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◆ Investment News ◆

November 2011



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Market Returns in 2011 As of October 27, 2011

S&P/TSX	-7.25%
S&P 500 – USA (in US\$)	2.20%
MSCI World Index (in US\$)	-6.30%
S&P/TSX - from 2008 peak to now:	-17.75%
KWVG Model Portfolio, annualized Since inception January 1, 2009:	10.75%

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MARKET COMMENTARY

Like a hot air balloon taking off, you could almost hear the gush as the markets began to lift, and you could definitely see the red stop lights turn to green. It was 3:15 pm on October 4. Earlier that day the Toronto Stock Exchange touched its low for the year: 10,848. By 4 pm another 300 point loss had morphed into only a small dip on the day. Within a week the TSX (like other major stock exchanges) had rebounded about 10%, to the range of 12,000.

The fresh air was the result of just a faint outline of a plan from Europe that promised to (finally) establish a way forward out of their massive debt problems.

Europe's leaders managed to bicker through to some hopeful action, dealing with Greece's debt and related contagion. **Unless the bottom falls out again, October will see the strongest market gain in over a year.** All eyes will continue to be focused on Europe, United States, and China – in that order – for breakthroughs or weakness.

In spite of the “doom and gloom” news reports, **the economic tea leaves are reading more positively** and we've seen a strong start to third quarter corporate earnings. **The strongest lesson to be taken from October's markets, though, is that attempts to “time the markets” exit and re-entry are very hazardous.**

Where Rob Kelland's targets have been realized in recent weeks, KWVG is judiciously taking profits, keeping in mind that **a roller-coaster market is likely to persist.** Preferred shares retain their attraction for fixed income needs. Rob is, however, generally in agreement with our Scotia Capital Portfolio Strategist Vincent Delisle who sees greater 12 to 18 month upside potential with stocks, than bonds. Delisle's targets for the TSX and the S&P 500 markets are about 9%-10% above current levels.

BITS AND PIECES – CANADA

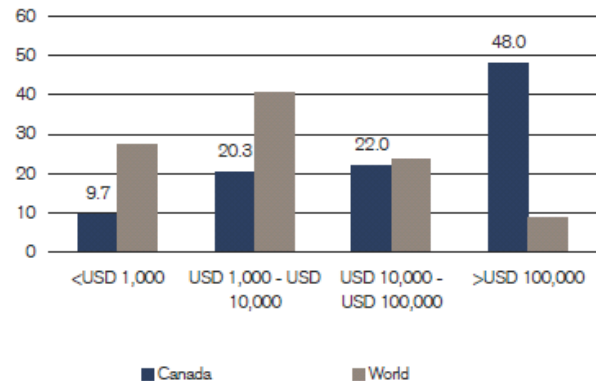
- *Forbes* magazine rates Canada as its number one country favourable for doing business.
- London, Ontario has retained its (Moody's) AAA credit rating for 35th consecutive year.
- Scotiabank has been named one of Canada's best employers for the eighth consecutive year.
- CBC is celebrating its 75th anniversary in November. Its radio and television include programming in eight aboriginal languages. CBC's funding includes \$1.02 billion in annual operating funds from Canadian taxpayers - an average of \$34 per citizen. (The BBC's cost per citizen is \$91 without any advertising revenue).
- A recent study shows Canadian adults are 10% to 15% less fit than 30 years ago, despite a doubling of Canadians' spending on physical activity. Perhaps the ten-fold increase in spending on personal electronics in the same period is part of the answer!
- Two-thirds of the real estate activity in the Greater Toronto Area in June was condo sales.
- 45% of Canadian senior executives plan to make a corporate acquisition in 2012 (compared with 41% of companies surveyed worldwide).
- **42% of Canadians lack basic financial literacy**, according to a Federal Task Force. Only 35% of Canadians knew investments in the stock market are not insured.
- **Canadian seniors have recently grown their debt-loads faster than Canadian younger families**, raising concerns about the long-term financial security of retirees.
- In addition to tax credits available since 2009 for dependant children's eligible Fitness activities (minimum 8 weeks, or five consecutive camp days), the 2011 Federal Budget includes a similar new **Children's Arts Tax Credit**. A federal tax credit of 15% of eligible costs (up to \$500 in fees) will be available for programs for children under 16 with artistic, cultural, recreational or developmental activities. Keep your receipts.
- **Canada ranks eighth in the world in terms of total household wealth** and thirteenth in wealth per adult. Household wealth of US\$245,000 is very close to that of the U.S. of US\$248,000, in 2011, considerably higher than 2000 when Canadian wealth was only 56% of that in

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America, expressed in U.S. dollars.

- Canada's distribution of wealth amongst its population is much more favourable at higher levels than the world average.

Wealth distribution relative to world (in %)



Canada was the only country amongst the G7 nations whose wealth to income ratio (total assets relative to total personal incomes) did not decline in the global financial crisis of 2008/09.

- However, Canada's household debt to income ratio is now the second highest (to the U.K.).

THE HOME OF THE LEAFS

On November 12, 1931, **80 years ago Maple Leaf Gardens opened its doors for its first NHL game** to the tune played by the 48th Highlanders: "*Happy Days Are Here Again*." (Leaf fans are hoping they



can soon sing this again!) The state-of-the-art Gardens was constructed, at a cost of \$1.5 million, in only five months, in the depths of the

Depression, without the usual supporting pillars to block the sightlines of the fans. 1,300 men worked non-stop on the site. 20% of their earnings were paid in MLG stock. The ice-making equipment was a marvel of the times, with 16,000 gallons of brine pumped through 68,000 feet of pipe. The top ticket price was \$2.75 in 1931. From 1946 to 1990 there were no unsold tickets to a Maple Leafs game.

DOLLARS AND SENSE: PLANNING AHEAD

FIXED INCOME – PLANNING FOR 2012

Rob and his Team recently interviewed all of the money managers that KWMG has recommended in recent years for fixed income (bond) investing.

Even with historically low interest rates (one analyst noted **U.S. rates are at 240 year lows!**) these funds have **generally met or exceeded our expectations for modest returns and safety of capital in 2011** to date. They include both short-term bond funds and, as appropriate, certain corporate bond funds or funds with mixed investments that have a strong bias towards preservation of capital.

In many of our discretionary (MPP) accounts that are outside of TFSAs, RRSPs, or RRIFs, **we are pro-actively switching corporate bond funds to what are known as Capital Class Funds.** These similar funds will convert interest income in 2012 and future into lower-taxed capital gains in non-registered accounts (not relevant for RRSPs, RRIFs, TFSAs or RESPs). Such a switch may be subject to a small capital gain. If you have a non-registered “Transactional” account you may wish to consider whether such a switch is advisable. Risk tolerances may also have to be evaluated in some cases.

Generally distributions (dividends) on such funds are reinvested in additional units for growth. However, if you wish to change this “default” to a cash option, we can usually take action on such requests as well.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

YEAR-END PLANNING

RESPs - Contributions to family Registered Education Savings Plans must be made by December 31. **Grants of up to \$500 per child are available for each year of contribution.** Catch-up contributions can be made, but please talk to us about the grant availability in such circumstances.

Donations – By all means start to make your list for year end charitable donations, but please avoid tax schemes where receipts are provided for amounts greater than contributed. Last year CRA reassessed more than 130,000 donors to disallow \$4.5 billion in abusive and illegitimate schemes.

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CPP in 2012 – as noted in several recent newsletters, the incremental changes in the CPP rules take another turn in 2012. If you are 60 or older, you will no longer have to cease working to qualify for early CPP, although the early retirement discount is greater. But if you are still working, you will have to make CPP contributions until at least age 65. **If you are working at age 65, and want to stop CPP contributions a new Form CPT 30 needs to be submitted to both your employer and to Canada Revenue Agency.**

A survey reported that **seven in ten Canadians plan to “continue working in retirement”** – an oxymoron if there ever was one!

OAS clawback – The level at which OAS in the hands of individual seniors begins to be clawed back is now \$67,668 in personal net income. Be sure to maximize the use of your Tax Free Savings Account as one tool to move taxable income to a non-taxable account.

Federal EcoENERGY Grant Program – The 2011 Federal Budget **extended the Retrofit Homes program to March 31, 2012.** Grants of up to \$5,000 are available to improve energy efficiency. Be sure to check the “*EcoENERGY Retrofit-Homes*” website for more information, as well as searching for “complementary regional programs with EcoENERGY Retrofit-Homes” for other agencies with matching funds.

ScotiaMcLeod does not offer tax advice, but working with our team of experts we are able to provide a suite of financial services for clients.

SPECIAL INVITATION - NOVEMBER 22 SEMINAR: “MORE TWISTS & TURNS ON THE ROAD TO RECOVERY”

We are very excited and pleased to invite our clients and their guests to a special ScotiaMcLeod seminar this month. **Warren Jestin, Scotiabank’s Chief Economist** will be in London for a presentation on **Tuesday, November 22.** The details are as follows:

12:00 noon – Lunch will be served

12:30 – 1:30 pm – Warren Jestin presentation

Location: The Hilton Hotel, 300 King Street, 2nd Fl.

Dr. Warren Jestin has been with Scotiabank for 30+ years. He also has worked at the Bank of Canada and taught at several Canadian universities.

Don't miss the opportunity to hear his perspective during these challenging economic times. **To RSVP please contact any member of our Team as soon as possible as seating is limited. We will be happy to reserve your seat(s) for you on a best efforts basis. Guests are welcome to join us!**

KWMG IN THE COMMUNITY

Congratulations to Rob Kelland who completed his first full marathon on Sunday, October 16th! Rob participated in Scotiabank's Waterfront Marathon on a cool and very windy day in Toronto. Rob was delighted to have completed the race, and was happy to have raised funds for the Daily Bread Food Bank as well. Congratulations to Rob, what an amazing accomplishment!

Congratulations are also in order for all attendees and organizers of the 2nd annual **Dressfest** event, which took place at Greenhills Golf and Country Club on Saturday, October 22nd. While the final tally has not yet been finalized, we believe we may surpass last year's fundraising total of \$29,000 which was donated to the London Regional Cancer Program Patient Assistance Program. The evening was a lot of fun and benefits a truly essential resource in our community. The fund assists individuals who are financially struggling with the many unexpected expenses that arise when undergoing cancer treatment. Stay tuned for more information as we finalize our donation to the hospital, and for information on next year's event!

As a number of us on the Team are the organizers of this event, we would like to extend a special thank you to Rob Kelland for his sponsorship and for all of his moral support and encouragement. We are very grateful for all of your help Rob, thank you!

And there will be more funds to come for the LRCP Patient Assistance Program! If you are a Knights fan and you are at the game at the John Labatt Centre on Friday, December 9th when the Knights take on the Peterborough Petes, we are pleased to let you know that the proceeds from the **50/50 ticket sales that evening will be supporting the Cancer Patient Assistance Program** as well. Many of us from the Team will be selling the 50/50 tickets at the game that evening, so please come say hi if you are there!

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SKATE WITH THE LONDON KNIGHTS

We are very happy to announce that we will once again be hosting our popular "Skate with the Knights" client appreciation event at the John Labatt Centre this winter. The time and date of the event will soon be finalized, and we will be announcing the details in this newsletter and on our new website as well.

For the past two years, we have been very happy to see many of our clients with their families and friends enjoying a fun afternoon of skating, autographs and hot chocolate with the London Knights hockey team. One of the best parts of hosting this event is seeing how much the children enjoy skating, and meeting the Knights players. The players and Coach Dale Hunter are able to put such big smiles on the kids' faces (and on many of the adults' faces too!)

As in prior years, we will once again be asking attendees to consider bringing along a non-perishable item for the London & Area Food Bank. Stay tuned for more details!

Sources: Scotia Capital, Scotia Economics, Globe and Mail, Globe-Investor.com, National Post, Credit Suisse, Forbes.com, Investment Executive, CA Magazine, Tax Trips & Traps Issue 96

"You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something"

Steve Jobs, in his commencement speech at Stanford University in 2005

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

