.1
2006	78.4	83.0

As life expectancies are increasing so too are the number of years and individual will spend in retirement. In 2009, 13.9% of all Canadians were aged 65 or older. This is up 0.2% from the previous year. While this is exciting news, it does have financial implications such as, retirement resources will have to be stretched further, no inheritances to subsidize retirement

and, aging parents could become dependent on retired children. The financial industry is responding to this longevity risk with guaranteed withdrawal products as well as traditional annuities and life insurance.

## **T** D Bank Economic Update

TD Bank economists predict that the average growth rate of 4.3% since last fall cannot be sustained and that growth will slow to between 1.5% and 2% for the balance of the year and continue at 2% for 2011. They also see the jobless rate rising from the current 8% level to 8.2% by the end of the year and edging down only slightly to 7.8% by the end of 2011.

The economy did create more than 400,000 new jobs since last July (recouping the recession losses), however, the population has also grown and about 400,000 more Canadians have joined the unemployed. The forecast does see the economy gaining strength in 2012 when GDP will average 2.8% and unemployment is expected to drop to 7.3%. The report's bright side for the near term is that it does not envision the slowdown in growth to be so sharp as to push Canada into a double-dip recession.

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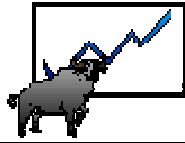
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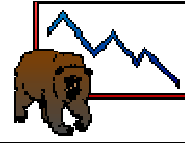
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# FUND REPORT

Compounded to August 31, 2010



<u>Fund</u>	<u>RRSP Eligible</u>	<u>Volatility</u>	<u>1 yr %</u>	<u>3 yr %</u>	<u>5 yr %</u>	<u>10 yr %</u>
<b>CANADIAN EQUITY</b>						
BMO Dividend	Y	M	6.15	-4.29	1.99	7.08
BMO Monthly High Income	Y	M-H	7.50	1.61	3.80	5.74
Dynamic Power Canadian Growth	Y	H	8.57	-5.47	3.70	5.21
Fidelity Monthly High Income	Y	M-H	21.61	5.26	7.50	n/a
Fidelity Canadian Disciplined Equity A	Y	M-H	10.49	-1.62	4.85	5.08
Fidelity Dividend Plus (was Income Trust)	Y	M-H	28.74	7.55	9.25	n/a
Front Street Growth	Y	H	31.89	4.15	9.31	17.81
IA Canadian Conservative Equity	Y	M-H	13.77	1.29	2.94	6.63
IA Clarington Canadian Leaders	Y	M	5.35	-0.87	5.85	n/a
IA Clarington Canadian Small Cap	Y	H	17.40	-4.02	2.85	11.98
IA Clarington Dividend Inc-T4	Y	M	11.03	-5.05	0.95	7.40
Sprott Canadian Equity	Y	H	33.20	-1.73	8.11	17.67
<b>INTERNATIONAL EQUITY</b>						
AGF European Equity Class	Y	H	-21.80	-18.21	-5.18	0.80
Dynamic Global Discovery	Y	H	13.54	-5.14	4.28	n/a
ROI Global Supercycle 7	Y	H	2.00	n/a	n/a	n/a
Mackenzie Cundill Value A	Y	M	-0.23	-7.25	1.17	4.17
Invesco Trimark Europlus	Y	M	1.27	-14.13	3.63	1.34
<b>BALANCED FUNDS</b>						
Acuity Canadian Balanced	Y	M	7.92	-1.55	1.93	4.35
Acuity Conservative Asset Allocation	Y	L-M	8.98	0.80	2.31	n/a
AGF Traditional Balanced	Y	L-M	-0.38	-2.45	1.23	-0.43
Dynamic Value Balanced	Y	M	13.77	3.39	5.80	6.60
Dynamic Power Balanced	Y	M-H	9.44	3.41	6.32	6.76
Fidelity Canadian Asset Allocation A	Y	M	5.27	0.61	4.18	4.17
Fidelity Canadian Balanced	Y	L-M	9.74	2.03	4.76	5.11
<b>OTHER FUNDS</b>						
Vertex Fund	Y	H	24.16	5.19	8.96	13.25
Arrow High Yield	Y	L	19.17	8.73	7.31	n/a
Front Street Special Opportunities Canadian	Y	H	33.98	13.15	15.96	n/a
Hillsdale Canadian Long/Short	Y	H	-3.74	-5.71	2.27	6.16
Hillsdale Canadian Performance Equity A	Y	H	16.45	-13.26	3.35	5.84
Sprott Opportunities Hedge Fund LP	Y	H	6.01	4.73	9.98	n/a

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

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