Spring 2012

Financial focus

Sometimes it pays to go against the crowd

In times of market volatility, many investors either reduce the equity weighting in their portfolio and move to fixed income or cash (the so-called "flight to safety") or sit idle, waiting for the volatility to stop. The reality, however, is that equity market volatility is not likely to dissipate anytime soon. And since it's a fact of investment life, why not use it to your advantage? In other words, consider using market declines to make investments that could boost your portfolio returns over the long term.

TURNING DECLINES INTO OPPORTUNITIES

Market declines tend to affect most stocks across the board. Those moves do not necessarily — or even usually — reflect a fundamental change in an underlying company. In many cases the business you liked when shares were $40 is the same one, with the same potential, when shares are $30.

There's another reason why buying when prices drop makes good sense. History shows that some of the biggest upward moves in stock markets come after sharp declines. For example, in 2008, the S&P/TSX Composite Index fell 33%. In 2009, it gained 35%, and it added another 14% in 2010.

COMMIT TO YOUR PORTFOLIO

Of course, nobody knows exactly when prices have reached a bottom or when a rebound will happen. That's why the most effective strategy — in any market — is to invest regularly and not try to time the market. You'll always be investing, adding to your portfolio and enhancing its potential performance.

NEXT STEP: Holding your ground while other investors are retreating in droves takes some courage. If you're in need of reassurance, talk to us. We can show you how your portfolio is designed to provide the long-term growth potential you need to reach your financial goals.

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The key to long-term investment success is a sound financial plan — one that is based on your individual objectives, risk tolerance, and time horizon. As your Investment Advisors, we are here to help you develop and stick with the plan that's right for you.

At National Bank Financial, we offer a wide range of investment planning products and services, including bonds and fixed-income securities; stocks and options; mutual funds; and RSPs, RIFs, and ESPs. What's more, our Research Department has been recognized by experts as among the best in Canada, so you can be sure that our recommendations are based on reliable analyses of companies, the markets, and economic conditions.

Should you wish to discuss any of the ideas or solutions you read about in this newsletter, we would be happy to meet with you at your convenience.

François Chartier
Hélène Grandmaison

Should gold play a role in your portfolio?

Gold has experienced an incredible rise over the past decade. The price of gold hit a record close of more than US$1,900 per ounce on Sept. 5, 2011 and rose 10% for the year. Even though the price of gold fluctuated dramatically at the end of 2011, it still marked an impressive 11 consecutive years of gains for the precious metal.

Can gold continue to rise in 2012? What role should gold play in a portfolio? As always, the exposure that's right for your situation will depend on your tolerance for risk and your investment objectives.

WHAT'S BEHIND GOLD'S RISE?

The long rally in the gold price has been supported by a number of factors.

Weakness in the U.S. dollar. The U.S. dollar has been under pressure in recent years, as investors have grappled with the country's large fiscal problems. This has heightened gold's appeal as an alternative store of value.

Gold ETFs. The rise of gold exchange-traded funds (ETFs), which are often backed by the physical commodity, has led to increased investor demand.

A safe haven. Gold has long been recognized as a safe haven in times of market turmoil — such as the kind of turbulence we've seen since 2008.

Greater physical demand. Emerging market consumers in China and India have been large purchasers of jewellery and bullion as their incomes have risen. Central bank purchases have also driven demand for gold bullion.

What turn will gold take in 2012? Even though analysts expect gold to continue rising, profit-taking and consolidation are normal after an 11-year run.

Gold bears point to lower demand for the physical commodity in India and China — a problem that may be exacerbated if growth in emerging economies continues to slow. The bulls point to a long upward trend, strong buying from central banks, and the devaluing of currencies like the U.S. dollar and the euro. Rising inflationary pressures could also lend support to gold when economic growth in developed countries picks up pace.

GOLD AND YOUR PORTFOLIO

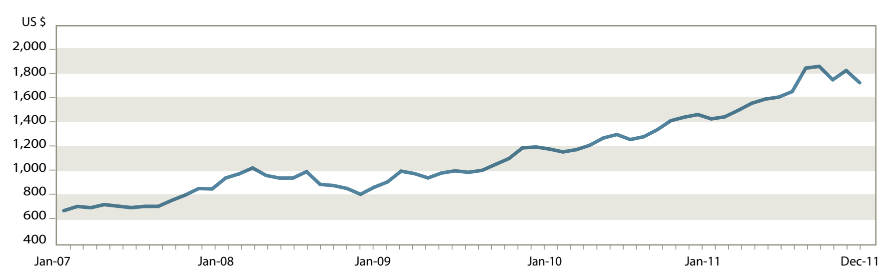
Although the price of gold has risen substantially over the past decade, over the longer term gold has been marked by sudden reversals of fortune, which makes attempts to trade gold a risky proposition. Not even the pros can correctly time when to move in and out of gold.

However, gold does have a role as a safe-haven investment and can be appealing to longer-term investors who see it as a store of value. And with shares of gold miners not having kept pace with bullion's rise in the past few years, gold stocks may today offer some value.

NEXT STEP: There are many ways to take part in gold — from investing directly in gold bullion to investing in gold ETFs. We can work with you to identify the right exposure for you in line with your goals and risk tolerance. Please give us a call today to review your portfolio.

GOLDEN GAINS

Over the past five years, gold prices have risen steadily.



Month-end closes: January 2007 – December 2011. Source: World Gold Council

Trusts: Share your wealth but keep control

One of the main reasons most of us work, save, and invest is to build a better life for ourselves and our children. And in many situations, a family trust can be an effective way to safeguard assets and ensure that they benefit your loved ones.

A trust is a vehicle created to hold specific assets that you place into it, where they are managed (by a trustee) according to directions that you establish. You can set up a trust during your lifetime (a living or inter vivos trust) or after your death, through your will (a testamentary trust).

Here are some examples of how a trust can help you achieve certain estate planning goals.

SECOND-MARRIAGE SITUATIONS

John is happily married to June, his second wife. He has two children from a prior marriage. He wants to leave sufficient assets to June to look after her needs for life, but would like whatever's left after that to go to his children. If he simply leaves his assets to June directly, he'll have no guarantee that his children will ever benefit from them.

Solution: John can set up a trust in his will to provide income for June for the rest of her life. After her death, the assets in the trust can be distributed to John's children from his previous marriage.

FAMILY MEMBERS WITH SPECIAL NEEDS

Ron and Rhonda are the parents of a developmentally challenged daughter who is likely to need assistance for all of her life.

Solution: They can establish a trust in their will to ensure that she gets the care she needs and that the trust's financial assets are managed appropriately on her behalf.

COTTAGE SUCCESSION

Wayne and Wanda own a cottage that's been in their family for many years. They want to leave it to their two sons but aren't sure that they will look after it properly. They are also concerned about the capital gains tax that is likely to arise if they leave them the cottage in their will.

Solution: Wayne and Wanda can transfer the ownership of the cottage to a trust during their lifetime. While the transfer will trigger tax on any capital gain to the date of transfer, there will no longer be a cottage-related tax liability upon their death. The trust can stipulate who is responsible for maintenance, who has access and when, and so on. This will also enable Wayne and Wanda to continue enjoying the cottage for the rest of their lives.

MULTIPLE USES

The above are just a few examples of how trusts can be used to help you distribute your wealth effectively and tax-efficiently. They can also be used to give assets to charity and to safeguard assets for minor children.

NEXT STEP: Trusts are very flexible and can be used for a variety of goals, but they can be complex. We can help you decide whether a trust is right for you, assess the potential costs, and recommend which assets might be transferred to it.

Retirement Planning

Let's put your retirement plan in writing

Whether you're a few years from retirement or already enjoying it, you're well aware of how important it is to plan ahead. But unless those plans are captured in a document, it can be difficult to keep track of your progress or know whether you need to adjust your plan to get where you want to go.

That's where a written retirement plan can help. Just as we might create an overall financial plan or a statement of investment objectives, we can formulate a written retirement plan to provide a clear roadmap for your journey through retirement.

Putting your plan in writing gives us an opportunity to:

- Spell out your key lifestyle goals, including what you want to do in retirement, where you plan to live, whether you plan to travel extensively, and if you plan to continue working.
- Estimate how much these goals are likely to cost, assess your income sources, and formulate a budget that matches your income level with your expenses for a worry-free retirement.
- Plan a withdrawal strategy for your Registered Retirement Income Fund (RRIF), Tax-Free Savings Account (TFSA), and non-registered investments to provide a steady stream of income as tax-efficiently as possible.
- Revisit your plan annually and make any adjustments that may be necessary to help ensure you can live the retirement lifestyle you want.

NEXT STEP: Call us today and make an appointment to talk about your retirement vision and write down your plan.

Investing

Approach online investment 'advice' with caution

The Internet is an amazing resource. You can search for investment analyses, and economic forecasts, and research specific opportunities at any time of the day or night. You can add to your knowledge of investing and finances and discover what other investors are doing.

A WORLDWIDE WEB OF INFORMATION

There is also a multitude of financial calculators and asset allocation tools to help you manage your finances. If you have a smartphone or tablet, you can even access information on the go.

FILTER WHAT YOU FIND

While the Internet is a valuable resource for investors, a degree of caution is advisable. Not all of what you read will be suitable for your individual circumstances.

To play it safe, it's a good idea to talk to us about the ideas you find online that pique your interest. We can provide you with additional material and make sure that any strategies you act on are aligned with your specific situation.

We can also verify that the investment ideas you're considering are coming from reputable sources. After all, anyone can post ideas and advice, and you may not always be aware of their qualifications or even their motives.

NEXT STEP: We're here to answer your questions and offer advice at any time. Bring us the ideas you find on the Internet, and we'll act as your sounding board. If they're suitable, we can work to implement them in your financial life.

Tax Planning

A year-round approach to tax savings

With a little planning and some easy-to-implement strategies, you could be generating tax savings throughout the year instead of scrambling for deductions and credits at the end of April.

Here are four areas for your consideration. Remember, before implementing any tax-planning strategy, it's wise to consult with your professional tax advisor to ensure that your circumstances have been taken into consideration.

REVISIT YOUR RRSP QUARTERLY

Some investors review their Registered Retirement Savings Plan (RRSP) just once a year, right before the contribution deadline for the previous year. This timing can lead to hasty investment decisions or, even worse, no investment decision — that is, they simply park their contribution in a low-rate money market fund or cash investment.

To make the most of your RRSP, we should review the investments it holds on a regular basis. It will give us the opportunity to make any adjustments and to deploy any cash that you contribute through a regular investment plan.

EXPAND YOUR TFSA HORIZONS

With an additional $5,000 contribution allowed for 2012, your Tax-Free Savings Account (TFSA) could have the potential to hold as much as $20,000 (assuming you were 18 or older when it was introduced in 2009). That's enough to hold a diversified portfolio, not just cash or Guaranteed Investment Certificates.

Why is that significant? By including investments with higher potential returns, such as equities, you can increase your TFSA's potential long-term returns.

CONSIDER ASSET LOCATION

If you have both registered and non-registered accounts, we need to consider the most tax-effective way to arrange your overall portfolio.

For example, 100% of interest income is taxable outside a tax-advantaged plan; earned inside a registered plan, you'll pay no tax on interest. On the other hand, capital gains are taxed on only half their value when held outside a registered plan. Canadian-source dividends also qualify for advantageous tax treatment when held in a non-registered account.

When you have both kinds of accounts, it can be to your advantage to concentrate your interest-earning investments in your registered plans and use your non-registered account for holding equities and equity funds that generate capital gains and dividends.

DELAY YOUR RRSP DEDUCTION

One often overlooked strategy is not to claim all of your RRSP tax deduction in the year you make the contribution. You can claim all or part of your deduction in a future year. This will work to your advantage if your income, and therefore your income tax rate, increases in the future. The higher your tax rate is, the greater the tax benefit generated by your deduction.

NEXT STEP: Let's talk regularly about your tax situation. With income taxes top of mind at the moment, now is a great time to start.

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