Fall 2012

Financial focus

Add value to your portfolio with dividends

With interest rates near historic lows and volatility continuing in equities, where can an investor find returns that are both respectable and reliable? The answer: dividends. Here are some key reasons you may want to consider holding or adding to dividend investments as we near the end of 2012.

Canadian corporations have large cash reserves. Canadian companies that have successfully weathered the economic challenges of the past few years are sitting on enormous cash reserves — some $583 billion, according to Statistics Canada. StatsCan data also show corporate operating profits near their highest level since 2008, at $71.9 billion. As economic growth continues, cash-rich companies may well begin to use these reserves to "reward" investors.

Dividends from strong, established companies can provide steady income. Although quarterly payments are not guaranteed, dividend-paying investments offer the potential for a steady income stream.

You'll pay less tax on your earnings. Outside of registered plans, Canadian dividends qualify for the dividend tax credit. As a result, dividend income is taxed at a lower rate than interest income.

The dividend provides downside protection. The dividend softens the effect of any decline in the price of the stock.

NEXT STEP: Taking your risk comfort level and need for income into account, we can help you choose dividend stocks to complement the existing holdings in your portfolio and meet your needs for both income and growth.

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The chances of success in any endeavour are improved when you have a long-term plan, and the resources you need to carry out that plan. When it comes to investing, one of the most important resources you can have is knowledge — so that you can match the best investment products and solutions to your individual objectives.

That's where we can help. As your Investment Advisors, we are equipped with the tools and information necessary to build a portfolio that will help you achieve your financial goals. Whether your concerns are saving for retirement, funding your child's education, or preserving your estate, we can help you find an appropriate, customized solution.

This newsletter is part of our services to you, to keep you informed about the latest ideas in financial planning. If you have questions about any of the topics covered in the newsletter, please don't hesitate to give us a call.

Maintain your discipline in volatile markets

When the markets are volatile, it can be tempting to make hasty investment decisions. In turbulent times, some investors consider exiting the market entirely and moving into guaranteed investments. Other investors get out of the markets so they can re-enter when conditions improve.

But it's important to understand that these actions can lead you away from your long-term goals. A better course of action is to focus on things you can control. To help you maintain your discipline, here are some strategies to consider.

Stay invested. If you're investing for the longer term, being in the market is more effective than trying to time the market. For instance, over the past 10 years, the average annual compound return for the S&P/TSX Total Return Index (including reinvested dividends) was 6.7%* — well ahead of both inflation and returns on five-year Guaranteed Investment Certificates.

Keep investing. Volatile markets are not a reason to stop investing. In fact, they may provide an opportunity to purchase investments at more attractive prices. We can help you identify solid companies that fit your investment objectives and risk tolerance. You can also take advantage of volatile markets by increasing the dollar amount of your regular investment contributions, which can smooth out the average price you pay.

Continue to diversify. One of the most important things you can do to help protect your portfolio from volatility is to diversify — by asset class, geographic region, sector, market capitalization and management style. While diversifying will not prevent losses on individual investments, it can definitely help to limit the effect on your portfolio as a whole.

Review your asset allocation. Your asset allocation plan — the mix of cash, fixed income, equity and other investments in your portfolio — was developed for you, in line with your objectives and risk tolerance. But your risk tolerance can change over time. For instance, you may find that your risk tolerance is now lower than when you established your plan. Changes to your personal situation, such as nearing retirement, may also call for a more conservative risk profile.

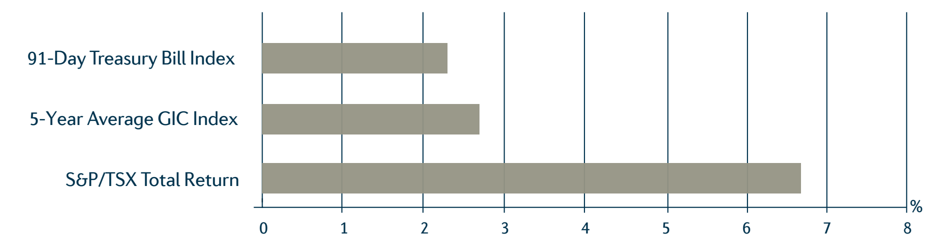
Rebalance your portfolio. In volatile markets, your asset allocation provides a framework to rebalance your portfolio through changing conditions. For example, in a down market the value of your equity investments may have fallen below its target weighting. To bring your targets back in line, you might consider selling some of your fixed-income holdings or deploying new cash to equities.

Don't chase winners. Consistent long-term performance is a better indicator of an investment's potential than short-term highs or lows. In today's climate, quality dividend payers have been exhibiting steady total returns.

NEXT STEP: It's important to be able to tune out market "noise" and build a solid portfolio of stable investments that can perform well through changing market conditions. Anytime you're feeling uneasy, we can review your asset allocation and ensure your portfolio is aligned with your objectives and risk tolerance.

Over the long term, equities outperform

Canadian equities have outperformed Guaranteed Investment Certificates and Treasury bills by a significant margin over the past 10 years.



* Source: globefund.com; average annual compound returns as of May 31, 2012

Retirement without boundaries

As baby boomers age, many are pondering retirement, but not necessarily in the traditional way. Long gone are the goodbye handshake and the engraved watch at 65. Today's retirees are younger and healthier than their parents and want to remain active and informed. In fact, many boomers today start their "retirement" lives by taking a part-time position or starting up a business.

WHY THEY KEEP WORKING

Interestingly, money may not be the prime motivation for those who choose to stay in the work force. Many retirees work for non-monetary reasons, including:

- **Boredom.** Some people find it difficult to suddenly fill so much unstructured time. They simply don't like the idea of having to find "something to do" every day.
- **Social contacts.** Some retirees thrive on the sense of "being needed" at work and want to maintain their social interactions with co-workers.
- **Physical and mental activity.** Working, whether full- or part-time, provides an opportunity for both physical and mental stimulation, with the added bonus of getting paid.
- **Personal satisfaction.** Turning a passion or a hobby into a small business is something many have taken up in retirement. According to an Ipsos Reid survey commissioned by a major Canadian bank, about half the men and one-third of the women surveyed said they started their own business to keep "occupied." The next biggest reason was, "It's something I've always dreamed about."

THE CHOICE IS YOURS

As our population ages and boomers start to retire, there is an increasing need for experienced workers. If you are 55 or older, phased retirement may be an option you want to consider. It may provide you with a more attractive work/life balance and enable you to transition more comfortably into full-time retirement. Remember, you can choose to begin receiving Canada or Quebec Pension Plan benefits as early as age 60, while continuing to contribute to the plan.

Be sure to involve your spouse and family in your decisions. If you're planning to start your own business, for example, it may require a substantial amount of time, energy and financial resources. The support of your family could be integral to its success.

NEXT STEP: If retirement — whether full-time or part-time — is on your radar, it's time to get in touch with us. Transitioning from a full-time position to part-time work, consulting, or starting your own business has significant tax-planning and budgeting implications. We can help steer you down the right path to retirement and help you achieve your goals.

Education

RESP milestones

As young people head to school this fall, your thoughts may be turning to post-secondary education for your own children or grandchildren and the Registered Education Savings Plans (RESP). The timeline below highlights some key dates and deadlines that you won't want to miss in order to maximize the benefits of saving through an RESP.

Focus on equities

Birth — Contribute the maximum of $50,000, and your RESP will grow to more than $150,000 by the time your child is 18, assuming an annual return of 6%. However, you'll get only $500 in CESG.

Age 2 — To generate the maximum lifetime CESG payment of $7,200, start now and contribute $2,500 each year until your child turns 17. You'll have more than $88,000, assuming an annual return of 6%.

Balance

Age 10 — Haven't started yet? It's not too late. Contribute $5,000 each year for the next seven years and you'll get CESG of $1,000 each year, thanks to the carry-forward of unused grant entitlement.

Focus on safety

Age 16 and 17 — In order to receive the CESG, RESP contributions must either total at least $2,000 before the year in which the child turned 15 or be at least $100 a year in any four years preceding the year the child turned 16.

Age 18 — Contributions can be made to an RESP for up to 31 years. The plan can stay in existence for a maximum of 35 years.

Over time, the investments in your RESP should change from primarily equities (to take advantage of long-term growth potential) to fixed income and cash (as you prepare to take the money out).

Retirement Planning

Costs may go down when you retire

Even in the low-inflation environment we're currently experiencing, prices always seem to go up. Where your retirement is concerned, however, it's entirely possible that you could see your cost of living go down for the following reasons:

- **No more dependants living at home.** With your children grown and living independently, the costs for running your household could go down.
- **No more mortgage payments.** Many people aim to have their mortgage paid off by the time they retire. Even if you're still carrying a mortgage, it's likely to be much smaller than when you were in your career years.
- **No more commuting.** Since you no longer need to travel to work, your commuting costs are likely to go down. If you currently own two cars, for example, you may be able to manage with just one, garnering significant savings.
- **Lower taxes.** With no taxable employment income, you could see your marginal tax rate drop. By drawing down your assets tax-effectively, we may be able to reduce the tax bite further still.
- **Seniors' discounts.** Retirees represent an important market to retailers, which is why they're willing to offer them special incentives, ranging from in-store discounts, lower rates on car insurance, discounted travel, and a host of other deals for those over 50 or 55.

NEXT STEP: Everyone's situation is different — which is why it's important for us to get together to determine your retirement expenses and sources of income.

Investing

Access China's growth potential

With economic growth in developed nations expected to remain moderate for the foreseeable future, investors seeking growth may want to turn to emerging markets for superior opportunities. China, in particular, has emerged as an economic powerhouse, posting annual growth rates of 9% to 10% over the past few years.

Foreigners, however, cannot invest directly in the Chinese market. At the same time, exchange-traded funds (ETFs) and mutual funds that focus on Chinese companies may exceed your appetite for risk. Fortunately, it's possible to gain exposure to China's economic growth potential by investing strategically in Canadian and international companies that have Chinese connections. This "indirect" route offers a number of potential benefits.

Stocks that are listed on established Canadian and international exchanges are subject to strictly enforced reporting requirements, ensuring that potential investors have access to full and complete disclosure of their activities and their financial reports.

Here is a look at some of the emerging trends in China and the investment opportunities they may represent.

CHINA'S INDUSTRIAL REVOLUTION

As the world's largest manufacturer, China is the world's largest consumer of industrial materials. It takes immense amounts of energy and resources to fuel its growth, more than the country itself can supply.

Investment opportunity: Canadian companies that provide natural resources to Chinese operations, as well as equipment, logistics, engineering and construction.

CHINA'S URBAN SHIFT

Masses of the Chinese population are expected to move from the country to the city to work and prosper over the next 20 years. It is estimated that the country will need to build the equivalent of 10 cities the size of New York to accommodate them. Such extensive construction requires resources to build the cities, technology and transportation to connect them, and energy to power them.

Investment opportunity: North American and European companies that provide urban planning, energy technology, healthcare and retail property expertise.

CHINA'S GROWING MIDDLE CLASS

As income levels rise, consumer spending shifts from covering the basic necessities of life to buying middle-class items and luxuries. The result is higher demand for consumer goods, food and restaurants, lifestyle services, and entertainment.

Investment opportunity: Companies from around the world that provide consumer goods and services along with leisure and travel services.

NEXT STEP: Investing in companies that are supplying what China needs during this period of massive change may be an avenue you'd like to investigate further. We can help you select investments that are likely to benefit from the strong economic growth of emerging markets like China. This is also an effective way to increase the level of geographic diversification in your portfolio.

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