# Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

**WINTER 2014 NEWSLETTER**

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## Carl's Comments

It appeared that Christmas came early and some were even calling it the Santa Claus rally. Believe it or not the Santa Claus rally is a well-known seasonal phenomenon. Some analysts believe that the Santa Claus rally only occurs in the final week of the year and others believe it refers to the entire month of December. This year, it appears as though it has been going on most of the year and certainly it's been a nice bounce from October's lows.

Some think the holiday rise in stock prices is a myth much like Santa Claus himself. Whether you believe or not there's no debating December's data historical data suggest that stocks do well in the final month of the year. According to Bloomberg data since 1929, the average return for the S&P 500 in December is 1.5%. Combine this with the average returns for the preceding and following months, and the holiday period is often the strongest time of the year for stocks. The average gain for October is 0.4%, November 0.6% and January 1.2%. It should also be noted that the surge that propelled stocks throughout 2013 actually began in mid November of 2012.

There are lots of reasons for the markets coming back. One major contributor is that asset classes such as bonds and real estate seem unreasonably overpriced when compared to equities. Some managers use colours to articulate market risk. Green indicates low risk, blue - moderate, yellow - high, orange - very high, and red - extreme. The general consensus is that we are somewhere between blue and yellow for equities and red for bonds and real estate.

A healthy bull market should be supported by healthy respect for risk, while a dangerous bubble might be characterized by investors having no respect for risk. A healthy bull market sees investors buying based on intrinsic or fair values, where a bubble sees investors buying based purely on the anticipation that prices will rise.

Even though the risk level is pointing to blue-yellow, we still believe there remains room for the market to grow. However, at this point in the cycle, we move forward more cautiously.


We wish you and your family a safe, happy and prosperous new year!

## Keep Calm and Carry On

A BMO Psychology of Investing Report recently released indicates that just 28% of survey respondents claim to always be in complete control of their emotions when thinking about investing or making investment decisions. The bad news here is that 70% that are not. As investors and advisors, what do we about it?

In our retirement planning, we look at age to retirement, percentage of current income required during retirement, life expectancy, inflation and returns on the investment portfolio. This is the data that we use to determine what one needs to save to achieve their goals.

There are a few variables that can change; years to retirement, inflation and the biggest one, investment returns. If the plan calculations are based on achieving an average of 6 to 7% but, instead a 2% GIC is bought, (possibly brought on by panic due to adverse market conditions), this really changes everything dramatically. Try it yourself with a retirement program.

A key to being in control of your emotions is to have a plan, understand the plan and stay with the long-term strategy. A financial or retirement plan can help steady our emotions as it helps to focus on long-term goals and ignore short-term market volatility.

Our job as advisors is not to say yes to everything but to provide education, help devise a long term plan to reach goals and be the voice of reason. Our job is to design portfolios and prepare our clients mentally and financially to weather any storm. If we do our job properly you should be well prepared to withstand market volatility and more importantly not be surprised by it.

The financial crisis, albeit five years ago now, put people in panic mode; people have been a lot more emotional lately when it comes to investing. This emotion has caused some investors to be much more active with their portfolios and sometimes to their own detriment.

Investing can be like flying. Unfortunately, we likely will experience turbulence along the way like in 1987, 2000, 2008 as well as 2011, but it's important to understand that this turbulence is normal and not to turn the plane around because of it. In spite of some turbulence, we are still looking at returns in a moderate risk portfolio after fees of around 7%.

Saying that you are "always in complete control", as the BMO study states, is pretty hard to believe. In our experience, almost all investors need some reassurance at some point that were not going to crash and that their goals of getting to their destination will be realized.

Source: Forum Nov/Dec 2013 pg. 14-16

**Goodbye Taxes. Hello Savings.**

As of January 1st, you can contribute another $5500 into your Tax Free Savings Account.

Don't have a **TFSA.** Have questions? Contact us to see if it's right for you.

## Not all Fund Distributions are Equal

When you receive a distribution from a mutual fund, it will be in the form of interest income, capital gains, dividends, return of capital or a combination of all four. As the chart shows, the type of income received makes a big difference after tax has been paid. This only affects non-registered accounts (not RRSPs and TFSAs) as the income received is taxable annually.

If you are not familiar with return of capital distributions, these distributions reduce the cost base of the investment, thereby deferring taxes until the investment is actually sold or disposed of. At that time, capital gains (the 2nd most tax efficient type of income) are triggered. Only 50% of capital gains are taxable.

The least tax friendly type of income is interest income as the full amount is taxed at an investor's full marginal tax rate. GIC interest is an example of income that is fully taxable.

If you have non-registered investments and available TFSA contribution room, contact us to review your financial situation. It may be worthwhile moving those assets inside a TFSA where all growth, income and withdrawals are tax free.

| | |
|---|---|
| INCOME | $10,000 = $5,047 after tax |
| CAPITAL GAINS | $10,000 = $7,524 after tax |
| ELIGIBLE CANADIAN DIVIDENDS | $10,000 = $6,615 after tax |
| RETURN OF CAPITAL | $10,000 = $10,000 after tax |

*Based on an investor in the top marginal tax rate in Ontario for 2013.

**~RRSP Reminder~**

The last day to make an RRSP contribution for 2013 is **March 3rd, 2014.** Don't delay; make your contribution as soon as possible!

## Grey Divorcees Need More Retirement Planning

Divorce at any age carries a huge emotional and financial toll. The vast majority of people who divorce at the age of 50+ will require additional planning to meet their retirement goals. With limited earning potential and less time to rebuild lost savings, sound planning is key. In many cases, increasing savings contributions is not an option so most will have to delay retirement and work longer than planned.

In addition to sound planning with a financial advisor, a divorcee needs to understand and take control of their finances. This statement seems obvious however, in an overwhelming number of relationships there is one person who is financially savvy and/or who controls the finances. If it is not you, then you may be faced with additional stresses simply trying to sort out and understand your finances.

Finally, keep in mind that when it comes down to dividing assets, not all assets are not equal. The house, RRSPs, TFSAs, non-registered investments, company pension plans etc. are treated differently for tax purposes and the division of assets should be reviewed with a qualified advisor.

Source: AE Report 12/2013 pg. 12

## Tax Tip – Education Expenses

Did your child move at least 40kms to attend university or college? If so, keep those receipts as your child will be able to deduct moving expenses against employment income (ie. part time job at the school). Unused expenses can be carried forward to the next year.

## What's No Medical Life Insurance?

No medical life insurance appears to be increasingly popular in Canada and perhaps all the ads on TV are proof! Here we list some advantages and disadvantages of the product. If you are healthy, traditional life insurance is best. Contact us to review your life insurance coverage and needs.

***Advantages***

- ✓ No medical exam
- ✓ Discount for non-smokers (previously only blended rates existed)
- ✓ Less health questions asked
- ✓ Higher coverage amounts than before
- ✓ Term 10, Term 20, Term 100 and limited pay plans

***Disadvantages***

- × Premiums significantly higher than traditional life insurance
- × Some providers still have only blended rates (no discount for non-smokers)
- × May have waiting period of 2 years for non-accidental deaths
- × Limited policy options
- × Smaller face values mean not enough coverage

## Glossary - Will Terms

**Hotchpot:** Blending of property belonging to different personal in order to divide it equally among beneficiaries. It generally involves taking into consideration funds already given to children when dividing up the property of the deceased parent to ensure each child receives and equal estate.

**Issue:** All persons in the line of descent (eg. a person's children or grandchildren)

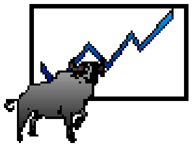
**En ventre sa mere:** Refers to an unborn child. Relates to an inheritance.

**De Facto:** This describes a relationship between two people living together as a couple. They may be an unmarried man and woman or a same sex couple.

Source: AE Report 11/2013 pg. 22

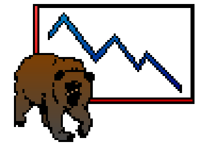
**How Much CPP Can You Expect?**

The best way to know is to get a statement of your CPP contributions by calling Service Canada at 1-800-277-9914.



# FUND REPORT

**Compounded to November 30, 2013**



| Fund | Volatility | YTD % (Dec 20/13) | 1 yr % | 3 yr avg % | 5 yr avg % | 10 yr avg % |
|---|---|---|---|---|---|---|
| **CANADIAN EQUITY** | | | | | | |
| BMO Growth and Income | M | 10.15 | 11.27 | 6.85 | 12.74 | 8.43 |
| Fidelity Canadian Growth | M | 42.34 | 45.40 | 15.18 | 14.86 | 8.39 |
| Dynamic Small Business | L-M | 8.45 | 9.58 | 5.98 | 16.46 | 14.42 |
| Sentry Canadian Income | L-M | 17.16 | 18.94 | 12.44 | 16.88 | 12.50 |
| Fidelity Dividend Plus | M | 7.06 | 8.62 | 7.30 | 15.54 | n/a |
| Fidelity Canadian Large Cap | M | 35.01 | 40.04 | 18.26 | 19.51 | 12.74 |
| Front Street Growth | H | -7.01 | -5.12 | -14.07 | 14.19 | 7.53 |
| IA Clarington Canadian Conservative Equity | L-M | 7.68 | 9.61 | 6.20 | 9.97 | 6.92 |
| IA Clarington Strategic Equity Income | L-M | 15.42 | 19.30 | 7.29 | 9.47 | 6.02 |
| IA Clarington Canadian Small Cap | L-M | 34.92 | 39.52 | 17.78 | 19.41 | 10.98 |
| IA Clarington Focused Equity | M | 13.83 | 20.31 | n/a | n/a | n/a |
| **US/INTERNATIONAL/GLOBAL EQUITY** | | | | | | |
| Dynamic Global Discovery | M | 24.47 | 25.16 | 5.55 | 9.69 | 7.54 |
| Fidelity Small Cap America | M-H | 52.57 | 50.48 | 26.48 | 24.46 | 7.90 |
| Mackenzie Cundill Value C | M | 33.58 | 41.18 | 11.26 | 11.21 | 5.46 |
| Mackenzie Cundill Recovery C | M-H | 3.28 | 9.56 | -2.14 | 12.91 | 5.98 |
| **BALANCED FUNDS** | | | | | | |
| AGF Monthly High Income | M | 8.91 | 8.79 | 5.46 | 15.27 | n/a |
| CI Signature Canadian Balanced | L-M | 11.25 | 12.31 | 5.90 | 8.92 | 7.53 |
| Dynamic Power Balanced | M | 12.01 | 11.02 | 1.04 | 8.59 | 7.11 |
| Dynamic Value Balanced | L-M | 16.30 | 16.58 | 4.21 | 11.84 | 7.85 |
| Fidelity Monthly Income | L-M | 11.06 | 12.89 | 8.65 | 12.30 | 8.27 |
| Fidelity Canadian Balanced | L-M | 12.14 | 12.40 | 6.30 | 10.33 | 7.30 |
| Fidelity Income Allocation | L-M | 8.19 | 9.10 | 7.36 | 13.50 | n/a |
| IA Clarington Focused Balanced | L-M | 15.27 | 18.08 | n/a | n/a | n/a |
| Mackenzie Cundill Canadian Balanced | M | 18.27 | 21.62 | 10.37 | 11.73 | 6.13 |
| **ALTERNATIVE FUNDS** | | **Dec 13/13** | | | | |
| Vertex Fund | M | 13.48 | 13.22 | 5.94 | 20.79 | 12.15 |
| Arrow High Yield | L | 4.0 | 5.2 | 3.7 | 7.9 | n/a |
| Arrow Raven Rock (I) | L | 4.8 | 5.4 | 6.2 | n/a | n/a |
| Act ll Long/Short | M | 6.4 | 8.0 | 3.7 | 4.4 | n/a |
| Curvature Market Neutral | L | 7.4 | 5.7 | 8.1 | n/a | n/a |

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



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