Darren Fetigan's

Sep 2009

Fact and Fiction

Views, opinions and some facts for the clients and friends of

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Market Numbers as of August 31, 2009

TSX Composite 10868 -109.76
S&P500 1020 -8.31
Nasdaq 2009 -19.71
Nikkei 10473 -165.71
Shanghai A 2810 -85.71

Can/US$ Exchange 0.91
Can 10yr Gov't Bond 3.35% - 0.05
US 10yr Gov't Treasury 3.39% -0.013
Can Prime Rate 2.25% unchanged
Royal Bank Shares $56.45 +1.35

Copper $2.93/lb +0.09
Oil $70.01/bbl +0.05
Gold $950/oz -1.20

Putting Plans in Motion
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Equities Soar, Cash ...a real Bore, and Bonds ...

...we must not ignore.

As this is my inaugural newsletter, I want to invite friends and colleagues to send me your feedback. If you have a particular topic of interest, let me know and I will try to include it in future issues.

In March 2009, our global economy started to improve and banks resumed lending to one another as per normal. Economists spoke of “Greenshoots” as some leading indicators became “less bad”. The stock markets stopped going down and began their bumpy ascent to their current levels today. For equity investors, the past six months has provided significant gains with both the TSX Composite and S&P500 indexes up 40-50% from the lows in March. Conversely, cash investors continue to receive the lowest rates in modern history .

Currently, the price we pay for liquidity and government guarantees on short-term instruments is the lack of return on our investments.

Bond investors have achieved some solid returns from offerings in the corporate space. Steady demand for income coupled with the spread between government and corporate bond yields, has led to an increase in the appetite for risk. Some investors are willing to pay a premium to obtain a higher fixed rate of interest on investment grade bonds. However, we must remember that sound investing should always be based on your own (and your family's) personal objectives, time horizon and risk tolerance. So, ... if the recovery is coming , then how should you position your portfolio? ...Take a look inside.

Be Ready for Recovery - Stocks, Bonds, ETFs and Mutual Funds

Using history as our guide, we know that the markets will likely recover before the negative news stops making headlines, and that the recovery could be over before we know it. So what should you do to get ready?

1. Start looking at your statements again

Now's the time to take a look at where you stand and determine if you should make some changes to reposition your portfolio for the coming days.

2. Clean out the dead wood

During a market downturn, most stocks typically go down. Clean up your portfolio by identifying which stocks you own that may not bounce back as strongly as others, if they bounce back at all.

3. Seize new opportunities

Many of the greatest opportunities arise during times of turmoil. You can find many blue-chip stocks priced below their intrinsic value. You can also find high-quality corporate bonds offering higher yields than normal to attract investment in today's more risk-averse environment.

4. Regain your balance

Like life, you need the right balance between different types of investments to achieve your particular goals. With the recent market turmoil, your investments probably need to be rebalanced to align with your goals.

5. Get back in touch with your emotional side

How you balance your investments is about how comfortable you are with investment risk. It's important to take an honest look at your real comfort level with risk and adjust your investments accordingly.

Stocks and ETFs - Stellar Performance in 2009 - Mind the Volatility

There are two main reasons to own stocks: Growth and Income. Currently, there are many high-quality names paying attractive dividends. Stocks have been the best performing asset class year to date. Our Guided Portfolios and Parameters programs offer a great way to gain access to the markets. Stock markets are volatile, so investors should be prepared to see price fluctuations from time to time. The use of Exchange Traded Funds (ETFs) is another practical way to gain exposure to a particular sector, index or asset class. ETFs offer diversification like a mutual fund and trade on an exchange like individual stocks. There is a cost on the fund itself, but the MER is generally low due to the passive management of the fund.

Bonds - Beware the Rate Hike!

Government bonds are still offering low yields with inflated prices. Corporate bonds continue to offer more attractive yields for fixed income investors. If you hold a significant portion of your portfolio in bonds, then it makes sense to take some gains and trim the positions. I cannot say when, but consensus forecasts call for the next interest rate move to be up.

Mutual Funds - Not all Created Equal

Traditionally, funds have been the best way to gain diversified market exposure using a a professional fund manager. Make sure to know the cost of owning the fund known as the Management Expense Ratio (MER). If the fund is actively or passively managed will also affect its performance. Mutual funds can be purchased as front-end, low-load and back-end loaded. It's important to know the difference.

What's more, there's currently a record amount of money on the sidelines earning next to nothing, waiting to come back into the markets. In Canada, investors now have $74.9 billion socked away in money market funds – up from $46.3 billion just two years ago. In the U.S. it's nearly $4 trillion – a truly staggering amount. As investors regain confidence, much of this money will come back into the markets, and could propel them upwards very quickly.

Planner's Page - Individual Pension Plans (IPPs)

A Defined Benefit with a Twist

An IPP is a defined benefit pension plan that usually has one individual. A spouse who is an employee of the same sponsoring corporation can also be included as a plan member. As a pension, an IPP must adhere to Canadian pension plan rules and regulations, which can vary from province to province.

If you are a business owner, a professional, or a key employee an IPP can be thought of as a replacement for your retirement savings plan (RSP). Contributions grow on a tax deferred basis, just like an RSP. Rather than you making the contributions yourself, the corporation makes annual contrbutions to the plan. As a defined benefit plan, the amount of retirement that you are intended to receive is generally predetermined to be a fixed amount per year. The IPP provides you with the opportunity to achieve the maximum retirement benefits permitted by Canada Revenue Agency (CRA) from a registered pension plan.

Who is eligible?

IPPs must be created and administered according to CRA rules and federal or provincial pension legislation. A business owner, professional, or key employee who receives pension-eligible income (usually T4 employment income) may be a suitable candidate. It is important to note that dividend income, self employment income received from an unincorporated company, and income allocated to a partner from a partnership are all examples of income that is not pension eligible. In addition, you must be a Canadian resident and pay income tax in Canada at the time the plan is established.

Contribution Limits

Contributions must be calculated by an actuary, and are based on a defined benefit formula using your age, years of service and T4 earnings history. The actuary must use a set of assumptions set by CRA.Typically, annual contributions to the plan increase as retirement nears since there are fewer years available to fund the predetermined retirement benefit.

Advantages of an IPP

1. Contributions are Higher than an RSP

At certain ages (40s and above), the maximum annual tax-deductible contribution to an IPP is greater than the maximum dollar limit for an RSP based on various actuarial assumptions.

2. Employer Corporate Tax Deductions

The IPP allows past service to be captured as if you were a member of the plan as far back as 1991 (or before under certain conditions). Past service contributions are in two parts: first, a transfer from your RSP into the plan, and second, a deductible past service contribution from the corporation. In addition, the corporation may potentially make a significant deductible lump-sum contribution at the time you retire. This contribution may provide for enhanced retirement benefits eligible for defined benefits plans.

3. Creditor Protection

In the event that the corporation runs into financial trouble, the assets in the IPP are generally protected from creditors, as long as it was set up in good faith. Currently, RSPs are creditor protected only in the event of personal bankruptcy.

4. Make Up for Poor Investment Returns

If investment earnings within the plan are less than the 7.5% expected actuarial rate of return, then additional contributions must be made to make up for the asset deficiencies. In some provinces like BC, extra funding for the shortfall is not mandatory and not required. RSPs do not provide the ability to make up for investment losses with additional contributions.

5. Pension Income Splitting

If you receive certain types of qualifying retirement income, you may be permitted to income-split up to one-half of the amount with your spouse. The types of income that qualify to be split depend on the age of the person who is the primary recipient of the income. If you are 65 or older you may split amounts paid out of your retirement income fund (RIF). If you receive periodic payments from an IPP, they can be split with a spouse as early as age 50. -- Much earlier than under a RIF.

Activities in September

DBS 140th Anniversary Celebration - Saturday, September 12, 2009 - UBC

Diocesan Boys' School of Hong Kong is celebrating its 140th Anniversary this year. DSOBA Vancouver Chapter has organized the a celebration for friends and family of the school on Saturday, September 12th at University Golf Club (UBC).

For further details, please direct your inquiries to: dbsvancouver09@gmail.com

HKCBA Golf Classic 2009 - Monday, September 14, 2009 - Richmond Country Club

The Hong Kong Canada Business Association, Vancouver Section is hosting its 7th Annual Golf Classic at the Richmond Country Club on Monday, September 14th. Features include deluxe tee gifts for all golfers; equal chances to win fabulous prizes! Raffle Draw: Two Cathay Pacific Business Class Return Tickets to Hong Kong!

For more information, email to : vancouver@hkcba.com

Vinos De Chile - Wines of Chile - September 28, 2009

Later this month, the wines of Chile Fall Festival will celebrate the pairing of Chilean wine and food with a part festival-style part casual winemaker's dinner event.

Reception at Sutton Place Hotel featuring more than 100 wines from 30 Chilean wineries. From there, wine lovers will break out to one of 14 different winemaker dinner events.

$20 from each ticket sold goes to Wine of Chile's partner charities: Grapes for Humanity Canada and the BC Hospitality Foundation.

Visit www.ccltd.ca/winesofchile for full details