

Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

FALL 2015 NEWSLETTER

Carl Eppstadt, Financial Planner, CLU, CHFC, CFP, CHFS
Julie Westall, Financial Planner, CFP, CIM, FDS
Kristin Eppstadt

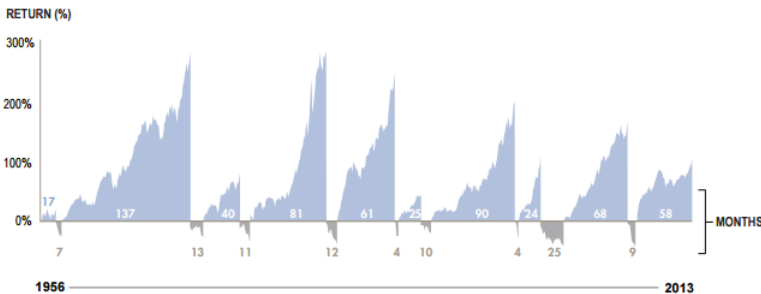
Carl's Comments

Volatility is not a new phenomenon, and is not a one-way street.

I have experienced numerous pull-backs during my 35 years in business. "Black Monday" in October 1987 led to the market losing 35% in one day; the "Tech Wreck" resulted in the market falling roughly 40% over the course of several months in late 2000; the Global Financial Crisis, considered by many to be the worst financial crisis since the Great Depression of the '30's, saw a loss of almost 50% from June 2008 to March 2009; and from April to November 2011, we've seen another pull back of about 25%. This year, from the high in April to now, we have experienced a 15% pullback.

Fortunately, volatility is not a one-way street. As shown below, large periods of economic growth and stock appreciation preceded and followed these pullbacks.

Bull and Bear Markets in Canada since 1955 - as at December 31, 2013



Average Bull Market Duration:	58 months	Average Bull Market Return:	155%
Average Bear Market Duration:	11 months	Average Bear Market Loss:	-32%

Source: IA Clarington Investments Inc. and Bloomberg based on monthly data points.

I often compare market volatility to airplane turbulence. Experienced flyers and pilots don't bat an eye when turbulence occurs. They realize that it is often part of the journey and no one asks the pilot to stop the plane to get off. I feel the same way when it comes to the stock market.

Stocks had a great run for the past five years with virtually no correction. It is common that as markets heat up, a correction likely is looming. That is exactly what has occurred recently. The understandable difficulty for investors is that we all want growth potential from the markets but without any volatility. In reality, we cannot have it both ways.

Good money managers and financial planners can help ensure you don't need to take Gravol during your airplane ride, by advising on a portfolio that seeks reasonable returns during good times and gives back less in down markets.

We are including a special insert on the Fidelity Canadian Large-cap fund where analysis shows that it gives investors the best of both worlds. Making almost as much when the market goes up and losing a lot less (it made money) when the market goes down.

Data shows that from 1825 to 2015 the market was positive 135 times or 71% of the time versus 55 negative years. Wouldn't it be great if the media would give as much attention to the good years as they do to the bad!

Many of the portfolio managers I know embrace downward volatility. In fact, they have nicknamed it their 'friend'. Why? Managers often trim holdings into a rising market so that cash will be ready to deploy when the market pulls back. By raising cash in portfolios, individual investors do

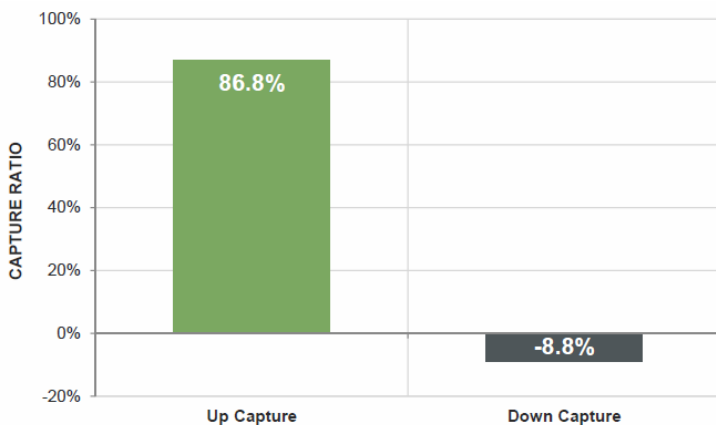
not have to make sell decisions as the managers they hire are doing it for them. Volatility is opportunity. Become an opportunist.

Active Management

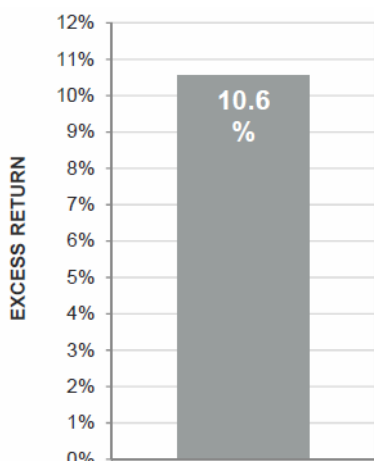
The Upside/Downside Capture Ratios and Excess Return charts below show that active management can produce great investment returns. A great fund will have high upside and low downsides. Even better than low downside capture ratios are negative captures meaning that a fund had positive returns while the index was negative.

The fund below captures 86.8% of the indices' upside returns with less investment risk. In addition, the fund had positive returns when the index was negative.

Fidelity Canadian Large Cap – F Class vs. S&P/TSX Composite Index (over 5 years ending August 31, 2015)



Over a 5 year period ending August 31, 2015, the Fidelity Canadian Large Cap fund F Series, produced an investment return of 10.6% above the index. Note also that this excess return is after fees.



Source: Fidelity Management & Research Company. Period shown: 5-years ending August 31, 2015

We have shown how the Fidelity Canadian Large-Cap fund has outperformed its peers and the index considerably. So how does active management outperform passive or index investing?

Active managers use multiple techniques, one of which is the *equity sector mix*. When we look at one of our favorite balanced funds, we notice a weighting of 13% in healthcare, 10% in consumer discretionary and 5% in consumer staples. One of the lowest weightings is in energy, which would have the second highest weight in the S&P/TSX. Financials have the third highest weight compared to the S&P/TSX where it is first.

Another way managers add value is their choice of *geographic mix*. A geographically diverse portfolio allows you to diversify your holdings across economic areas. Currently, the Fidelity Canadian Large-Cap fund has roughly 30% in non-Canadian stocks. Why? The fund's mandate (shown in the prospectus) allows the manager to invest in positions outside of Canada. In this example, the manager felt that some foreign valuations represented greater upside potential than their domestic counterparts.

Another area of active management and conceivably the most important is *stock picking*. The index has really never been great at picking stocks. Becoming part of the index can be a curse. Microsoft and Home Depot shares for example, performed better before they were included in the S&P500 index.

Fidelity's Canadian Disciplined Equity fund Series B is a good example on the merits of stock picking. This fund's equity sector mix is the same as the S&P/TSX Composite Index. This fund has surrendered to the theory that the Index does better than most managers. The difference being that Fidelity believes they are better stock pickers. In the last 15 years, this fund has outperformed the Index by an average of 1.2% each and every year, after fees. This fund has outperformed the Index by 4% per year in the last three years, and over the last year, almost 6% in a falling market.

Source: Fidelity Investments, Market Pulse September 30, 2015

In summary, there are numerous tools active managers have at their disposal including asset mix, geographic mix, stock picking, sector weighting and currencies. When evaluating managers we, at Future Financial, also look for strong upside and downside capture ratios. We believe active managers can and do add value and much of their value comes from protecting your portfolio in down markets.

Organizing Your Affairs

Making your affairs and intentions clear and organized can have considerable benefits for your loved ones. This task can be simple, but is often overlooked.

Here are items to consider:

- ✓ Who should be involved in the conversation? Spouse, children, family, close friends etc.
- ✓ If you are married and own your home, is it in joint ownership? It may be easier if it is.
- ✓ Are your bank accounts separate or joint? If separate, are there enough emergency funds to withstand changes to one's income?
- ✓ What life insurance, group insurance do you have?
- ✓ Do you have a current Will and Power of Attorney? Does your will contain provisions for any children and their education?
- ✓ Is there a provision to pay off the house mortgage in the event of one's death?
- ✓ Do you know your total present income and living expenses?
- ✓ Do you know where everything is? Important documents, wills, insurance, mortgage, investment statements, safe deposit key, shares and bonds, income tax returns, marriage/death certificates, adoption papers, deeds, *everything*.

We can help you work through your checklist and get the conversation started.

Retirement Stats

The #1 risk to personal financial security in retirement of both pre-retirees and retirees is inflation, followed by health care, asset allocation, withdrawal and longevity.

- 48% of retirees retired earlier than planned
- 62% of pre-retirees expect to work in retirement
- 58% of working retirees do so to stay mentally and/or physically active
- 54% of working retirees need the income
- 27% of retirees are working at least part time
- 37% of retirees are concerned that market volatility will adversely impact retirement income
- 22% of pre-retirees anticipate an inheritance to be a source of their retirement income

Source: Fidelity Investments. Retirement 20/20. The 2015 Fidelity Retirement Survey Report

What's Stressing Canadians?

87% wish they had made better financial decisions earlier in life.

45% are embarrassed about their lack of control over finances.

4 in 10 people in relationships with shared finances argue regularly over finances.

Source: FPSC, Financial Planning Report, Fall 2014



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. Mutual Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other Products and Services are offered through Future Financial Planning Group and term/mart Insurance Agency Inc.



FFPG FUND REPORT

Compounded to October 5th, 2015



<u>Fund</u>	<u>YTD</u>	<u>1 yr %</u>	<u>3 yr avg %</u>	<u>5 yr avg %</u>	<u>10 yr avg %</u>
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	-11.56	-13.48	2.14	3.90	3.94
Fidelity Canadian Growth Sr. B	6.35	13.79	22.98	15.52	7.82
Dynamic Small Business Sr. A	-2.56	-2.00	4.34	5.94	10.29
Sentry Canadian Income Sr. A	-1.33	3.70	11.08	11.38	8.46
Fidelity Dividend Plus Sr. B	1.29	7.12	8.13	8.03	9.01
Fidelity Canadian Large Cap Sr. B	0.28	5.53	16.15	14.25	9.83
IA Clarington Strategic Equity Income Sr. A	-4.23	0.27	-2.94	8.53	n/a
IA Clarington Canadian Small Cap Sr. A	-7.73	-8.76	11.64	10.79	6.92
IA Clarington Focused Cdn. Equity Cl. A	-12.43	-16.41	1.00	n/a	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	13.65	20.89	16.91	9.04	6.69
Fidelity Small Cap America Sr. B	14.43	29.19	28.11	25.43	10.52
Trimark Global Endeavour Fund Sr. A	14.15	21.37	19.26	15.75	8.22
Sentry U.S Growth & Income Sr. A	5.10	16.38	21.24	n/a	n/a
BALANCED FUNDS					
AGF Monthly High Income MF Series	-8.84	-12.45	0.42	2.56	4.99
CI Signature Canadian Balanced Cl. A	-1.57	1.23	7.30	5.94	5.38
Dynamic Power Balanced Sr. A	3.28	5.27	8.20	3.82	5.13
Dynamic Value Balanced Sr. A	-0.41	0.77	7.99	4.60	5.43
Fidelity Monthly Income Sr. B	0.27	3.26	7.25	7.26	6.72
Fidelity Canadian Balanced Sr. B	2.68	5.88	8.84	7.42	6.29
Fidelity Income Allocation Sr. B	2.99	6.16	7.37	7.09	7.49
IA Clarington Focused Balanced Sr. A	-6.44	-8.32	4.10	n/a	n/a
Mackenzie Cundill Canadian Balanced Sr. C	-10.76	-7.72	6.43	5.90	4.08
ALTERNATIVE FUNDS *YTD for Arrow as of September 30th, 2015					
Vertex Fund Class B	0.90	-7.87	3.77	3.55	6.08
Vertex Managed Value Sr B	-12.12	-6.57	12.05	8.39	5.69
Arrow Raven Rock (1) Class A	-4.70	-12.92	-1.87	1.99	n/a
Arrow Curvature Mkt Neutral Cl A (capped)	5.93	8.33	6.66	7.95	n/a

All Mutual Funds Sold by Prospectus Only & Alternative 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 Planning Group (FFPG) 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 Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other Products and Services are offered through Future Financial Planning Group and term/mart Insurance Agency Ltd. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Rate of returns provided in the chart above obtained from morningstar.ca and arrow-capital.com (Arrow Funds). Although we believe the sources used to be reliable, we cannot guarantee its accuracy.

FINANCIAL, ESTATE, TAX AND RETIREMENT PLANNERS SINCE 1978

201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. www.futurefinancial.com