Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

WINTER 2015 NEWSLETTER

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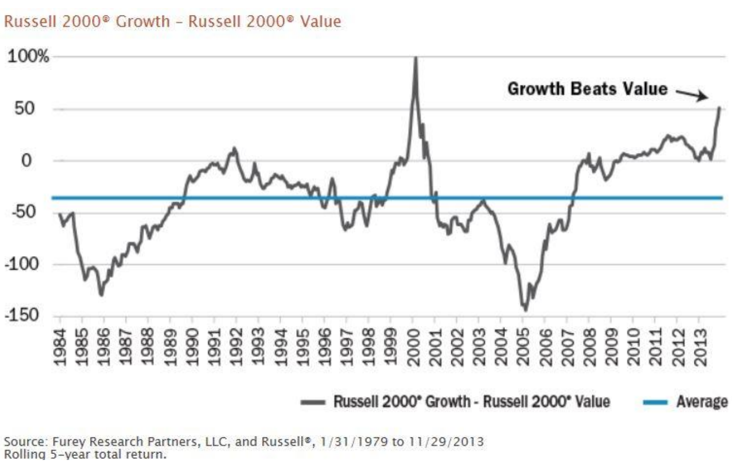
Carl's Comments

There are two types of investment management styles; value and growth. Like various asset classes and market sectors, these two styles rise and fall in popularity as seen in the chart below. At Future Financial, we have a bias towards value style managers. In the last few years growth has outperformed value akin to what occurred prior to the tech wreck.



With interest rates at all time lows and economic expansion mildly positive, growth or momentum investing has been in vogue. This time, the stocks are different but they remind us of the previous episode in 2000. Amazon is trading at almost 500x earnings, Tesla over 250x, Netflix over 200x and Facebook at 64x. The stocks seem "priced for perfection" meaning that the stock has climbed much higher than analysts feel is justified. The stock could still go higher but offers limited downside protection for a prudent investor. Most of us will recall that this type of situation did not end well in 2000 and we would suspect much of the same for these high-flyers.

When we are well into a growth cycle, value investors tend to become discouraged. They may want to switch existing managers to jump on the growth/momentum bandwagon. The trouble however, is that the switch is generally done at the worst time (i.e. the peak). The style that has been abandoned is right at the trough with nowhere to go but up.

How do the two styles differ? Value managers believe the margin of safety is always dependent upon the price paid. They look for undervalued sectors and undervalued companies within these sectors. Value stocks often offer above average dividend yields and capital appreciation with a lower margin of risk than other investments. After the US housing collapse in 2008, value managers were very interested in timber companies. This sector was very much out of favour because as you can imagine there was zero building planned for the foreseeable future. I heard from one manager that one company's outstanding stock value was equal to what the company had in the bank. If you bought this company and its value is equivalent to what they have in cash, you are really getting all of their timber resources among other assets for free. Value managers then play the waiting game with the idea sooner or later the sector and stock will come back. I would wager that a number of value managers are currently interested in the energy patch with the idea that we haven't used our last barrel of oil.

The growth style of investing, which has lately been in style is more momentum-based. A growth manager buys a stock because they believe its earnings are expected to grow at an above-average rate compared the overall market. The stock bought could be fair or overpriced and you ride it upwards for as long as you can. Many managers hang on as long as the momentum doesn't change. They generally sell on the first bit of negative news, such as missing analysts predicted earnings or if their target price is reached. For growth managers, earnings are the key component driving stock prices. Growth stocks have higher volatility because higher growth expectations translate into a greater negative impact should earnings disappoint.

To summarize, a value manager buys bargain priced, out of favour securities and patiently waits for the stock price to increase. A growth manager buys a stock based on earnings and growth potential and hopes that the earnings momentum will continue. Incidentally, Warren Buffett favours the value style investing so he and I do have something in common! The difference between winning and losing in the value style game is being patient. It's that simple.

From our family to yours, we wish you a safe, happy and prosperous new year!

Face to Face – Nov 20 & 21 Fidelity Manager Comments

Below are some key comments from various Fidelity portfolio managers and strategists that emerged from the November due diligence conference Carl attended.

Bonds are still attractive. US fixed income in particular should benefit from investors' flight to quality due to bouts of market volatility. US bond yields are attractive vs. other parts of the world. **Bob Brown**

Change in Canadian Economic Drivers needed. Consumer spending and housing have provided Canadian growth. This is not sustainable and increases to exports and business investment is needed. Lower Canadian dollar will help this. **David Wolf**

Canadian dollar outlook. Labour costs in Canada are higher vs. the US. To be more competitive, need a lower Canadian dollar for a sustained period to stimulate export growth and increased investment. **Alan Wilkinson**

Changing Demographics. Demographic trends in developed markets moving from net borrowing to net saving mentality, reducing consumption. This is positive for fixed income demand as is aging population that needs more income and capital preservation. **Jeff Moore**

Mortgage <u>Life</u> Insurance Protection Facts You Need to Know

This is not to be confused with mortgage loan default insurance premiums (i.e. CMHC or Genworth) that make it possible to purchase a home with only a 5% down payment. With mortgage life insurance, you are buying life insurance to pay off your remaining mortgage balance in the event of your death. The bank or mortgage lender will offer you this valuable protection but beware that it can come at a very high cost.

To illustrate, we will use a 31 year old non-smoking couple, average health with a $300,000 mortgage.

The monthly rate per $1,000 mortgage at Scotiabank is $0.13 for each person less a 20% combined discount plus HST or $70.51/month. Keep in mind that your coverage decreases even though your premiums remain the same for the term. A Term 10 insurance policy where the coverage does not decrease is $27.18/month – a savings of 160%! If you are both in better than average health, the premium could be as low as $20.97/month.

Here's another example. At RBC, if both spouses are 42, the rate is $0.49 plus HST or $166/month. A Term 10 policy with Transamerica is only $41.76/month – a

savings of almost 300%. Again, if you are in better than average health, the cost is a mere $32.58/month. There are countless other advantages of a personally owned life insurance policy over what the bank offers. For more information, a detailed quote or to discuss further, please contact us.
Source: Compulife quotes vs. Scotiabank Mortgage Protection vs. RBC Home Protector, Dec 2014.

~RRSP Reminder~

The last day to make an RRSP contribution for 2014 is **March 2nd, 2015.**

Possible RRIF Reform?

There is some speculation from various sources that changes to RRIF payouts may emerge in the upcoming federal budget. According to a recent C.D. Howe Institute report, with increased longevity and historically low interest rates, some seniors may be at risk of outliving their savings. Since there have been no changes to RRIF minimum withdrawal rates since 1992 (apart from a onetime reduction in 2008), we may well be due for a few changes. Time will tell.

There appears to be four main options for RRIF reform:

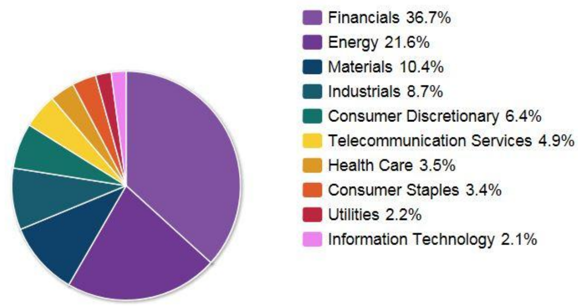
1. Raise the age limit for converting from RRSPs to RRIFs
2. Lower the minimum RRIF withdrawal amount
3. Create a new formula for withdrawals
4. Eliminate mandatory minimum payments

Source: Investment Executive. Mid Nov 2014 page 17.

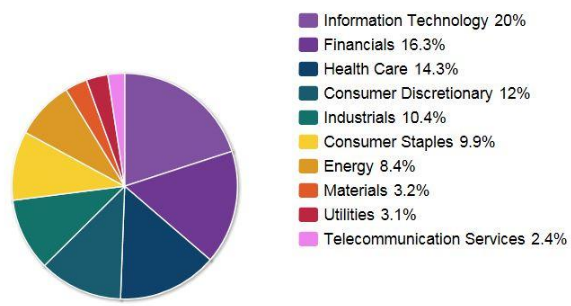
What makes up an index?

As most of us know, the Canadian market has three main driving forces; Financials, Energy and Materials. These three sectors make up almost 70% of the S&P/TSX Composite Index. We believe that active management is necessary to achieve above average returns with below average risk. Market volatility is likely here to stay, and a diversified portfolio with a strong management team should help to reduce market risks and provide better than average long term returns.

S&P/TSX Composite Index



S&P 500 Index



Source: www.ca.spindices.com

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.

WORLDSOURCE FINANCIAL MANAGEMENT INC. MUTUAL FUND DEALER

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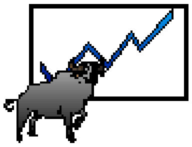
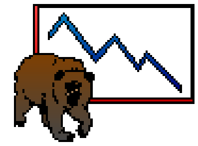


FFPG FUND REPORT

Compounded to November 30, 2014



Fund	YTD% (Dec 17/14)	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY FUNDS					
BMO Growth & Income Advisor	-0.66	3.35	7.35	8.83	6.83
Fidelity Canadian Growth Sr. B	9.99	14.57	22.39	14.50	7.94
Dynamic Small Business Sr. A	5.60	7.61	7.70	9.96	12.49
Sentry Canadian Income Sr. A	10.93	13.64	14.38	13.61	10.41
Fidelity Dividend Plus Sr. B	9.82	12.66	10.18	10.60	n/a
Fidelity Canadian Large Cap Sr. B	7.20	9.94	16.37	15.24	12.27
Front Street Growth Sr. B	-27.27	-25.59	-16.91	-8.22	2.19
IA Clarington Cdn. Conservative Equity Sr. A	-0.93	2.76	5.69	6.33	5.64
IA Clarington Strategic Equity Income Sr. A	6.54	8.98	12.28	n/a	n/a
IA Clarington Canadian Small Cap Sr. A	1.23	3.97	19.73	13.45	9.35
IA Clarington Focused Cdn. Equity Cl. A	-8.44	-5.97	n/a	n/a	n/a
US/INTERNATIONAL/GLOBAL EQUITY					
Dynamic Global Discovery Sr. A	3.23	9.16	12.13	6.90	7.58
Fidelity Small Cap America Sr. B	13.26	17.12	28.63	22.02	9.04
Mackenzie Cundill Value Sr. C	-0.83	1.63	15.86	7.13	3.89
Sentry U.S Growth & Income Sr. A	16.89	22.36	22.05	n/a	n/a
BALANCED FUNDS					
AGF Monthly High Income MF Series	-3.04	-0.64	4.52	6.63	n/a
CI Signature Canadian Balanced Cl. A	8.09	10.49	9.37	6.58	6.84
Dynamic Power Balanced Sr. A	4.83	7.79	7.77	4.07	6.56
Dynamic Value Balanced Sr. A	3.53	5.67	9.82	5.35	6.55
Fidelity Monthly Income Sr. B	5.88	7.24	8.60	8.73	7.90
Fidelity Canadian Balanced Sr. B	8.18	10.09	9.25	7.73	6.99
Fidelity Income Allocation Sr. B	8.07	9.12	7.54	8.47	n/a
IA Clarington Focused Balanced Sr. A	-3.79	-1.62	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced Sr. C	3.62	5.99	13.45	9.04	5.75
ALTERNATIVE FUNDS *YTD for Arrow as of Nov 30/14					
Vertex Fund Class B	-2.63	1.88	5.96	7.73	9.06
Vertex Managed Value Sr B	3.19	10.59	22.44	13.36	8.74
Arrow Raven Rock (1) Class A	-0.7	-0.2	4.80	n/a	n/a
Arrow Curvature Mkt Neutral Cl A (capped)	6.80	8.20	8.00	7.90	n/a

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