Spring 2013

Financial focus

Emerging markets — the next generation

Move over China and India. Vietnam, Mexico, Brazil, Colombia, and Turkey are jockeying for attention. Here are five reasons these markets show promise.

1. Demographics. The relatively young populations of these emerging markets contribute to a growing, more productive labour force. In Vietnam, for example, 25% of the population is under the age of 14.[1]

2. Increasing per-capita incomes. Within 10 years, Turkey is projected to have more than 11 million households earning in excess of US$30,000 per year.[2] This will boost domestic consumption and demand for imported goods.

3. Infrastructure. Public spending on roads, railways, ports, and airports makes it easier to transport goods and trade. In Brazil, the government has earmarked $50 billion for improvements to its transportation networks. The benefits should reverberate for years to come.[3]

4. Improving political stability. Colombia is a case in point: After years of violence, the country is now enjoying more stable, disciplined governance. This is attracting investors, expanding markets for exports, and reducing the costs of doing business.

5. A significant risk/return trade-off. Emerging-market investments carry more risk than those in established economies. But with greater risk can come greater potential reward. Consider Mexico: In 1994, it was virtually insolvent in the wake of the peso crisis. Today, Mexico is the darling of the emerging markets: Its stock market hit an all-time high in December 2012.

NEXT STEP: Prudent risk management is the key to investing in these markets. We can help.

1 Central Intelligence Agency, *The World Factbook,* December 2012.
2 Ernst & Young, *Insights,* Autumn 2012.
3 Ernst & Young, *Infrastructure,* 2012.

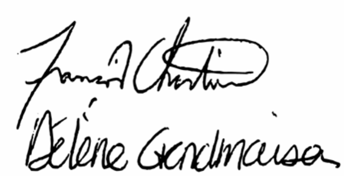
NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

Team Chartier, Grandmaison
NATIONAL BANK FINANCIAL
1 Place Ville-Marie
Suite 2201
Montreal, QC H3B 3M4

Telephone: (514) 390-7374
(514) 879-3659
Toll-Free: 1 866 626-0636
Fax: (514) 879-3118
Emails: francois.chartier@fbn.ca
helene.grandmaison@fbn.ca

Did you make a contribution to your Registered Retirement Savings Plan (RRSP) just in time for the deadline? That's the habit of many Canadians, which is why we call the first 60 days of the year RRSP season.

But you're better off, as an investor, to make RRSP season all 12 months. You benefit from the discipline of forced investing and the financial gains of dollar-cost-averaging. Talk to us about setting up regular contributions throughout the year. And we'll also help you coordinate the timing of contributions to your other registered and non-registered investments.

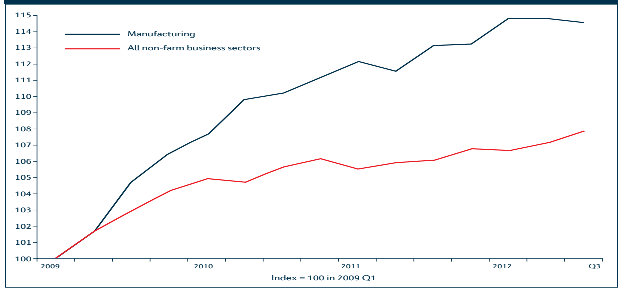


Manufacturing opportunities

U.S. manufacturing gained momentum in late 2012, registering four consecutive months of output growth. The NBF Economy and Strategy Group believes that manufacturing will continue to be a positive story in 2013.

With the Canadian dollar expected to stay strong in 2013, investors have an opportunity to invest in the U.S. manufacturing revival at more attractive prices. As always, what's right for your portfolio will depend on your tolerance for risk and your investment objectives.

Chart 1 - Output up
Output per hour worked in the manufacturing sector has grown at a much faster pace than in other areas of the economy.



Source: NBF Economy and Strategy (Bureau of Labor Statistics)

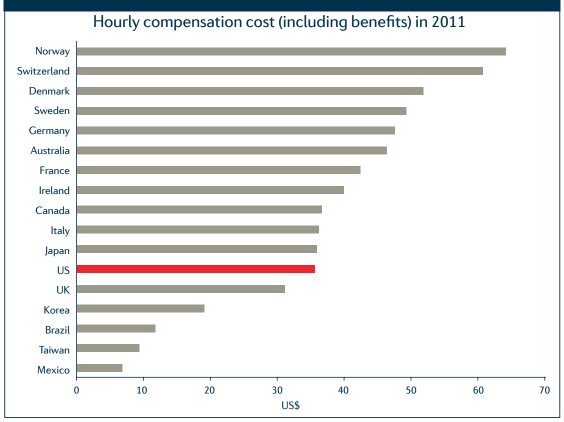
WHAT'S BEHIND THE REVIVAL?

Strength in the manufacturing sector is supported by a number of factors.

Better productivity. U.S. factories have become much more competitive on the international stage as a result of productivity enhancements and cost-cutting measures (see Chart 1).

More competitive wages. "Right-to-work" legislation, which allows employees to opt out of paying union dues, is a growing phenomenon in the U.S. and has weakened union bargaining power. Close to half of all U.S. states are now right-to-work states. One of the results of right-to-work is that the wage gap with the rest of the world has improved significantly (see Chart 2).

Chart 2 - Wages down
U.S. manufacturing now boasts one of the lowest hourly compensation costs in the G-10 group of industrialized nations.



Source: NBF Economy and Strategy (Bureau of Labor Statistics)

Lower U.S. dollar. The U.S. dollar has weakened against emerging market currencies and currencies of more developed countries, making U.S. exports more competitive on world markets.

Attractive financing costs. Low U.S. interest rates have led to low refinancing costs for U.S. factories, allowing businesses to expand to meet greater demand.

Surge in vehicle sales. U.S. auto production has been a key source of growth, helping to lift the fortunes of auto-parts manufacturers. With more than half of the vehicles on the road over 10 years old, the replacement cycle has plenty of room to grow.

Lower energy costs. The shale gas revolution in the U.S. has lowered the cost of natural gas — a key input for industrial users.

HOW TO TAKE PART

The U.S. manufacturing sector is quite diverse, operating in a range of industries, and there are many ways for investors to take part — from purchasing shares directly to investing in exchange-traded funds and mutual funds.

NEXT STEP: We can work with you to identify the U.S. investment exposure that's right for you, in line with your goals and risk tolerance. Please give us a call today.

Your quick guide to choosing beneficiaries

It's just a space on a form, right? Name your spouse or child as beneficiary and move on to the next line. But designating a beneficiary involves critical choices and important tax implications, and may have repercussions for your estate plan.

Here are some key points to keep in mind:

Beneficiaries can be named on Registered Retirement Savings Plans (RRSPs), Registered Retirement Income Funds (RRIFs), Tax-Free Savings Accounts (TFSAs), life insurance policies, segregated funds, and life annuities. You can designate an individual, corporation, charitable organization, trust, or trustee. (Note that in Quebec, designations for RRSPs, RRIFs, and TFSAs must be made in the will, and naming a trustee for minors doesn't apply.)

You can name more than one beneficiary and assign different proportions to each one. Also, it's important to name a contingent beneficiary in case your primary beneficiary passes away before you do.

RRSPs AND RRIFs

An ideal choice is to name your spouse as beneficiary of your RRSP or RRIF, as assets can roll over tax-deferred to your spouse's RRSP or RRIF. Designating a financially dependent child or grandchild also offers tax advantages, which differ according to whether the beneficiary is able or disabled, a minor or adult.

You can name anyone else as beneficiary and that individual will receive 100% of the RRSP or RRIF proceeds. Your estate pays the tax bill.

If you name a charitable organization as beneficiary, the charitable donation tax credit can offset the taxable income from your RRSP or RRIF.

TFSAs

A TFSA has successor holder and regular beneficiary designations. The first choice is typically to designate your spouse as successor holder — proceeds transfer directly into the surviving spouse's TFSA without affecting contribution room.

ANNUITIES

You can purchase a life annuity with a guaranteed payment option to provide for a named beneficiary. After you pass away, the beneficiary receives a lump-sum payment or regular stream of income payments.

INSURANCE AND SEGREGATED FUNDS

Designating your spouse or children as beneficiaries of life insurance or segregated funds is not always the best choice. You may wish to direct the large lump sum to a trust on their behalf in these situations:

- The child is a minor.
- You want the recipient to benefit from investment expertise.
- The recipient will benefit from a trust's tax advantages.
- You're in a blended family and want to ensure fairness among all heirs.

NEXT STEP: When you find yourself with a beneficiary choice to make, or want to review your current beneficiaries, talk to us first. We'll help ensure you make the best decision for you and your loved ones.

Tax Planning

Tax credits and deductions for families

With April 30th just around the corner — and the deadline for filing your personal income tax return — we've listed below some commonly overlooked tax-saving opportunities that may be available to you.

Eligible dependent credit. This credit gives a tax-break equivalent to the spousal credit to a single parent who supports a child or other dependent relative. For 2012, you can claim $10,822 on your federal tax form (provinces and territories offer a similar credit). You can claim for only one child.

Family caregiver amount. Effective for the 2012 tax year, if you have a dependent with a physical or mental impairment, you may qualify for a tax credit of up to $300.

Children's fitness and children's art credits. For each child under 16 at the start of 2012, you can claim up to $500 of eligible fitness expenses and up to $500 of expenses in an eligible program of artistic, cultural, recreational, or developmental activities.

Adoption expense tax credit. If you adopted a child under 18 with the adoption period ending in 2012, you can claim a tax credit for eligible adoption expenses up to $11,440.

Medical expenses credit. Often overlooked is the portion of medical and dental expenses not covered by your benefits plan — expenses for anyone in your family. In addition, premiums paid to a health plan are eligible expenses.

Child care expenses. Fees for day camp or overnight camp are considered an eligible child care expense.

NEXT STEP: To help ensure that your tax reporting is accurate and you are not overlooking any credits or deductions, you may want to consider consulting a professional tax planner.

Satellite investing

Have you ever wanted to do a little something more with your investments? Something exciting but that won't pull your current portfolio off track?

If so, then you may be interested in the core-plus-satellite strategy, where you supplement your established portfolio with one or more specialized investments.

Primarily, the goal is to enhance overall returns by gaining exposure to a promising market. At the same time, adding a satellite may reduce your overall risk through further diversification.

WHAT IS A SATELLITE?

Typically, but not always, a satellite is a narrow, focused position. An investor may seek out small-cap holdings or a particular emerging market. Or you might aim to boost fixed income with high-yield or global bonds. Other common satellites include commodities, real estate, and precious metals.

USING THIS STRATEGY

Buy-and-hold investors can use the satellite approach to add a long-term strategic position not represented in their core holdings. Investors who are more active may choose to pursue shorter-term opportunities, adding a temporary position in an effort to capitalize on current or anticipated market conditions.

NEXT STEP: If you're interested in this strategy, please talk to us. We can help you explore the opportunities while remaining true to your risk tolerance and target asset allocation.

Is the best offence a good defence?

There's an adage in sports that states, "defence wins championships." Many investment experts and investors feel the same way about their portfolios. Defensive securities, for example, may help improve overall investment performance.

A defensive investment is one that generally remains stable throughout all phases of the business cycle. Typically, defensive investments outperform the market during recessions and lag market leaders during economic expansions.

WHAT "DEFENSIVE" REALLY MEANS

In times when people watch what they spend, what do they really need? Answer that question, and you've got a defensive investment.

There are four economic sectors commonly identified as defensive:

- **Utilities.** Because water, gas, and electricity are used at all times by everyone — consumers, businesses, and government — the utilities sector is considered defensive.
- **Consumer staples.** Since we all need to do the laundry and brush our teeth, we need to purchase consumer staples regularly, regardless of the economy.
- **Health care.** Medicine and medical goods and services are always in demand. In fact, demand has been growing in recent years with an aging population.
- **Telecom.** For decades, consumers have treated Internet and wireless technology as staples, making this a defensive sector.

THE BENEFITS OF DEFENCE

Defensive investments offer a number of potential benefits as part of a diversified portfolio. These can include:

- **Protection from market cycles.** Revenues of companies in defensive sectors typically depend very little, and sometimes not all, on the health of the economy.

  Long-term buy-and-hold investors maintain these holdings to help provide downside protection during market declines. More aggressive investors may temporarily add defensive holdings at appropriate times during the market cycle.
- **Potential outperformance.** Traditionally, defensive investments have primarily been used to reduce risk, but past performance would seem to indicate that they also have the potential to enhance peformance. In 2012, for example, health care and consumer staples were the two best-performing S&P/TSX sectors. Credit Suisse reports that from 1995 to 2011, defensive sectors worldwide outperformed the MSCI World Index by about 130%.
- **Enhanced stability.** Including non-cyclical equities in your portfolio may help bring a measure of stability to your investment program, in light of ongoing market volatility.

NEXT STEP: We'd be happy to discuss defensive strategies specific to your portfolio, whether as a stabilizing factor, investment opportunity, or both.

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