WEALTH FOCUS

WINTER 2011 Q4

A QUARTERLY REPORT FROM CANACCORD WEALTH MANAGEMENT

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OPPORTUNITY KNOCKS

While the U.S. economy remains crucially important to world markets, nothing dampens market valuations more than talk of a recession. Having just been through the recent economic decline of 2008 and 2009, investors are now worried about the possibility of a double-dip recession in the U.S. When you add in concerns about the European debt crisis and the possibility of a hard fall for the Chinese economy, the talk can quickly go from bad to worse.

Canaccord Genuity Portfolio Strategist, Martin Roberge, states that economic fundamentals point to this actually being a mid-cycle economic slowdown — and not the beginning of another U.S. recession.

Even amid these economic worries, there are positive signs – and sectors of the economy that stand to benefit in the near term.

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OPPORTUNITY KNOCKS

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U.S. stronger than expected

While there are enough volatile conditions at play to make the threat of recession a real one – and enough negative chatter to rattle investors – Canaccord Genuity Portfolio Strategist, Martin Roberge, states that economic fundamentals point to this actually being a mid-cycle economic slowdown – and not the beginning of another U.S. recession.

"Investors should not fear early-cycle growth slowdowns (like in 1984, 1994 and 2004)," states Roberge in his Quantitative Strategist report. "While the front-end of the economy moderates once monetary easings dwindle and the inventory rebuilding phase is completed, the back-end of the economy eventually comes to the rescue as jobs/wages growth and corporate earnings stimulate consumer and corporate spending."

In fact, recent stronger-than-expected economic statistics have increased his conviction that the U.S. economy can avert a recession, with re-accelerated growth in the second half of this year.

"Our optimism lies on a steady increase in the U.S. lagging indicator – the back-end of the U.S. economy," states Roberge. "Signs continue to mount for self-sustained U.S. economic growth with the resurgence in corporate borrowing, unit labor costs, consumer credit and consumer-service pricing power."

The world view

While an assessment of the U.S. economy is critical to formulating an investment outlook, two other situations must also be factored in: the European sovereign debt crisis and the outlook for the Chinese economy.

"While European leaders still refute the idea of a Greek default, contingency plans should target worst-case scenarios – which could involve an orderly and partial Greek default," states Roberge. "There are many potential solutions, including the creation of a lender-of-last resort entity while assuring capital infusions into the banks. But no matter the solution brought to the table, we believe equities have been holding August lows because of an imminent resolution."

Looking at China, while acknowledging that China's economy must slow down for global growth to be redistributed elsewhere, Roberge thinks the fears of a hard landing are overblown.

"We believe investors are too bearish on the Chinese economy, basing their view on weak Chinese equities," reports Roberge. "We think that a likely end to the tightening cycle and a recovery in China's leading economic indicators should calm fears of an economic hard landing."

How you can benefit

Within this mid-cycle economic slowdown, a price-to-earnings analysis suggests that industrial cyclicals are not cheap enough – and defensives not rich enough – to warrant a sector rotation strategy at this time.

The best opportunity lies in holding what Roberge describes as a "barbell" sector strategy – investing in both ends of the sector spectrum, with a mix of offensive (oil integrated, oil service and fertilizers) and defensive (golds, consumer products, telecoms and utilities) sectors.

In terms of specific areas within these sectors, Roberge favours energy equipment and services companies based on strong demand for oil rigs. He also sees food stocks within the consumer products sector as benefiting from rising retail food inflation – while drug stocks are less attractive due to weakening drug prices.

Contact us for more information about how you might benefit from these anticipated sector strengths, while managing the risks of investing in a volatile market.

Focus List picks

November 2011

Fertilzers
PotashCorp (POT: TSX; POT: NYSE)

Utilities
Capital Power (CPX: TSX)

Golds
Goldcorp (G: TSX; GG: NYSE)

Consumer
Products Maple Leaf Foods (MFI: TSX)

Telecom
Telus (T: TSX)

Oil
Canadian Natural Resources (CNQ: TSX)

A STRATEGIC APPROACH TO GIVING

The year-end always brings a heightened awareness to charitable giving. This is partly because December 31 is the deadline for making contributions that generate a tax credit for your 2011 income tax return.

While end-of-year cash donations are the norm for many people, a broader strategic plan that combines philanthropy and tax-planning can help ensure that your charitable and tax interests are looked after all year long, in the most effective way possible.

The strategic advantage

While supporting your charities of choice is a worthwhile endeavour in its own right, make sure you give yourself the benefit of any tax advantages associated with the different ways of donating.

For example, donating cash generates tax credits, but there may be more tax-effective means of giving – something that can be more advantageous to both you and your favourite charity.

The most appropriate strategy for you will depend on your needs and circumstances: but here are three strategies you may want to consider.

If you would like to give charitably this year and make the most of any tax advantages, don't hesitate to get in touch with us to book a meeting.

1. Charitable remainder trusts

If you want to make a substantial gift to charity later in life, but still have ongoing income needs, a charitable remainder trust can help with both goals.

By donating cash or property to a trust, you'll receive an immediate tax credit based on the amount of the donation and your life expectancy. You'll receive income from the trust during your lifetime, and the charity will receive the remaining capital when you die.

2. Life insurance

If you want to fund a significant donation with a relatively modest cash flow requirement, life insurance may be the solution. You can buy a life insurance policy and donate it to a charity, which is also named as the beneficiary. You'll receive a tax credit for the insurance premiums you pay each year and, on your death, the charity will receive the life insurance proceeds.

If you want your estate to get the tax benefit, you can also name a charity as the beneficiary of a life insurance policy, Registered Retirement Savings Plan (RRSP) or Registered Retirement Income Fund (RRIF), with the charity receiving the proceeds on your death. Your estate will receive a tax credit for the amount donated, which it can use to offset income in your final tax return.

3. Donor-advised fund

A donor-advised endowment fund involves a larger up-front donation ($25,000 minimum donation) and can be established through the Complete Canaccord Philanthropic Solutions Program.

You start by donating a lump sum amount to a fund administered through the program. This donation can be in cash or other property such as securities (see sidebar) and you receive a tax credit for the full amount donated, up to 75% of your net income in the year of donation. Any excess amounts can be carried forward for up to five years to generate tax credits in those years.

Your money is invested and each year you indicate to which charities you want grant money given and in what amounts. While the tax benefit to you is upfront, you gain the ongoing benefit of professional money management for your donation plus the ability to direct charitable funds from year to year as you think best.

Donating securities – the potential tax benefit

Donating publicly traded securities, such as stocks, bonds, and mutual fund investments, is a tax-smart strategy to support a preferred charity. That's because there is no capital gains tax payable when you donate publicly listed securities – so you get a donation receipt for the full value of the securities on the day they were transferred to the charity.

Here's an example of how this can benefit you.

	Donate cash after selling shares	Donate shares directly
Purchase price of shares	$ 20,000	$ 20,000
Current market value of shares	$ 100,000	$ 100,000
Capital gains taxes	$ 17,600*	0
Amount donated to charity after taxes	$ 82,400 (cash)	$ 100,000 (shares)
Tax credit generated by donation	$ 35,600	$ 43,200
Extra value to you of donating shares	0	$ 7,600

*assumes a 44% marginal tax rate

THE PLANNED PEACE OF MIND

Current stock market volatility can test the resolve of just about any investor. But if you are actively building your long-term savings, resolve is exactly what's needed – and that's where having a sound investment plan can make all the difference.

Follow your plan

Extensive research undertaken by the Financial Planning Standards Council has shown that people who have plans are less prone to making knee-jerk, short-term decisions and less likely to panic.

Panic investing – where you sell securities that have already declined in value – is never a good thing. While equities are volatile by nature, they are also most likely to generate higher returns over the long term and, therefore, are important in growing your savings over time.

The key to success is staying invested according to your long-term plan – no matter what happens to markets in the short-term.

Review your plan

We encourage you to keep your investment plan up-to-date, and to communicate any changes in your life or investment comfort level that could require a plan adjustment.

For example, if you are uneasy about the recent fluctuations in your portfolio, it may be a sign that your risk tolerance is lower than you previously thought. We can help adjust your portfolio's asset mix in a way you are comfortable with while still positioning you to achieve your long-term investment objectives. WF

Contact our office to book a meeting to further discuss your options.

Year-end tax calendar

If you need trades to settle before year-end for tax-loss selling:

Friday, December 23, 2011, is the last day for Canadian taxpayers to trade Canadian equities.

Tuesday, December 27, 2011, is the last day for Canadian taxpayers to trade U.S. equities.

Friday, December 30, 2011, is the last day for U.S. taxpayers to trade all equities.*

Note that Saturday, December 31, 2011, is also the last day to make charitable contributions for 2011, contribute to an RESP and earn the CESG for 2011 — and, last but not least, make your final contribution to an RRSP if you turned 71 this year.

** Capital gains/losses are reported based on the trade date as opposed to the settlement date for U.S. taxpayers.*