Wealth Matters - Summer 2008

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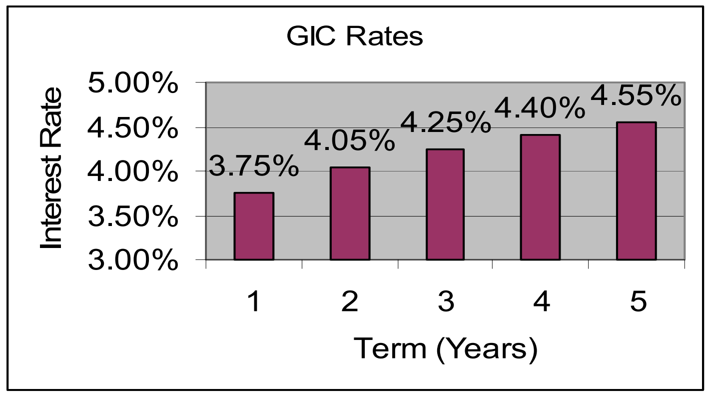
In this Issue:

Producing Income from Investments

Once you retire, you will rely a great deal more on your investments to provide an income. With both RRSPs/RRIFs and non-registered investments, there are some basic investment strategies that can provide a regular stream of income. Each has its advantages and disadvantages. This article will review a few of the strategies available.

GICs

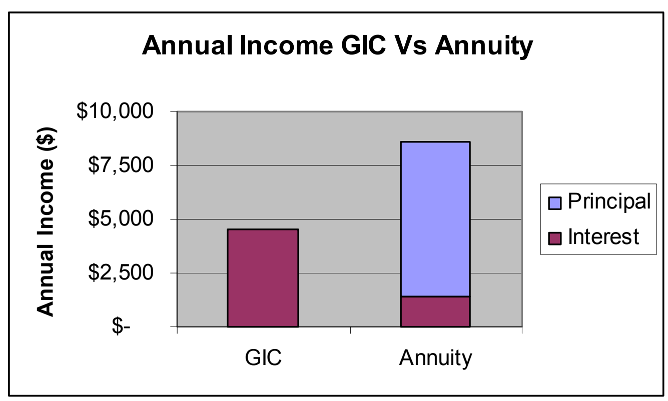


Many of our retired clients use GICs to provide regular interest income. Although current interest rates are relatively low compared to the average of the past several years, they are above the recent lows of 2005.

Key advantages of GICs include guaranteed principal and interest and protection against the insolvency of an issuer through the Canada Deposit Insurance Corporation (CDIC).

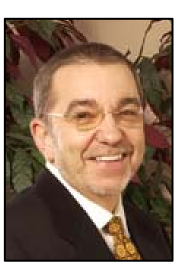
Some of the disadvantages include interest income being fully taxable versus capital gains which is only 50% taxable, and once in place, a GIC's principal cannot be accessed until maturity. Most of our clients who use GICs will hold 5-year GICs in order to get higher rates that come with longer terms. They stagger the maturity dates across several years so that they always have access to a part of their capital each time a GIC matures (i.e. a laddered strategy).

Insured Annuity



An annuity is just like a pension. It pays a guaranteed monthly or annual income for life, and the payments are protected by the insurance industry's deposit insurance (Assuris) up to $2,000 of monthly income. Because of the guarantees, an annuity is just as secure as a GIC.

However, an annuity can provide a much higher level of income. Payments are a blend of principal and interest, just as if you had lent money in a mortgage with a repayment term equal to your life expectancy. Therefore the payments are much higher than just the interest, and, only the average interest amount is taxable. **(Continued…)**





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With a life annuity, payments are guaranteed to continue for as long as you live. This is a good thing if you live to your life expectancy or longer. But if you should die much earlier than expected, you won't get the full value of your annuity because payments end at death and any amount not 'used up' is not refunded.

This is the main drawback of an annuity and fortunately, there is a solution.

In order to solve this problem, an investor takes out a life insurance policy that will pay out to his or hers beneficiaries the amount equal to the amount used to purchase the annuity and upon death, the life insurance benefit provides a tax free estate benefit to the beneficiaries preserving the original capital. The premium for the life insurance is funded by the extra income that the annuity provides. In most cases, the lower taxation of annuity payments allows for a 50% to 100% higher after tax income than a GIC.

Living Benefits	GIC	Insured Annuity
Investment Amount:	$100,000	$100,000
Annual Income:	$ 4,500	$ 8,586
Less Insurance Premium:	0	-3,850
Less Tax Payable:	- 2,070	- 635
After Tax Income:	$ 2,430	$ 4,101
After Tax Rate of Return:	2.43%	4.10%
Equivalent Pre-Tax GIC Rate:	4.50%	7.59%
		82% higher!

The drawback of an annuity strategy is that the income level cannot be changed once payments begin. For this reason, most of our clients use an insured annuity for only part of their retirement income needs, while maintaining access to capital of other investments they hold.

Return of Capital Fund (ROC)

For those who like the idea of having access to their capital in additon to having tax preffered income, ROC funds may be the answer. Portfolio managers can secure a return approximately equal to that of bankers' acceptances, which yield about the same as a 1-Year GIC, and do this in a way that the return is fixed for each period in advance.

Living Benefits	GIC	ROC Fund
Investment Amount:	$100,000	$100,000
Annual Income:	$ 3,750	$ 3,750
Less Tax Payable:	- 1,725	- 863
After Tax Income:	$ 2,025	$ 2,887
After Tax Rate of Return:	2.03%	2.89%
Equivalent Pre-Tax GIC Rate:	3.75%	5.35%
		43% higher!

By using options contracts (too complex to explain in one paragraph) they create a guaranteed return that is taxed as a capital gain. Because only 50% of capital gains are taxable, this can provide the equivalent of a much higher interest rate investment.

In the example shown, the after tax income is 43% higher than bankers' acceptance rates, and you still have access to your capital if you need extra money!

What's Right for You?

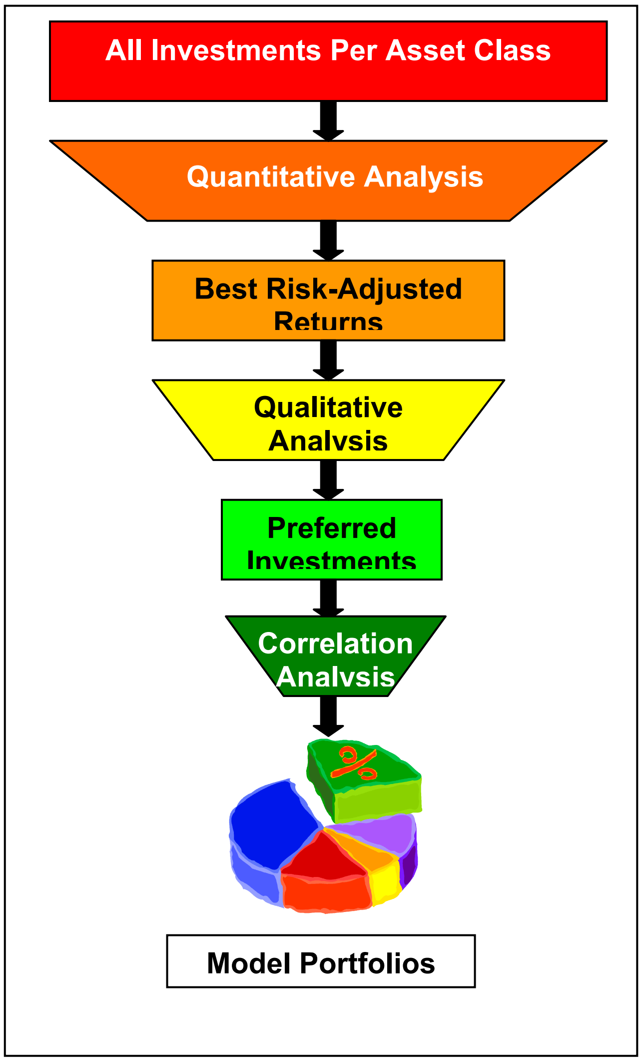
It depends. There are several other strategies that our clients use to provide investment income. Each client we work with is unique and will find a different mix of available strategies to be ideal for them. We can help you with your own personal situation and help you make an informed decision given your own unique circumstances.

Portfolio Management Best Practices – Part 3

In our last two newsletters we explored **Diversification** and **Asset Allocation** to control overall portfolio risk. (Let us know if you would like a reprint of these earlier articles.)

Once we have determined the ideal Asset Allocation for your specific situation, we need to select investments to represent each asset class. This is known as **Security Selection**. The entire security selection, management of each asset class, and rebalancing of the portfolio, can be handled by an Asset Management Service. For many of our clients, this type of solution offers an excellent combination of expert portfolio management and a minimum amount of their time to monitor and make decisions on their portfolio.

Some of our clients prefer that we design a portfolio for them using commercially available investment fund products. Perhaps, surprisingly, the 'top' funds listed in newspaper or online performance rankings are usually not the funds that work best with one another to build the ideal portfolio. Fortunately, our analysis takes into account much more than just recent returns!



In our Quantitative Analysis, we start with Paterson & Associates, an independent financial product research firm. David Paterson is a Chartered Financial Analyst (CFA) with a 10-year history providing research for some of the most respected money management firms in Canada. Paterson ranks over 800 investment funds based on both returns and risk compared to their benchmark.

We apply additional quantitative analysis to exclude investments which have large drawdowns or periods of inconsistent performance, narrowing down the investment universe to no more than 10 superior vehicles per asset class.

In our Qualitative analysis, we apply a number of criteria which are usually ignored in most ranking systems available to the public, and even the investment advisor community.

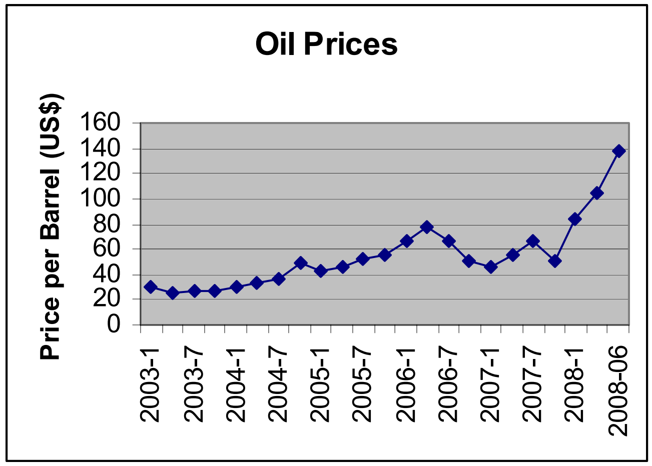
We are looking for portfolio managers who are the best in their respective asset classes. We believe that very few individuals are able to consistently produce solid returns while controlling risk, and we want only the best working on your portfolio.

Performance history stays with the fund, not the manager, so newspaper 'rankings' will fail to reflect the impact of a change in the portfolio manager. Our process places a fund under review when a manager changes. We will retain a fund in our preferred list if the new manager has achieved excellent results in other portfolios the same manager has managed with mandates similar to the new fund.

We apply a number of other factors including: Performance in up and down markets, maximum negative performance, consistent adherence to mandate, limited/manageable number of securities, and tax efficiency.

Putting all the best performing funds together does not necessarily achieve the portfolio objective of reduced volatility. We look for low or negative correlations between funds, and look inside each fund to ensure there is no overlap in holdings. We then assemble funds together into model portfolios for various client level time horizons and risk tolerances.

Commodity Bubble?



Everyone around the world is talking about the high price of gasoline. The price of oil has doubled in just over one year, and even prior to that had already doubled in the previous 4 years. Such rapid price changes are a big stress on all economies around the world, especially those which use a lot of oil.

One contributing factor to the growth in demand for oil is the continuing urbanization of emerging economies, especially the larger ones in China and India. The continuing migration of people from farming areas to cities is boosting demand for energy, raw materials such as concrete and copper for pipes and wiring, and food.

Investments that focus on these commodities have produced very high returns in the past year or more. Consumers have a tendency to want to invest in things that have made large gains in the recent past, but this can be a dangerous tendency. Many comments suggest that speculators are contributing to sharp rises in the prices of many of these commodities. The US government recently tightened controls on speculative investments in food futures in an effort to reduce the impact speculators have on these most essential commodities. OPEC has called for restraint in oil speculation but it is unclear how this could be achieved globally.

While some analysts are calling for oil to hit $150 a barrel by the end of the summer, others believe it is already overpriced. OPEC Secretary General Abdullah al-Badri says there is no supply-demand imbalance that could explain why the price of oil has risen as high as it has. Already consumers are switching to smaller more fuel-efficient cars, and are cancelling travel plans that involve a lot of driving. If no calamities take out oil production or gasoline refining facilities this summer, it is believed that gasoline inventories will rise sharply by summer's end. At some point any speculators contributing to the high prices will admit that the situation is no longer rational, and will sell out of oil. The price could drop very rapidly if this does occur. The most pessimistic analysts are guessing the fair market price is about $75 a barrel – about half of what the high price estimate is. But it could take a year or more to get to this level.

Similar issues are occurring globally with food. The planet produces plenty of food for the total population, but it is not able to be moved quickly enough to where it is needed. Some countries are considering reforms to their supply management structures to permit increased production for exports.

With such a wide range of opinions on the future direction of commodity prices, it's hard for the average person to have confidence in investments that 'bet' on one direction or the other. Most of the investment portfolios we develop for our clients do include stocks of companies engaged in commodity businesses. Most Canadian Equity mandates include positions in commodity firms, so our clients are already getting exposure to these sectors without needing to include specialty funds in resources or precious metals. The portfolio managers of these pools do take positions, but also monitor market sentiments closely, and control risk by carefully diversifying and hedging the portfolio.

If you are considering changing your investment strategy to get in on the commodity boom, talk to us first to review your existing exposure, and consider the risks along with the potential gains before changing your investment strategy.

Feedback

We hope you've enjoyed this newsletter. Your comments are important, and they are very valuable to us. Please let us know any ideas you may have for improving the newsletter, or topics you'd like to see in future issues. Email us at contact@askpage.com. You can receive this newsletter by email.