

Trusted Advice + Exceptional Service = Peace of Mind

◆ Investment News ◆

July 2011



Back row: John, Shawna, Sarah, Nicole, Talea, Tammy
Front row: Patty, Trina, Natalie, Rob, Lee

**The Kelland Wealth Management Group,
ScotiaMcLeod**
www.kellandgroup.com

Market Returns in 2011 As of June 27, 2011

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|--|---------------|
| S&P/TSX | -3.95% |
| S&P 500 – USA (in US\$) | 0.90% |
| MSCI World Index (in US\$) | -1.00% |
| S&P/TSX - from 2008 peak to now: | -15.40% |
| KWGM Model Portfolio, annualized Since inception January 1, 2009: | 13.95% |

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MARKET COMMENTARY

Judging by the world's stock markets in May and June, you would have thought that the robins had flown south already - it has been a cold and dismal

six weeks in the markets. **The first half of June alone saw the S&P/TSX index register a decline of 7.3%.** Similar negative trends could be seen in markets around the world. Our reviews with clients indicate that accounts have turned down in recent weeks, but are not as negative as the TSX market's decline of 10% since its high in early April.

The news was almost all bad – unless you peeked below the surface. Greece was enduring riots in the face of austerity programs in response to their debt refinancing crisis. The Japanese catastrophes had disrupted supply chains of manufacturers. The U.S. housing market continued to sag as home prices tracked back to 2002 levels. In Canada, the record high debt-to-income ratio may restrain consumer spending. Emerging economies were plagued with inflation and higher interest rates, while the U.S. government continued to delay dealing with their own rising debt. Global investors ran from stocks and increased their cash to the highest in a year.

Scratching beneath the surface, however, one discovers a brighter picture – corporate profits are maintaining very strong rates of growth, and in fact, **as stock prices fell while profits rose, the S&P 500 index in the U.S. reached its cheapest levels in 26 years.** Even if companies posted no growth in 2011 (instead of the expected 18%) price/earnings ratios would be lower than on 96% of the days in the past 20 years. The gap between corporate earnings and the price of stocks has widened.

Rob Kelland tends to agree with our Portfolio Advisory Group, and other respected analysts, who see this market as a mid-cycle slowdown – not as the start of a new bear market. Although the European and American debt issues linger, along with other concerns, and it is reasonable to expect slower economic growth in the developed world than is normal in a recovery period, Canada is considered a safe place to invest. We encourage clients to “stay the course” and also to continue to stay focused on strong management of their own debt and household finances.

KWVG INVESTING PRINCIPLES (4)

In the last three months we have attempted to summarize those ideals that we at the KWVG value the highest in giving advice: the importance of a long-term allocation of investments that appropriately balances each individual's risk and return objectives; the highest priority we place on honest, respectful and lasting relationships with you, our clients; and, attention to providing you with the most exceptional service in the industry. We conclude this four-part series with a brief comment on **investment decision-making**.

The price you pay for an investment is very important. Rob Kelland in over 26 years as an advisor has not altered his investment philosophy of purchasing securities at reasonable (rather than inflated) prices. In late 1999 the S&P 500 was trading at over 30 times earnings, nearly double its long-term average. Other markets were similarly very expensive. Rob did not participate in this "dot.com craze". KWVG clients accordingly did not suffer in the "dot.com meltdown".

Quality stocks and reasonable prices are essential to long-term success. **Today, the S&P 500 trades at less than half the valuation of twelve years ago.** Even now, Rob is cautious when purchasing stocks, but he sees much more promise of future gains than there were in the late 1990s. No one has a crystal ball. Many pitfalls will be encountered. There are other ways for advisors to manage stock selection. This is Rob's "style" and over the long-term we believe it will continue to be proven to be successful.

RETIREMENT PLANNING: THE CPP DECISION

One of the contentious issues in the Air Canada labour negotiations was a proposal to include certain new employees in a defined contribution (instead of a defined benefit) pension plan and to revise the benefits for existing members. This sticking point was referred to binding arbitration. Similar pension issues were front and centre in the Canada Post labour dispute. This is a sign of the times. **Low interest rates, together with demographic issues, are placing huge strains on pension plans.**

As noted last month, the Canada Pension Plan also has changes afoot. **CPP is planning to increase the deductions for retirees earlier than 65 and to**

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enhance the bonuses for those who retire after 65.

Following are the major changes:

- Starting in 2012, if you are over 60 and still employed, you are permitted to apply for CPP without ceasing work. However, you and your employer will have to continue to make CPP contributions on your earnings up to age 65;
- Your CPP pension will be reduced for every month that CPP is received before age 65 from the current 0.50% per month, to 0.52% if you start receiving CPP in 2012, to 0.54% in 2013, to 0.56% in 2014, to 0.58% in 2015, to 0.60% in 2015. This is called the "actuarial reduction";
- If you apply for CPP after reaching age 65, your pension will be increased by higher amounts than at present, from a 0.50% bonus up to 2010, to a 0.70% monthly bonus in 2013 (0.57% in 2011 and 0.64% in 2012).

Let's take an example. Let us suppose Henry and Henrietta have both worked all their lives in Canada and reach age 60 in January 2013. Assume their normal CPP at age 65 would be \$1,000/month. If Henry starts receiving CPP in 2013, he will receive \$676 per month (\$1,000 less 0.54% x 60 months early retirement). If Henrietta decides to wait until she is 70, she will receive more than double Henry's CPP, or \$1,420 per month (\$1,000 plus 0.70% x 60 months). If she continues to work from 60 to 65, her CPP will be even higher due to contributions.

Once the new rules are fully implemented, a pensioner who starts receiving CPP at age 70 and lives to age 90, will collect about \$100,000 more from CPP over those 20 years than a similar pensioner who collects CPP for 30 years at age 60.

The average CPP cheque to pensioners is currently about \$500 per month. **The maximum pension at age 65 in 2011 is \$960.00 per month.**

If you wish to do further research, you can call Service Canada at 1 800 277-9914, or review online: <http://www.servicecanada.gc.ca/eng/isp/common/proceed/socinfo.shtml>.

RETIRES NEEDING CASH

There are **five key risks to retirement income** outlined recently in a speech by Peter Drake, Fidelity Investment's vice president of Retirement and Economic Research. These are particularly relevant to Canada's Boomer (Post World War II babies) Generation:

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1. **Longevity risk.** Canadians are living longer and healthier lives. There is a real possibility of needing 25 to 30 years of post-retirement income.
2. **Inflation risk.** Even a modest 2% inflation rate over a 25 year retirement (the average rate of the past 20 years) can erode a retiree's purchasing power by 40%. Portfolios need to anticipate this impact on living costs. Relying on only GICs for income at the present time may mean that retirees are falling behind their costs, once inflation and income taxes are accounted for.
3. **Asset allocation risk.** Anxiety about the stock market increased as a result of the 2008 crisis. This may mean that some retirees have reduced risk by opting out of equities. However, interest rates are at generational lows. Generally, portfolios in retirement will need some equity exposure (in a well diversified means) that provides growth as well as protection against market volatility.
4. **Withdrawal rate risk.** Increased volatility also means that withdrawals at the wrong time and in excessive amounts can erode capital for the long term. Generally, retirement experts recommend that withdrawal rates be limited to 4% to 5% of the value of the portfolio at retirement. Since minimum RRIF payments exceed these rates, it is sometimes the case that retirees need to save some of their after-tax RRIF payments.
5. **Health care risk.** Even in Canada, the cost of medical care not covered by government programs can be a major hit to the pocket book.

What is common to all retirees is the importance of understanding their annual lifestyle costs. Without a good appreciation of what retirement expenses are paid by pensions and what need to be provided by savings and investments, it is difficult to plan realistically.

60% of Canadians who work with a financial advisor stated they were confident they were on the right track with the investment plans they had even prior to the recent financial crisis.

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MOVING ON - FACTS and FIGURES

- General Motors plans to spend around \$100 million to upgrade its Corvette factory in Bowling Green, according to the Wall Street Journal, the latest sign that the auto maker's penny pinching days are behind it.
- The auto sector's "just-in-time" inventory systems means that a car assembled in Michigan and Ontario has component parts that have crossed the border on average seven times. One-quarter of the goods traded between Canada and the USA travel across the Ambassador Bridge, between Detroit and Windsor, on 7,000 trucks that cross it daily.
- 98 years after construction of Toronto's Union Station began, a massive expansion is underway that will see 447 supporting columns (many of which are under the rail bed) replaced or reinforced. Every night 45 truckloads of dirt are removed from the site. Meanwhile the trains continue to run, and ¼ million people go through the station daily.
- Boeing expects to deliver its first new 787 *Dreamliner* this summer. The state-of-the-art airliner has already flown over 1 million miles in test flights of seven different models. Boeing states that the 787 "in addition to bringing big-jet ranges to mid-size airplanes, will provide airlines with unmatched fuel efficiency, resulting in exceptional environmental performance. The airplane will use 20 percent less fuel for comparable missions than today's similarly sized airplane." Its engines are supplied by General Electric and Rolls Royce.
- Boeing forecasts a \$4 trillion market for new aircraft over the next 20 years with a significant increase in forecasted deliveries. That's according to the Boeing 2011 Current Market Outlook. The company's annual commercial aviation market analysis foresees a market for 33,500 new passenger airplanes and freighters between 2011 and 2030.
- The airline industry in the United States lifted baggage fees to a total of \$3.5 billion in 2010.
- The expanse of railways in use worldwide has contracted by almost one-half since 1920, when tracks exceeded 2½ million kilometres. Nonetheless, freight and intermodal traffic is still a major player in the North American economy.

KWVG TEAM UPDATE: WEDDING NEWS!

On Saturday, June 18, Shawna Fisher married Joey Ferket in an absolutely beautiful ceremony at Joey's family home in Mt. Brydges. We are so happy for you Shawna! Each of us on the Team wish you and Joey every happiness as you begin your new life together. Congratulations and thank you for including us in your incredibly special day!

KWVG ADMINISTRATIVE TEAM

We often remind clients of one of Rob's favourite mottos: "We are here to help!" To that end, we felt it may be helpful to define some of the responsibilities of our Administrative Team, who focus on our client's administrative inquiries and requests.

Sarah, Shawna and Tammy process all paperwork and documents for your investment accounts, including documentation to open new accounts, transfer assets in to ScotiaMcLeod from other institutions, set up pre-authorized contributions, process address changes, and coordinate all payments in and out of your portfolios. If you have questions about any of these areas, chances are the administrative team will be able to assist you, and they would certainly be very happy to help!

KWVG WEBSITE UPDATE

We are presently in the process of updating our Team's website. We will be launching the new site soon, but in the meantime, we encourage you to visit www.kellandgroup.com for useful information and helpful articles about the markets and investing.

CHARITY TRIATHLON FOR KIDS

We are very happy to announce that on Sunday, June 12, 2011 ScotiaMcLeod's first "Kids Tri 4 Kids" Triathlon was a huge success!

Approximately 225 children aged 3-13 participated by swimming, biking and running their way around a professionally developed course. ***The event raised over \$15,000 for Childreach***, and also put ear-to-ear smiles on the faces of children, parents and volunteers throughout the entire day! We estimate that more than 500 people joined us on site at the

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Carling Heights Optimist Community Centre to cheer on the young athletes.

We are grateful to each of the participants, their very supportive families, the dedicated volunteers and our generous sponsors for helping to create such a positive and fun experience in our community. The event will be back again next year. All future updates will be included in our newsletter, so please stay tuned!



Sources: Scotia Capital, Globe and Mail, Globe-Investor.com, National Post, Credit Suisse, advisor.ca; CBSNews; Reuters; Bloomberg Businessweek

"Great works are performed not by strength but by perseverance"

Samuel Johnson, 1709-1784

"By perseverance the snail reached the ark"

Charles H. Spurgeon, 1832-1892

"I think a hero is an ordinary individual who finds strength to persevere and endure in spite of overwhelming obstacles"

Christopher Reeve, 1952-2004

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"All performance data represents past performance and is not indicative of future performance."

