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◆ Investment News ◆

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Left to Right:

Patty, Tammy, Trina, Natalie, Nicole, Rob, Lee, Talea, R. John, Sarah, Shawna

The Kelland Wealth Management Group, ScotiaMcLeod

www.kellandgroup.com

Market Returns in 2011 As of September 28, 2011

S&P/TSX	-13.70%
S&P 500 – USA (in US\$)	-8.45%
MSCI World Index (in US\$)	-12.10%
S&P/TSX - from 2008 peak to now:	-23.50%
KWVG Model Portfolio, annualized Since inception January 1, 2009:	8.80%

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MARKET COMMENTARY

Severe volatility continued to dominate the equity markets in September as rumblings of instability continued from Europe, the United States and China. **The last few years have seen the most volatile movements in stock prices ever.** 10 of the biggest 20 daily upswings and 11 of the largest 20 daily declines since 1980 have occurred in just the past three years.

Up to September 23, the third quarter of 2011 has proven to be the second worst quarter for global stocks in 24 years. Although Kelland Wealth Management clients have fared better than global markets, we are all feeling the pain of the bear’s bite. The TSX fell below 11,500 on September 23, identical to what the TSX registered in September 2006, five years ago. From our client reviews we believe most clients have experienced portfolio gains (after taking cash withdrawals into account) in that five year period. Nonetheless, overall market conditions remain the most challenging in many decades.

ScotiaMcLeod’s Chief Strategist Vincent Delisle, one of the best in Canada in Rob’s view, feels that “frightening headlines are fuelling investor paralysis and that the velocity of some of the declines seems to overshoot the actual damage to the economy and profits”. We continue to stress that investors hold quality, dividend-paying names where appropriate and stay within their target asset allocation. **We understand how continued negative economic news is troubling investors.** We are here to help and we encourage you to call with any concerns. Your peace of mind is of utmost importance to us.

We remind you to access Rob’s current thoughts through the “Kelland Flash” to keep you informed and up to date with Rob’s views. We also encourage

you to listen to a recently recorded commentary provided by Rob by October 7 (please see page 4).

MPP AND MODEL PORTFOLIO UPDATE

“MPP” is the acronym for “Managed Portfolio Program” – the simplified investment management option that enables clients to delegate the task of making the everyday decisions that help maintain a healthy and prudent investment portfolio. While this program frees clients from having to give their consent for every separate recommendation, clients still maintain control over their overall investment strategy.

In just five years ScotiaMcLeod’s assets under MPP management have grown from zero to \$3 billion. Rob Kelland was one of the first advisors with ScotiaMcLeod to be approved as a portfolio manager. The Kelland Wealth Management Group manages more MPP assets than any other ScotiaMcLeod team with about 8% of total MPP assets.

Rob Kelland developed the Model Portfolio in late 2008 as a reference point for clients. The Model Portfolio is not necessarily intended to be replicated by clients, but to act as an example of quality investments, income generation by a portfolio and diversification. The portfolio may have more inherent equity risk than desired by some clients.

The Model Portfolio rate of return is from inception on January 1, 2009 – still a relatively short period of time that includes a significant portion of the market recovery after the 2008/09 crash.

MARKET PERSPECTIVES AND EVENTS

HIGH CORRELATION IN STOCK PRICES

One of the defining features of recent stock market activity is the high degree of correlation between stocks – in the 90% range (the highest since 1989). The 22-year average is only 57%. In other words, the price movement of an individual stock is highly correlated with the movement of the overall market (index). This is true globally. This correlation is higher than in 2008 although the difference this time is that fixed income instruments (like preferred share and high quality bonds) are not following suit.

As a consequence, gold and mining stocks are not riding the waves of their related material prices, and

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energy stocks are not in lock step with crude oil. That being said, it is nonetheless true that major energy companies in Canada have fallen in price more than their peers in the United States.

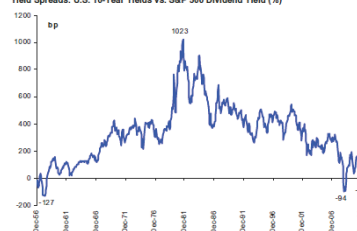
What this means is that stock prices are being driven mostly by “headline events” instead of fundamentals. Exchange-traded funds (ETFs) contribute to this, in part. **But largely it is due to the fear and very short-term horizons dominating investor decisions.** Ultimately, however, we believe it means that those who have made decisions based on the fundamental attributes of high quality stocks will benefit when more normal markets return.

DIVIDEND YIELDS EXCEED TREASURIES

10-Year U.S. Treasury bonds traded at an all-

time low yield of 1.73% in late September, a full 2.00% decline from February 2011. In comparison, the S&P 500’s dividend yield

Chart of the Day
Yield Spreads: U.S. 10-Year Yields vs. S&P 500 Dividend Yield (%)



stands at 2.15% and its earnings yield (corporate earnings divided by price) at 7.9%. As seen in this inverted graph, **in the last 55 years, the S&P 500 dividend yield has hovered above 10-year bond yields only two other times: the late 1950s and 2008/2009.**

DULL (but relevant) FACTS FROM THE U.S.

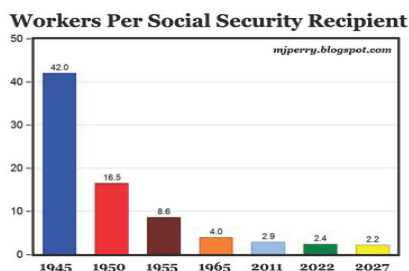
- More money (\$75 billion) has been pulled from U.S. equity (stock-related) funds since April 2011 than in the five months following the historic collapse of Lehman Brothers in 2008/09.
- Stock markets are more attractively priced now than 93% of the time since 1950. The only other times this has been evident were July 1982 and January 2009, which were followed by periods of strong growth.
- The top 400 taxpayers in the U.S. earn 2% of total income. The top 10% earn 50%. 50% of Americans pay no federal income tax. Taxation of the wealthiest will be a major election campaign theme in 2012.
- Private sector (individual and corporate) cash hoards now represent 10% of the economy (GDP). This was 2% in 2000.

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- Even though large company dividends are strong (see above) the S&P 500 dividend payout ratio (dividends as a percent of corporate earnings) is the lowest since 1871! Part of the reason is the highly profitable Information Technology sector which tends to conserve cash rather than pay dividends (for now).
- **Microsoft** – one of the earliest new technology giants – increased its dividend by 25% in September to provide a yield of 3.0%.
- **Apple Inc.** took over as the largest company in the world by stock market capitalization on September 19 – approaching the combined size of both Microsoft and Google.

PENSIONS

In our June newsletter we noted the huge impact of the “Boomers” on the ratio of dependency between workers and pensioners in most of the developed world. This chart confirms there are only 2.9 workers for each U.S. pensioner (4.0 in 1965 and 16.5 in 1950.)



Another sign of the times came in an announcement by The Royal Bank of Canada that new employees would be registered in a defined contribution plan, with greater cost predictability, rather than the bank’s traditional defined benefit plan. **Royal Bank is the first major Canadian bank to transition to a defined contribution plan** whereby pension benefits are determined by investment assets accumulated from contributions by both employer and employee, rather than by a formula related to service and career earnings.

BACK TO SCHOOL

In 1955, the last time interest rates were even close to being as low as they are now (see page 2), less than 7% of 18 to 24 year olds were enrolled in full-time university classes. Today, that percentage is higher than 33% (25% in undergraduate studies). Including community colleges, Canada has one of the highest post-secondary enrolment rates, at 48%.

Recent research tells us that only one in three parents with children starting post-secondary

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education will be able to contribute as much as 10% of the cost of higher education. That leaves many students grappling on their own with the high cost of education, often with heavy student loans when they graduate. The average Ontario student who borrows faces a loan balance of \$37,000 upon graduation. “Is it really worth it?” many may ask.

Some of the value of a higher education cannot be quantified. Value can be documented however in the following:

1. New skills that can be developed and utilized in gainful employment or entrepreneurship;
2. Higher employment rates compared with those with only a high school diploma or less;
3. Substantially higher earnings over a lifetime.

Higher education includes the opportunity to manage one’s own finances. As “uncool” as it may be, a student who commits to a realistic budget may benefit at graduation with lower debt as well as understanding what it takes to make ends meet.

Students should also become familiar with tax benefits related to post-secondary life, such as:

- Tax-free status of scholarships;
- Tax credits for tuition, full- or part-time enrolment, and (more recently) textbooks;
- Moving expenses may be deductible from summer employment earnings back home;
- Interest on Canada Student Loans;
- Public transportation passes (if applicable);
- How best to manage income or capital receipts from Registered Education Savings Plans.

Canada Revenue Agency provides a guide “Students and Income Tax” which is available online at www.cra.gc.ca.

THE WEALTHY BARBER RETURNS

It is not our intention to make “The Wealthy Barber” even wealthier! However, David Chilton’s books contain highly readable and pragmatic advice for ordinary Canadians. His second volume titled “*The Wealthy Barber Returns*” is now available. It is highly readable and entertaining. We might take issue with some of Mr. Chilton’s advice (such as his insistence on using only exchanged traded funds for retirement planning) but on the whole we highly recommend his practical financial advice, for both young and old alike.

KWVG NEW WEBSITE

As mentioned in last month's newsletter, our Team has recently launched a **new website**. Please visit www.kellandgroup.com and let us know your feedback! One of the new features of the website is called the "**Kelland Flash**" which you will see on the right-hand side of the home page. In this section of the website, Rob has been posting regular and short updates/commentary on current events in the investment world.

You also have the opportunity to subscribe to these timely updates, by receiving an email of the "flash" each time one is posted online. To subscribe, simply follow the steps on the website. Our subscriber list is growing each day, and to date we have received very positive comments. If you have any questions, please contact Sarah Mangano on our Team.

IMPORTANT REMINDER: MARKET COMMENTARY WITH ROB KELLAND

Last month, Rob recorded a **15 minute message for our clients and friends to call in and listen to**. The call, which provides Rob's perspective and thoughts during these unprecedented and tremendously volatile times for investors, is **only available until the end of the day on Friday, October 7th**. If you wish to listen to the call, please call 1-800-408-3053 and enter passcode # 5342222. You can access the recorded message any time of day, at your convenience.

KWVG IN THE COMMUNITY

We are delighted 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 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

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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!

If you are a Knights fan and you are at the game at the John Labatt Centre on Friday, December 9 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 at the London Health Sciences Foundation**. This special fund provides assistance to individuals in our community who are struggling with the many unexpected expenses that arise when undergoing cancer treatment.

The Cancer Patient Assistance Program is also the recipient of the fundraising efforts of "Dressfest", an event taking place on **Saturday, October 22** at Greenhills Golf and Country Club. The event, which is coordinated by several members of our Team, is unlike any other fundraiser in the city, as it requires all guests to wear a wedding dress. For more information on Dressfest or to purchase tickets, please visit www.dressfest.ca

Sources: Scotia Capital, Scotia Economics, Globe and Mail, Globe-Investor.com, National Post, Credit Suisse, RBC Global Asset Management, Reuters News, New York Times, Investment Executive, The Gartman Letter, *The Wealthy Barber Returns*

"Envy is the art of counting the other fellow's blessings instead of your own."

Harold Coffin, as quoted by David Chilton in *The Wealthy Barber Returns*

The Kelland Wealth Management Group

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148 Fullarton St., Suite 1801,

London, ON N6A 5P3

(519) 660-3229 Toll Free: 1-800-265-1242

Fax (519) 660-3264

www.kellandgroup.com

Email: robert_kelland@scotiacleod.com

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

