Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2013 NEWSLETTER

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Carl's Comments

Last year brought us very close to the edge, if not over the "fiscal cliff", coupled with Eurozone debt drama and Geopolitical conflicts. In spite of this negative back drop, the markets ended positive with the S&P up over 10% and the TSX up 5%. Leading the way in the US market were consumer cyclicals and financial services while utilities, energy and basic materials lagged.

What is in store for 2013? In spite of fiscal policy uncertainties that continue to frustrate investors, most analysts see reasons to be optimistic. Core reasons for this confidence include; a steady recovery in US housing, the revival of US energy production and the resurgence of US manufacturing. Should the US policymakers find a solution to the fiscal cliff and if investors' confidence returns, this could mean another strong year for stocks.

Many analysts are more bullish on the US market than Canada or the Eurozone. Analysts feel the Canadian market will pull back, led by the housing market. I happen to agree the market has been somewhat immune to the world's problems because of the world's thirst for resources. This thirst has overinflated our dollar and our housing market and adjustments are likely due. Most analysts do not see a US style housing pullback but a significant adjustment nevertheless.

The best opportunities may lie outside of Canada for the next year or so. Aggressive Canadian managers are taking advantage of the US opportunity and weighting their portfolios in that direction. Norm Lamarche of Front Street Capital believes the cause of the US economic turnaround is mainly due to the North American shale story. He goes on to say "We don't think we've seen anything yet on this story."

Other analyst's comments:

Dan Bastasic - IA Clarington Investments Inc.
"Expect growth to slow over the first half of 2013, which means we continue to favour high quality dividend paying stocks."

Dave Taylor - Taylor Asset Management Inc.
"The fear in the market, combined with the significant flows out of equities over the past five years and the absence of U.S. investment in Canadian resources, makes us bullish."

Brad Radin - Radin Capital Partners Inc.
"From a tactical perspective, the uncertainty surrounding the fiscal cliff allows us to purchase good companies at depressed prices…"

What does it all mean? Certain asset classes are overpriced such as Canadian housing and bonds and the uncertainty which is always in the market makes a great case for shifting money into undervalued assets such as stocks and perhaps to the US. But caution must prevail because the US market has had a good-sized rally and we expect a pull back before the next leg up.

How To Maximize Your Estate

How can you turn $100k into $300k without taking on additional risk? Well, if you don't require the income you are receiving from your RRIF and you are healthy, this simple concept may be right for you. The idea is to use the money in your RRIF to buy an annuity and use the annuity payment stream to cover the cost of life insurance. Death benefits from the insurance are tax free.

With a regular RRIF, the value will eventually erode as the required minimum payments increase each year forcing higher withdrawals.

<u>RRIF Option</u>

<u>Year 1</u>

$100,000	RRIF Value*
$ 46,000	Less taxes (46%)
$ 54,000	Net Estate Value - Year 1

***can reduce immediately and is subject to investment return volatility and minimum annual withdrawal requirements**

<u>Estate Maximizer Option</u>

<u>Step 1</u>

$100,000	Purchase an Annuity (with RRIF)
$ 7,680	Annual Income from Annuity

<u>Step 2</u>

$200,000	Purchase Life Insurance
$ 7,738	Annuity Payment pays the Premium

Assumptions:
Male, 70, preferred, non-smoker
Rates subject to change and underwriting and insurability

The $200,000 life insurance death benefit is tax free – increasing the estate value by almost **<u>300%!!</u>**

Like a RRIF a beneficiary on life insurance can be designated and changed at any time. You may also decide to name a charity as your beneficiary and your Estate will get a tax receipt generating a potential savings up to 46%, offsetting income tax on your final return.

Benefits:

- Increases estate value significantly
- No investment decisions
- 100% guaranteed
- Life insurance proceeds are tax free
- Avoid probate fees and all estate fees
- Multiple beneficiaries can be named

The above illustration is based on a RRIF scenario however; non-registered money can be used and also has multiple estate and tax advantages. The main advantage is to avoid probate. A "prescribed" annuity should be considered so that annuity payments are more favourably taxed (see next section as it relates to return of capital).

> ***Tax Tip:*** *If you took money out of your TFSA last year, you can re-contribute all of it this year plus up to another $5500. The sooner you contribute the better so you can benefit from tax-free compounding.*
>
> *Speak with us as we can help ensure you don't incur over-contribution penalties.*

Four Types of Income

Not all investment income is EQUAL**.** There are four categories and each which is taxed at a different level. In non-registered accounts, the type of income distribution received makes a significant difference to your after tax returns.

As can be seen in the graphs on the following page, interest income (i.e. earned from a GIC/bond) is taxed much less favourably at 100%, meaning more tax is paid and less is kept in your pocket.

Return of capital (ROC) is the most tax advantaged form of income, as tax on distributions is deferred until the investment is sold. The cost base is reduced by the ROC amount (T3's show ROC). When the investment is sold, capital gains (of which only 50% is taxable) are paid on the difference between the cost base and the market value.

Source: DF_SeriesT_InvestorGuide_EN_V3

By simply changing the type of income received, there is the potential to save up to 50% in tax that would otherwise be paid.

"I want to focus on decorating the egg within."

Active or Passive?

Passive investing holds that the market is efficient and cannot be beaten. Active investing on the other hand maintains that there are market inefficiencies that can and must be exploited. A passive investor invests in the market as to exactly match the index weights whereas an active investor or manager makes judgment calls on sector, geography and company specific weights. Although the obvious goal of active management is to beat a benchmark, many also endeavor to reduce volatility and protect from downside risk. By protecting returns in a downward market, active management can really add value or alpha.

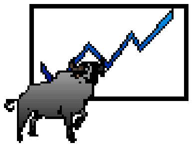
TSX vs. Canadian Equity Funds

Bear markets 1980 - 2009				
Start	**End**	**S&P/TSX Composite**	**Canadian Equity Funds[9]**	**Difference**
Nov-80	Jun-82	-38.8%	-27.2%	11.6%
Aug-87	Nov-87	-24.9%	-22.4%	2.5%
Jan-80	Oct-90	-20.1%	-15.5%	4.6%
May-98	Aug-98	-25.6%	-21.4%	4.2%
Sep-00	Oct-02	-42.5	-25.9%	16.6%
Jun-08	Mar-09	-42.5	-41.5%	1.0%
Average		-32.4%	-25.6%	6.7%

The above table illustrates that the average Canadian equity fund outperformed the S&P/TSX in ALL of the recent bear markets. Over the time periods shown, the outperformance of Canadian equity funds over the index averaged 6.7%!

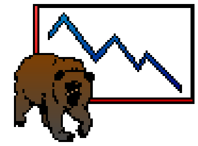
Of course not all fund managers employ active management and not all fund managers are equal. The mindset of the do-it-yourself investor is most likely to align with passive investing. Those that are proponents of active investing are more likely to value professional advice and service when establishing their long-term financial plans.

Source: CI Investments. Active versus passive – March 2013 Richard J. Wylie



FUND REPORT

Compounded to February 28, 2013



Fund	Volatility	YTD % (Mar 26/13)	1 yr %	3 yr %	5 yr %	10 yr %
CANADIAN EQUITY						
BMO Growth and Income	M	3.66	5.86	10.31	6.07	10.75
Fidelity Canadian Growth	M	10.84	16.50	11.47	1.65	7.88
Dynamic Small Business	L-M	2.91	2.24	10.03	10.44	18.04
Sentry Canadian Income	L-M	4.90	11.75	10.89	8.78	13.52
Fidelity Dividend Plus	M	4.38	11.34	9.37	9.43	n/a
Fidelity Canadian Large Cap	M	10.22	11.26	14.41	7.36	12.20
Front Street Growth	H	-3.69	-28.54	-4.15	-2.80	11.84
IA Clarington Canadian Conservative Equity	L-M	3.48	5.90	8.66	4.76	8.10
IA Clarington Strategic Equity Income	L-M	6.25	11.01	7.03	2.17	6.40
IA Clarington Canadian Small Cap	L-M	8.77	17.36	12.48	5.59	11.16
Sprott Canadian Equity	H	-9.23	-33.11	-4.49	-9.44	7.86
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	M	5.57	9.94	3.23	0.56	8.22
ROI Global Supercycle A	M-H	4.65	5.95	4.95	n/a	n/a
Mackenzie Cundill Value C	M	9.97	6.21	5.10	0.88	6.16
Mackenzie Cundill Recovery C	M-H	3.19	10.43	6.38	-1.03	10.75
BALANCED FUNDS						
AGF Monthly High Income	M	2.59	3.21	7.58	5.81	n/a
CI Signature Canadian Balanced	L-M	3.69	6.67	5.71	4.16	7.90
Dynamic Power Balanced	M	0.61	0.94	1.15	0.60	8.00
Dynamic Value Balanced	L-M	5.84	8.49	4.05	4.29	8.40
Fidelity Monthly Income	L-M	4.21	7.86	8.46	6.61	n/a
Fidelity Canadian Balanced	L-M	2.54	4.97	6.40	3.91	7.18
Fidelity Income Allocation	L-M	3.42	6.80	7.24	7.16	n/a
IA Clarington Focused Balanced	L-M	7.31	n/a	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced	M	6.01	10.27	8.42	6.04	6.16
ALTERNATIVE FUNDS						
Vertex Fund	M	2.58	10.86	6.45	6.36	14.46
Arrow High Yield	L	1.5	5.2	5.1	6.8	n/a
Arrow Raven Rock	L	1.5	7.6	n/a	n/a	n/a
Act ll Long/Short	M	1.3	2.8	3.2	4.6	n/a
Curvature Market Neutral	M	2.4	8.7	6.4	n/a	n/a

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

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