Investment Insights

STRESS TEST your retirement income plan

What has caught many people off guard is the breadth of the market decline that we have experienced this past year. I think it's fair to say that most investors believed that asset allocation – or the strategy of diversifying across a number of asset classes, such as cash, bonds and stocks – would provide sufficient protection for their savings as they approached the retirement years. What the market declines of 2008 and early 2009 have demonstrated is that, due to the boom and bust cycles that occur within free market economies, global markets can react in a manner that can undermine even the best laid financial plans. If there is a lesson to be learned for those facing retirement, it's that asset allocation alone may not be enough to guarantee that your nest egg is protected from these types of events.

So where does that leave you?

Product allocation is yet another key for you to consider. Retirees face different risks than those who are building wealth, including the risks of outliving their money or losing their buying power due to inflation. However, the features and guarantees offered by a ***variety*** of income and wealth generating investment "buckets" can mitigate these risks. Combining these products in the right manner can go a long way towards creating a sound retirement income plan. We've certainly worked hard to ensure that your investment assets are in tip-top shape, but what about the other buckets? We're happy to review your insurance, pension, and estate transfer needs.

Product allocation involves placing retirement savings into three different categories of products in order to help increase the likelihood of achieving a sustainable stream of retirement income. The chart on the next page outlines the three buckets and some of their features, benefits and limitations.

Getting your retirement income plan back on track

For investors, the question now is how to get their retirement income plans back on track. If you leave the financial markets in favour of safe, interest-bearing securities, not only will you give up on the higher potential returns that could follow as the markets rebound, but you will also be locking into low interest rates. On the other hand, if you remain invested in stocks, there is always the potential for volatility, but generally a higher income stream (from dividend paying stocks) and potential for growth when the markets do recover.

If you find yourself in this quandary, adopting a product allocation strategy may be the solution you are looking for. If you're interested in finding out more about any of the product categories listed in the chart, please let us know.

Have a great quarter!

- Jolene

ScotiaMcLeod™

Morgan Butler, FMA
Wealth Advisor
(604) 535-4724

Jolene Laing, CIM, FCSI
Wealth Advisor
(604 535-4733

Laura Wiebe
Administrative Associate
Maternity leave as of December 7th

Nicole Sanders
Administrative Assistant
(604) 535-4738

100-1676 Martin Drive
White Rock, BC V4A 6E7

Toll Free: 1-800-663-4278

www.financialpeaceofmind.ca

Please be advised…

The last day for tax-loss selling for the 2009 taxation year is:

Thursday, December 24th

If you have any tax planning to take care of, please be sure to let us know ASAP!

2009 Gain/Loss Reports

Available upon request as of January 4th

Please allow 2 weeks for completion

Please call our assistant regarding any questions on tax reporting you may have



PRODUCT CATEGORY	STRENGTHS AND WEAKNESSES
Pensions and Annuities (CPP, OAS, Private Pensions, Annuity Contracts)	* Guaranteed income, typically for life * Predetermined regular income * Protection from market and interest rate fluctuations * No control over how assets are invested * No ability to access the capital * May, or may not, be a value at your death
Traditional Investment Accounts (Non-registered savings, RSPs)	* Flexibility and ease of access to cash * Control over how assets are invested * Growth potential to help offset inflation * Income is not guaranteed * Passes to your spouse tax free upon death * Passes to your estate, if no spouse
Guaranteed Minimum Withdrawal Benefits (Manulife Income Plus, SunWise Elite etc.)	* Guaranteed income, possibly for life * Predictable, sustainable and potentially increasing income * Control over how assets are invested * Growth potential to help income keep up with inflation * Guarantees come with an additional fee

Creating a New Asset Class Through Insurance

Many of our clients have concerns about taxes on their estate. Several families that we work with own recreational properties that they would like to pass on to future generations. However, over the past 20 or 30 years, some of these properties have amassed sizeable capital gains. Others want to ensure they leave something for their heirs but don't want to scrimp on their retirement lifestyle to do so. We have a solution to offer peace of mind!

A joint last to die life insurance policy is paid when the second spouse passes away. The beneficiaries of the policy receive the proceeds tax and probate free.

Example: 55 year old clients, the insurance premium is about $9000 annually for 10 years to ensure a $500,000 death benefit. To put that in perspective, if they were to invest the premium in a non-registered account, they would need a return of over 15% annually and pay no taxes over a 30 year time frame to end up anywhere close to $500,000.

$90,000 in premiums for a guaranteed $500,000 benefit…not bad in our books!

The Market Alphabet Soup…

There's a lot of talk about the shape of recovery. Will it be a "V," a "W" or a "U"? Let's take a look at what economists mean by the "shape of recovery" and offer a little prognosis of our own.

The most pleasant form of an economic downturn is a V. Growth in this scenario picks up almost as quickly as it slid. In this situation, it's time to "buy on the dips!" Part of this scenario was the belief that the Bank of Canada would aggressively cut interest rates – which they did. Consequently, the housing market would remain strong and the stock market would rebound – both of which have happened. This should lead to low unemployment, which would bolster consumer confidence, and in turn would sustain consumer spending. In the V-shaped recovery, bargain hunters pour back into the markets, thus reinforcing the "wealth effect."

The W-shaped recovery is similar, albeit twice the process. If unemployment stays high, consumer confidence falters and spending declines, it's possible to start all over again while the problems get sorted. Generally a "W" is experienced when the government still has a hand to play (i.e. rates can further decline, excess stimulus added). Not really the situation today given the current interest rate and the bailout packages that were divvied up earlier this year.

The U-shaped recovery takes a little longer and is a little tougher to endure than the V. Growth continues at a slow pace throughout the year. The unemployment rate, caused by lower consumer confidence, poor corporate earnings, and an over capacity in goods, rises substantially. Businesses and consumers cut investment and spending. The economy responds, slowly, or not at all to modest cuts in interest rates. The stock market in the "U" scenario continues to trend downward. This occurs despite intermittent rallies. Confidence is shaken. Nerves are frazzled. Worry and anxiety become widespread. After major capitulation, an upward trend develops in the market. There is light at the end of the tunnel!

Let's be realistic here – it's likely that the worst is over (March 2009). Does that mean that the bad times are gone for good? No. To us it means that our nerves have been tested and that the easiest gains this cycle has to offer have already passed. Now we're prepared to settle in for market hibernation over the winter. After such an amazing recovery earlier this year, our money is now on "slow and steady" for the next few quarters.

Important Upcoming Dates

November 2009

3/4 – US Federal Reserve Announcement

11 – Remembrance Day, Office Closed

December 2009

8 – Bank of Canada Interest Rate Announcement

15 – US Federal Reserve Announcement

24 – LAST DAY FOR 2009 TAX LOSS SELLING, Office Closed at 1pm

25 – Christmas Day, Markets & Office Closed

28 – Markets & Office Closed, in lieu of Boxing Day

January 2010

1 – New Year's Day – Markets & Office Closed

19 – Bank of Canada Interest Rate Announcement

26/27 – US Federal Reserve Announcement

The Last Word

There is really no such thing as bad weather, only different kinds of good weather.

- John Ruskin (1819 – 1900)