

# *Future Financial News*

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2009 NEWSLETTER

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## **C**arl's Comments

Are markets beginning to thaw? Is there light at the end of the tunnel? Government intervention worldwide is at record levels and we are convinced it won't stop until the market thaws. It does appear that the market is beginning to thaw and that the stimulus packages are beginning to work. However, the events of the past few years have taken their toll on consumer confidence and we are seeing the effects of that. We are experiencing a crisis of confidence. The healing process will be slow but I believe that it has begun. It's important to note that most of the bad news comes at the end of a recession. Companies do not have mass layoffs at the beginning of a recession. Every recession and every challenging environment provides the most unbelievable opportunities.

Use volatility to your advantage. Manulife shares fell 80% then quickly doubled within 10 days. The TSX bottomed out late November then shot up 30% in the next 40 days. How many shares did you buy during that period? We tested bottom once again in early March then rose 25%. How many shares did you buy? Chances are not many RRSP contributions for 2008 in Canada fell like a rock. The best opportunity in 30 years and people ignored it. In fact a number of people actually bailed from the market locking in their losses. In February bonds received \$870 million of inflows. Balanced funds received \$131 million. Equity funds did not fare well. They saw \$534 million in redemptions as money markets saw \$1.4 billion in new sales. In the past markets have always bottomed when money market funds are bursting with cash. They're currently sitting with \$75 billion. That's right, \$75 billion

at next to 0% interest. Is there an opportunity here? Absolutely! But only if you're there before the others. Anyone that knows me knows that I am a contrarian. When everyone is running in one direction, I'm running in the other. So if investors are jumping out of the market you know I'm jumping in.

Is there reason for optimism? I would say yes. I like the market because it's cheaper than it's been in a long time. I like it because the yields on dividends far exceed the yields on money markets. I like it because we're now starting to see some optimism. CNN has stopped talking about how bad things are, how bad they are getting.... yada, yada, yada... and they are actually using the recovery word. The president has even stopped saying things are going to get worse before they get better and has become America's salesman for hope and optimism. US housing starts unexpectedly rose in February. A 22% surge was the first move up since June 2008 and the largest monthly gain since 1990. This was the culprit of the recession and now we're finally seeing signs that the worst is over. US consumer prices rose for the second straight month in February indicating deflation risk seems to be abating as well. The merger between Suncor and Petro Canada, I believe, is a sign of things to come. If you're ever planning to take over a competitor, the best time to do it is when the competitor's shares have been hammered by the markets.

I believe it's important to follow the money when money markets peak out and consumer confidence is at a low. That spells opportunity. Opportunities will also lay ahead

when we follow the stimulus money. Governments worldwide are raising trillions and roughly one third of this fresh capital is expected to find its way into infrastructure projects of various types. In the US, smart grid and broadband expansion is very likely. Also, T. Boone Pickens' plan for partial US energy self-sufficiency is comprised of compressed natural gas over the mid-and long-term.

So what should we do? Take advantage of discounted equity markets. Look at high yield corporate bond funds. I believe active stock-picking by a good manager can exploit many opportunities and will beat passive index investing. Active managers should be able to follow the money and determine the beneficiaries of the government stimulus funds.

**Future return expectations are attractive.** Coming out of the past three recessions high-yield bonds have outperformed equities in terms of total returns by a score of 18% to 10% on an average annualized basis. Going forward, as fiscal policies continue to ease liquidity problems, confidence returns to the market and the economy begins to recover, high-yield bonds represent an excellent opportunity for capital gains.

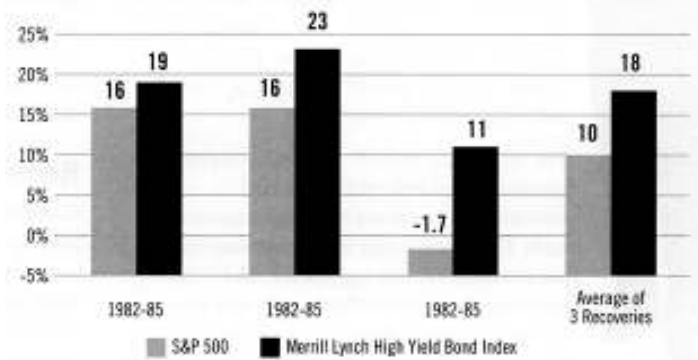
If we return to some sort of a sense of normalcy in terms of risk premiums or spreads, the upside potential on high-yield corporates for the next 10 years is going to be tough to rival.

## Bond Rates

**Default rates are rising, but are still relatively low.** Historically the high-yield bond rate default rate has been about 5%, slightly above the 4% default rate we've seen over the past year or so. At current spreads, however, the market is pricing at a default rate of over 40%. Even the most bearish prognosticators don't expect anywhere near that level of defaults.

To put the figure in perspective, after the tech bubble burst in the early 2000s the high-yield bond default rate was 11% and during the Depression it was 17%. Although default rates are likely to increase over the next year or so, a 30% default rate is an extremely unlikely (if not unimaginable) occurrence. For this to occur, every single Triple C and about half of the Single B companies in existence in the US and Canada would vanish, with more than 400 companies filing for bankruptcy. Any scenario more optimistic than this should result in significant profits for high-yield bondholders.

High yield bonds have outperformed stocks in the past three post-recession periods



Source: Bloomberg and Merrill Lynch. Annualized % returns of three-year periods following recession

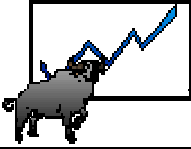
Federal Budget proposes the following increased personal tax brackets for 2009:

- 15% on the first \$40,726 (federal tax savings of \$132)
- 22% between \$40,726 and \$81,452 (federal tax savings of \$76)
- 26% between \$81,452 and \$126,264 (no tax saving)
- 29% over \$126,264 (no tax saving)



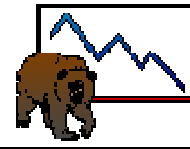
## Tax Planning Checklist

1. Maximize RRSP Contributions – The RRSP limit for 2009 is now the lesser of 18% earned income and \$21,000. Now would be a good time to get a head start on your 2009 contribution, if you have the cash. If not, consider making an RRSP contribution “in kind.”
2. Set Up a Spousal RRSP – The primary benefit of a spousal RRSP is that funds withdrawn from such a plan can generally be taxed in the hands of the annuitant spouse, instead of the contributor spouse. If the annuitant spouse is in a lower tax bracket than the contributor spouse in the year of the withdrawal, there may be an absolute and permanent tax saving.
3. Open Up a TFSA – The new Tax Free Savings Accounts, which arrived on January 1, 2009, are the ideal place to put up to \$5,000 of savings per year and earn tax-free income and/or capital gains for life. The money never has to be withdrawn, but if it is, the withdrawn amount will form part of your TFSA contribution room beginning the following year. As is the case with RRSPs, TFSA contribution room can be carried forward indefinitely.
4. Earn Tax-Efficient Investment Income – For those who have maxed out their RRSP and TFSA contributions, consider tax-efficient investment income outside of these tax-sheltered plans by investing for Canadian dividends, which are eligible for the dividend tax credit, and capital gains, which are only half-taxable at your marginal rate.
5. Consider a Debt-Swap Strategy – If you have both a mortgage and a portfolio of non-registered mutual funds, why not consider selling your mutual funds, paying off your mortgage and then borrowing back the money through a secured line of credit to buy back those original funds? By doing so, you can make otherwise non-deductible mortgage interest tax deductible. This strategy was just endorsed by the Supreme Court in the Lipson case in January 2009.
6. Investigate Pension Splitting – If you received pension income in 2008, be sure to investigate whether splitting up to half of that income with your spouse or partner makes sense when you file your 2008 tax return this spring.
7. Consider Income-Splitting – A spousal loan income-splitting strategy, whereby the higher income spouse or partner loans funds to the lower income spouse or partner to invest, may be ideal given the all-time record low prescribed rate, set at only 2% for the first quarter of 2009.
8. Consider a Systematic Withdrawal Plan (SWP) or a T-Series Option – For clients seeking tax-effective cash flow from their mutual funds, consider setting up a systematic withdrawal plan, which allows funds to be withdrawn from their non-registered account on an extremely tax-efficient basis. Alternatively, a T-series option can offer potentially tax-deferred return of capital distributions, allowing clients to retain more of their investment income on an after-tax basis.
9. Plan Now to Avoid a Tax Refund – If you regularly get a large tax refund each spring, consider applying for a reduction of tax at source using CRA Form T1213. Remember, this form needs to be completed each year.
10. Donate “In-Kind” to Charity – When planning your charitable giving for 2009, consider donating appreciated securities directly to your charity of choice. Not only will you get a tax receipt for the fair market value of the securities donated, but you will pay no tax on any accrued capital gains.



# FUND REPORT

Compounded to February 28, 2009



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %	Globe's Rating
<b>CANADIAN EQUITY</b>							
Trimark Cdn First Class	Y	M-H	-38.31	-14.21	-2.46	6.27	★★★
BMO Dividend	Y	M	-30.70	-9.96	0.10	6.62	★★★★★
Dynamic Power Cdn Growth	Y	H	-55.70	-13.59	0.42	6.94	★★★★★
Fidelity Canadian Growth Company	Y	M-H	-40.23	-12.41	-2.77	3.41	★★
Fidelity Cdn Disciplined Equity A	Y	M-H	-39.83	-9.66	-0.13	7.00	★★★★
Front Street Growth	Y	H	-57.36	-19.45	0.03	12.81	★★★★
BMO Monthly High Income	Y	M-H	-34.10	-11.83	0.30	9.33	★
IA Canadian Conservative Equity	Y	M-H	-25.24	-7.55	1.19	5.77	★★
Mackenzie Cundill Cdn Security A	Y	L-M	-30.00	-13.06	-4.50	4.01	★
IA Clarington Cdn SmCap	Y	H	-36.42	-11.67	-0.34	9.30	★★★
IA Clarington Dividend Inc-T4	Y	M	-32.87	-11.63	-2.12	4.12	★★★
Sprott Canadian Equity	Y	H	-43.03	-4.16	7.09	23.49	★★★★★
<b>INTERNATIONAL EQUITY</b>							
AGF European Equity Class	Y	M-H	-39.86	-16.32	-6.62	0.71	★★★★★
Dynamic Global Value Class	Y	M-H	-46.09	-15.92	-6.08		★★★★
Fidelity NorthStar A	Y	H	-35.57	-13.95	-5.38		★★★
Mackenzie Cundill Value A	Y	L-M	-31.59	-12.54	-3.66	5.90	★★
Trimark Europlus	Y	M	-36.80	-13.45	-4.81	2.37	★★★★★
<b>BALANCED FUNDS</b>							
Acuity Canadian Balanced	Y	M	-28.54	-7.93	-1.90	4.41	★★★★
Dynamic Value Balanced	Y	M	-24.55	-6.26	2.30	6.03	★★★★
Fidelity Canadian Asset Alloc A	Y	M	-23.14	-4.20	1.79	4.14	★★★★
Mackenzie Cundill Cdn Balanced C	Y	L-M	-21.65	-7.94	-2.19	4.31	★★
Renaissance Cdn Value Balanced	Y	L-M	-18.50	-5.54	0.11		★★★
Fidelity Cdn Balanced	Y	L-M	-20.41	-2.60	2.06	6.09	★★★
Dynamic Power Balanced	Y	M-H	-30.15	-3.88	3.49	6.49	★★★
<b>OTHER FUNDS</b>							
Vertex	Y	H	-38.06	-9.34	2.44	15.43	★★★
Arrow Multi-Strategy	Y	L	-14.03	-2.89	1.54		★★★
BluMont Hirsch Performance	Y	H	-34.71	-8.69	-1.13	12.58	★★★
Hillsdale Cdn Long/Short	Y	H	-13.03	-4.17	4.86		★★
Hillsdale Cdn Performance Equity A	Y	H	-46.11	-16.32	-5.04	9.52	★★★
Sprott Opportunities Hedge Fund LP	Y	H	-2.46	8.94			★★★★

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

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