Summer 2012

Financial focus

Keep emotions where they belong

Emotions cloud our judgement. We can all recall a time when we said something out of anger or reacted out of fear with completely unexpected actions only to regret our behaviour later. What's important to recognize is that just as in life, there are triggers with our investments that can lead us to react out of emotion and to make decisions we might regret in the aftermath. Knowing what they are can help us to maintain perspective.

TOO MUCH INFORMATION

With information coming at us every day from multiple sources, it can be difficult to tune out the noise. Remember, however, that bad news and short-term wins that are unsustainable (and unlikely to be repeated) make better headlines than stories about solid, uneventful investments that deliver steady returns year after year.

THE HERD MENTALITY

Inevitably, some investors will react to events that are in the news. Typically, however, they are "behind the curve." In other words, whatever they're reacting to has already happened and its effects have been factored into current market prices.

It's this herd mentality and tendency to overreact that results in most investors buying at market peaks (buying high) and selling at market lows (selling low) — the exact opposite of what they want to do.

STICK TO THE FACTS

In the end, it's best to deal with what you know and control the factors that you can. Plenty of the market noise you hear can be dismissed as conjecture and forward projections that may — or may not — be accurate.

NEXT STEP: Voice your concerns about things you hear and read. We'll help you put them into perspective so you can focus on building a portfolio to reach your objectives.

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One of the big advantages to having a financial strategy is that you don't have to monitor your investments every minute of every day. Instead, we set your asset allocation to reflect your goals and your time horizon, and then choose appropriate investment vehicles to take you there.

That means that you're free to enjoy life while your portfolio keeps working for you in the background, generating the income and growth you need to live comfortably today and in the future.

Of course, we don't just set up your portfolio and then forget about it. We check on its progress regularly and also check in with you on a regular basis in case your situation has changed.

It's a simple recipe for success – your success!

François Chartier
Hélène Grandmaison

Taking the pulse of Canada's energy sector

The Canadian oil and gas sector has experienced a volatile ride over the past few years. After falling dramatically during the financial crisis of 2008-2009, the price of oil has risen steadily to more than $100 a barrel. Natural gas prices, however, have been moving in the opposite direction and are struggling with near-record lows.

Although it's important to have an understanding of the big picture, the kind of energy exposure that's right for your portfolio will depend on your tolerance for risk and your investment objectives.

OIL AND GAS: A TALE OF TWO MARKETS

Oil prices today remain stubbornly high and are being felt at the pumps by consumers in the form of rising gasoline prices.

Many reasons have been cited for the high oil price, including: tensions in the Middle East, sanctions on Iranian oil, and expectations of strong demand from emerging economies. Also, oil is priced in U.S. dollars and tends to be negatively correlated with the greenback. Structural deficits and ongoing political gridlock in the U.S. may continue to buoy oil.

On the other hand, a huge supply glut saw natural gas prices fall to US$2 per 1,000 cubic feet in mid-April — the lowest price in a decade. Natural gas prices have been falling for the past year, as advances in technology have led to a North American production boom in natural gas. A mild North American winter also played a role.

However, despite rising prices for crude oil and record profits and cash flows for Canadian energy companies, the all-important energy sector has been languishing.

Oil and gas companies — which represent almost one-quarter of the S&P/TSX Composite Index — have lost ground to date in 2012, as a winter sell-off continued into spring. Many reasons have been cited for the disconnect between the world market price for crude oil and the languishing share prices of Canadian producers.

Lower-priced Canadian oil. Heavier Western Canadian crude oil is selling for considerably less than benchmark West Texas crude, as it costs more to refine.

Oversupply at U.S. refineries. The Bank of Canada recently pointed to oversupply of crude oil at the Cushing, Oklahoma, refining hub as helping to keep a lid on Canadian crude prices.

Inadequate export infrastructure. The lack of pipeline capacity means Canadian crude is being delivered mainly to the U.S. Midwest, where refineries are overloaded with supply. In addition, existing pipelines have encountered production and transportation difficulties.

Rising input costs. Higher labour and material costs for many big energy projects in the Western provinces are going over budget, putting a strain on margins of large and small energy producers.

Free-falling natural gas prices. Natural gas remains highly important to the Canadian oil patch, as even major oil producers are large gas producers as well. Indeed, natural gas represents almost half of Canada's oil and gas production.

OUTLOOK FOR THE SECTOR

Although the near-term outlook for Canadian energy companies is challenging — a fact reflected in market valuations — emerging market demand is expected to support energy prices longer term. And some of the bigger Canadian names have announced steps to deal with depressed prices for oil and gas resources.

YOUR PORTFOLIO

There are many ways for investors to take part in Canada's oil and gas sector — from purchasing shares directly to investing in exchange-traded funds and mutual funds. And the oil and gas sector itself is diverse, encompassing large producers as well as integrated companies (those involved in production, refining, and marketing) that pay dividends.

NEXT STEP: We can work with you to identify the right energy exposure for your portfolio in line with your goals and risk tolerance. Please give us a call today to review your investment strategy.

To drip or not to drip

As Benjamin Franklin said, "Money can beget more money." And if you participate in a dividend reinvestment plan, or DRIP, it can certainly be true.

Dividends are company earnings that are paid out to shareholders, usually quarterly. A DRIP takes these cash payments and automatically uses them to purchase additional shares of the same stock. This offers some important benefits:

- **Compounding.** With a DRIP, your dividends get you more shares, which in turn produce more dividends, which get you more shares, which produce more dividends, and so on and so on. It's the same principle as compound interest, but in this case it applies to equities. It's an easy way to increase your investable assets without making a cash outlay.
- **Savings.** Unlike regular share purchases, there's no commission associated with purchases made through a DRIP. In addition, some programs will even give you a break on the share price, making shares available either at the average market price or a slight discount (about 5%).

One thing to note: While your dividends are used to purchase more shares under a DRIP, they are still taxable unless you're holding your shares within a registered plan.

NEXT STEP: DRIPs are not available on all equities. If you're interested in this strategy, we can help you choose appropriately. We can also help ensure that your portfolio's asset allocation doesn't stray off target as a result of any DRIP-related purchases.

What are your priorities?

Last December, Canadians were asked to identify their financial priorities for 2012. Here are their Top 10 as reported in an Investor Education Fund survey:

1. Reduce debt
2. Create an emergency fund
3. Create a budget to track spending
4. Use credit cards responsibly
5. Set up an automatic savings plan
6. Open/contribute to a TFSA
7. Start tax planning for 2012
8. Open/contribute to an RRSP
9. Pay off mortgage
10. Lower fees

NEXT STEP: If any of these priorities resonate with you, give us a call. We can help you give it the attention it needs.

Financial Classroom

Finding more to invest

More people want to save or invest more money than they already do. But at the end of the month, after all the bills are paid, many say there's simply nothing left. Or is there? A closer look may reveal that thousands of dollars are vanishing from your pockets each year.

We know because, in conversations with our clients, it's not uncommon for us to discover that many simply cannot account for what they've spent their hard-earned dollars on for one reason: They don't have a budget. As we work together to establish budgets with clients, we often find that hundreds of dollars are left unaccounted for at the end of each month. It's simply being spent blindly.

It's common to focus on rates of return and ask how they can be better, but just as important is knowing where your money is going. Taking a look at your ongoing expenses means being able to identify areas where you can find the extra money you're looking to save and invest.

We understand a budget isn't often top of mind. It can feel like a chore and we know how much more fun we can have when we can just buy what we want when we want it. But there is real power in a budget. You know that feeling you get when you find a $20 bill in a pair of pants you haven't worn in a while? It feels like getting a gift. Now imagine that instead of $20, you found thousands of dollars in those pockets.

NEXT STEP: Work with us to create a budget. We'll make it as painless as possible and help you discover what you didn't know you had.

Investing

Two more years til your OAS? Relax – we've got you covered

The March 29, 2012, federal budget proposed some significant changes to Canada's Old Age Security (OAS) system. Under the proposals, Canadians would not be eligible to begin receiving OAS and the Guaranteed Income Supplement (GIS) until age 67 rather than the current age 65. Anyone who was 54 or older on March 31, 2012 would not be affected.

THE HYPE

It's not surprising if Canadians are concerned about how their retirement income might change. But what's important to note is that even if the new rules affect you, the impact on your financial security in retirement is likely to be negligible.

NO NEED FOR CONCERN

For most people, OAS represents a small portion of retirement income. The maximum OAS payment as of June 2012 is only about $6,500 and begins to be clawed back once total income exceeds $69,562. Even if you stood a chance of being affected, you can rest easy knowing that we'll revise your plan and then make any necessary adjustments.

When the time comes for you to begin drawing retirement income, we can develop a tax-efficient income strategy to provide you with the cash flow you need while preserving your entitlement to government benefits like OAS.

NEXT STEP: Let's review your retirement income needs to ensure you have the retirement life you want.

Investing

GICs may not provide the returns you need

Market volatility has many Canadian investors beating a path from equity investments to low-risk vehicles like Guaranteed Investment Certificates and money market mutual funds.

In fact, according to data compiled by the Investment Funds Institute of Canada, redemptions for equity funds totalled $2.05 billion in the first two months of 2012 compared with net sales of $1.39 billion for the same period last year.

The retreat to safety is understandable. Volatility has left many investors anxious as memories of 2008 have been stirred anew by the European debt crisis. Fear is only natural, but it's important to bear in mind a few things.

We work to ensure that your portfolio is diversified to mitigate risk. Our strategy is one for the long term and our eye is fixed on your future. It is important to understand how rushing for the shelter of low-risk investment vehicles in this low interest rate environment might mean needlessly sacrificing potential for growth.

Low interest rates mean low returns. Even longer-term GICs, which typically offer more attractive rates, are generating returns of only around 2% or 3%. Once taxes and inflation are factored in, your returns could be minimal or even negative.

WHAT RETURN?

For example,* suppose you're holding a $5,000 investment that pays 2.5% annually outside a registered account like a Registered Retirement Savings Plan (RRSP) or Tax-Free-Savings Account (TFSA). It would generate $125 over the course of a year. But that's before the federal and provincial governments take their cut. Assuming a combined (federal and provincial) marginal tax rate of 40%, your $125 would shrink to just $75 after tax, or an effective rate of just 1.5%.

At this point, you might be thinking that 1.5% is a rate you'd be happy with, but don't get too comfortable just yet. After all, you're still going to need to account for inflation.

As of February 2012, inflation (as measured by changes in the Consumer Price Index) is running at 2.6% annually. As a result, your "safe" investment is actually losing purchasing power once income tax and inflation are taken into consideration.

MANAGING VOLATILITY AND INFLATION

Over the short term, equity investments can be volatile. However, over the longer term, they tend to outpace inflation and interest rates. Volatility is simply part of our investing reality and why we work to manage risk as much as possible.

NEXT STEP: We understand the fear that comes with uncertainty but we're here to allay your fears. Talk to us about your concerns. You can count on us to develop a portfolio that reflects your need for both security and growth and to ensure that it continues to align with your investment objectives over time.

* Investment return, interest rate, and income tax rate provided for illustration only. Actual rates may vary.

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