Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2011 NEWSLETTER

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Carl's Comments

The global economy has struggled to find its way and volatility has once again erupted in the markets. Investing in turbulent times requires extreme discipline; anyone can invest after the market has had a run-up believing that this will continue. However not anyone can invest when the markets pull back, even though these periods do provide much opportunity and the greatest rewards. Although times have been painful lately, it has taught investors many lessons that will make us better investors in the future. The chief among them is the ability to take a moment to step away and see the events, both good and bad, in relation to a broader context. This helps investors to keep the setbacks in perspective.

In August the market turmoil really began with a 4% decline in the S&P/TSX. These daily pullbacks in early August were not the largest one-day pull back in Canadian history; however it was enough to rattle investors who feared that the broad market decline might be unfolding. In reality one-day falls are poor indicators of subsequent recessions. In most of the big market falls since 1950, rapid stock market declines came in the midst of economic recovery in most cases economic growth continued. Investors need not to be worried about whether a fall in the former predicts the likely outcome of the latter.

Equity markets did tank 10% in five days in August and it is inevitable that comparisons to other market collapses in history will be made. Maintain your perspective, we have just had a two-year rally that saw markets climb more than 80% since 2009 and this recent correction was not unexpected.

I'm not trying to downplay the problems in Europe and the US as they certainly remain threats to the global economic recovery and could push stocks lower in the months ahead; however markets are generally in better shape to withstand another recession.

The current rally has exceeded the historical average of the previous nine rallies since 1968. Despite this recent decline, the run-up is still above the average long-term average gain. Rebounding bull markets are usually followed by a cooling off; this is typically two years after the market bottom. When the cooling-off period ends, the market generally moves to new highs. Most major indices are now trading 9% higher than the mid August low which suggests that the process may have already started.

The news of the downturn in the global economy has many investors wondering how they will be affected. Looking forward, it is important not to overreact. Now is not the time to panic. Think about your time horizon and if you have a longer time perspective, stay the course. Finally know where you stand financially as knowledge can be important source of reinsurance.

Market uncertainty test the resolve of even the most hardened investor, no matter their risk tolerance or time horizon. The current degree of market volatility naturally leads to concern. It is important to maintain a balanced perspective as it can help you remain focused during these difficult times.

S imple Steps to Financial Planning

Financial Planning is not as complicated as some would like to think. Here are a few simple rules that we find most high net worth clients abide by.

1) Live within your means
2) Maximize contributions into tax shelters (RRSP & TFSA)
3) Pay down debt
4) Opt for a balanced portfolio of medium risk investments

B illions in Unused RRSP Room

Not much has changed since last year as the RRSP remains a much underutilized tax deferral/savings vehicle. A survey by BMO Financial Group indicated that only 39% of Canadians made an RRSP contribution in 2010. What is positive from the report is that many of those surveyed planned to use their tax refunds wisely and either reinvest into their RRSP or TFSA (33%), pay bills and reduce debts (32%) and fund home renovations and improvements (11%).

(Source:Advisor.ca – Colossal RRSP room left untouched. Mar 4/11)

L ife Insurance

At least 50% of Canadians are under-insured says a source at RBC Insurance and while people don't like to think about death, there are advantages to investing in life insurance early rather than waiting.

Death in life is a certainty and there are most certainly significant costs associated with dying. Many people assume that the insurance provided by their employer (if they have any) will cover those costs however, it rarely is enough.

Why?

1) The amount of insurance (i.e. x times salary) may not be enough to cover your final expenses, debts, children's education, and your surviving family's housing/living expenses.

2) Group insurance ends when you leave the company.

3) Half of your spouse's pension may be lost upon their death. Most people with pensions retire with 60% of their last year's income. In that case, a surviving spouse would receive only half or 30% of that last year's income. The present value loss in this case is huge!

Why not protect your loved ones and download a portion of this risk to the insurance companies by topping up your individual life insurance.

Give us a call to discuss your insurance needs. As an individual insurance agent, Carl deals with most insurance companies and is able to provide the most competitive quotes available.

W hat Type of Investor Are You?

The following list of asset allocation mixes covers the range of risk and return profiles that are designed to meet various investment goals. These mixes are by no means fixed and may vary slightly according to different sources.

Conservative ***20% Equity, 80% Fixed Income***
-income generation
-emphasis on preserving capital

Moderate ***40% Equity, 60% Fixed Income***
-income generation
-long-term growth
-slightly greater emphasis on fixed income portion

Income ***45% Equity, 55% Fixed Income***
-income generation
-long term growth
-capital preservation

Balanced ***60% Equity, 40% Fixed Income***
-long term growth
-capital preservation
-slightly higher emphasis on equities

<u>Growth</u> ***<u>80% Equity, 20% Fixed Income</u>***
-long-term growth
-little or no need for income generation
-increased exposure to foreign equities

<u>Aggressive</u> ***<u>100% Equity</u>***
-above average, long term growth potential

"You can't learn the path to financial independence from just ANY infomercial."

Test Your Risk Tolerance

Whether you're a seasoned investor or just starting out, it's always a good idea to be educated about risk tolerance and to test your own ability to withstand investment risk.

Completing a risk tolerance questionnaire can give you an idea of your capacity to deal with the emotional ups and downs that go along with investing. It can also help you determine how well your portfolio matches your attitude to risk.

Here are a few suggestions that will only take you a couple minutes to complete.

- The Ontario Securities Commission (www.investored.ca)
- The Index Fund Advisors of Canada (www.ifacanada.com)

(Source: Canadian Investment Guide 2010-Test Tolerance)

Gifts of Cash to RESPs

You might be surprised at just how far cash gifts from grandparents and other relatives can go towards saving for a child's education. Contributing even a small amount to an RESP, such as $100 from each set of grandparents annually could generate roughly $6800 for post secondary education (includes CESG and assumes 6% annual growth).

Many people are not fully taking advantage of the Canada Education Savings Grant (CESG) available in RESPs. Annually, you can contribute up to $2500 per child into the RESP and the government will contribute 20%(i.e. $500). If contributions are missed in any year, the government will grant up to another $500 (for a maximum grant of $1000 in any one year).

If you are unsure how much grant room may be available to you, please contact HRSDC at 1-888-276-3624.

FUND REPORT

Compounded to August 31, 2011

Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %
CANADIAN EQUITY						
BMO Dividend	Y	M	6.99	-0.33	0.92	6.29
BMO Growth and Income	Y	M-H	10.40	2.80	2.92	10.96
Dynamic Power Canadian Growth	Y	H	-1.26	-8.52	0.84	8.15
Dynamic Equity Income	Y	H	15.51	5.16	4.86	12.52
Fidelity Canadian Disciplined Equity A	Y	M-H	9.00	-0.47	3.75	7.84
Fidelity Dividend Plus (was Income Trust)	Y	M-H	12.11	8.32	7.66	n/a
Front Street Growth	Y	H	24.61	9.95	7.43	21.83
IA Canadian Conservative Equity	Y	M-H	11.84	3.15	3.19	7.48
Dynamic Small Business	Y	M	13.07	13.49	11.50	14.26
IA Clarington Canadian Small Cap	Y	H	8.48	0.59	0.93	11.98
Fidelity Canadian Large Cap	Y	M	18.05	3.91	7.51	8.71
Sprott Canadian Equity	Y	H	34.70	8.25	7.26	18.40
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	Y	H	3.03	-0.57	1.03	5.27
ROI Global Supercycle A	Y	H	13.14	10.93	n/a	n/a
Mackenzie Cundill Value C	Y	M	6.81	-1.21	-2.10	2.74
Mackenzie Cundill Recovery C	Y	H	2.53	-0.14	1.79	9.79
BALANCED FUNDS						
Acuity Canadian Balanced	Y	M	4.38	1.65	0.85	6.68
Acuity Conservative Asset Allocation	Y	L-M	4.08	3.03	1.73	n/a
IA Clarington Tactical Income	Y	L-M	6.50	n/a	n/a	n/a
Dynamic Value Balanced	Y	M	3.94	2.47	3.87	7.54
Dynamic Power Balanced	Y	M-H	2.06	0.94	5.17	8.22
Fidelity Canadian Asset Allocation A	Y	M	6.93	1.93	4.18	6.00
Fidelity Canadian Balanced	Y	L-M	8.17	3.64	5.29	6.68
Fidelity Income Allocation	Y	M-H	7.65	6.42	6.14	n/a
OTHER FUNDS						
Vertex Fund	Y	H	13.93	10.59	9.34	13.94
Arrow High Yield	Y	L	4.37	10.01	7.84	n/a
Front Street Special Opportunities Canadian	Y	H	12.66	13.89	11.04	n/a
Act ll Media	Y	H	16.27	5.54	n/a	n/a
Sprott Opportunities Hedge Fund LP	Y	M	10.55	4.76	7.41	n/a

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

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

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