

Money Wise!

CAQ Financial's Quarterly Newsletter



Quadrus Investment Services Ltd.

Compliments of: Rick Irwin, CFP, CLU
Investment Representative

Special points of interest:

- **Business update: new advisor starting June 1st**
- **Tax benefits for new parents**
- **Recessions & stock market performance**
- **Transitioning into retirement**
- **1 in 3 Canadian investors have not been contacted in the last 6 months**

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Business Update

The past year and a half has brought about a lot of changes, to say the least, and I thank all of you for your patience as we've worked through a family business transition, an office move, the transferring of accounts from Manulife to Quadrus Investment Services Ltd, not to mention some of the most challenging markets we hopefully ever see. Being without an assistant for the last 3 months has been a further challenge for me though I have tried to keep client contact to the level you have become accustomed despite being a "one man show".

Over the last few months I have been carefully conducting interviews and have narrowed down on a candidate for the role investment representative and am pleased to announce that on June 1st Steve Barteaux will be joining my team, helping to service existing clients as well as cultivate new client relationships.

Steve has over 5 years experience in the financial industry, having worked for companies such as The Royal Bank of Canada and London Life. He is a graduate in Financial Management from Saint Mary's University and is committed to continuing education in his field. He is currently working towards achieving the Certified Financial Planner (CFP) designation, has his life insurance license and is registered to sell mutual funds. He is committed to a high level of customer service and enjoys all aspects of Financial Planning. An active family man, Steve enjoys spending time with his wife and two beautiful, very busy daughters. I am very excited about Steve joining me and hope you will welcome him the next time you are in the office.

After a long winter, spring is finally upon us and many of us are now hard at work replenishing our gardens, looking for the new growth that the warmer months will bring. As investors, we're also looking forward to growth in our portfolios after enduring one of the worst financial storms in history.

In fact, the we have just seen one of the biggest drops in the global stock markets in 70 years. The bursting of the massive credit bubble did not come without a cost but we have to ask ourselves if the underlying economic fundamentals justify such a collapse? In 1932, unemployment was 25%, the broad economy had shrunk by 33% and the world faced global threats from communism and fascism. In both the 73-74 & '81 recessions interest rates and unemployment were double-digit and the real-world economy was

suffering far greater than it is today. Currently, unemployment is still below 10% in both Canada and the US, interest rates are at their lowest levels in history and governments are exceedingly focused on efforts to stimulate the economy.

As we go about our daily business, does it really feel like the most severe environment since the Depression? Certain industries have been hard hit, for example the auto industry, but overall the broader economy has weathered the storm quite well.

Even though your investments may be down, a properly balanced portfolio should have held up better than the overall stock market and fund managers are able to make adjustments, such as moving some dollars to cash, to help on the downside. In an environment like this, it's

not enough to merely ride it out. Sometimes adjustments are required. Sadly, a recent study by J.D. Power & Associates found that 1 in 3 Canadian investors were not contacted by their advisor over the 6 months from October-March, one of the most volatile periods in history. This is not the time for advisors to hide from their responsibilities. This is the time to be front and centre, providing guidance and reassurance and making adjustments where necessary. If you know someone that is one of the three, maybe you should suggest it's time for a second opinion.

In closing, the recent rebound in the markets has been a welcome change though it is only the first leg up in the eventual recovery.



The new world order of banking

In 1999, the US and UK dominated the global financial scene, with US banks holding 11 of the top 20 spots, the UK 4 and Japan and Switzerland with 2 each. At the top of the list were names like Citigroup and Bank of America. At the time, Canadian banks were nowhere to be found among the dominant world players and there were repeated calls for bank mergers to beef up our banks' size and relative strength.

2009 paints a very different picture. For one, Chinese Banks have assumed the top three positions on the list and the US only has 3 banks remaining in the Top 20. The UK has only one, and its former colonies have taken out its dominance in the top 20, with both Canada and Australia having 2 banks each in the top 20. RBC replaced Morgan Stanley in the #11 spot and TD replaces Freddie Mac at number 16. Go Canada!



Market perspective: Lessons from History

Investment research firm Ibbotson has tracked US stock market performance since 1926 and analyzed every 10-year period starting in 1926. There are 83 periods in total, starting in 1926-1935 and ending in 1999-2008. Over those 83 periods there have only been two occasions-before last year that is-where the US Stock market lost money over 10 years, taking inflation into account. (Results are very similar for Canadian and other major world markets.)

Until last year, there were no negative decades in the post-war period and you would have to go back 70 years to see another negative decade. But if we look at monthly accounting periods rather than year-end the situation is even worse.

In all, there are 880 120-month periods since 1926 (the first one being January 1926-Dec 1936, the second one being February 1926-January 1936 etc). Of these 880 10-year (120 month) periods, the most recent ones are the worst, in inflation-adjusted terms. The chart below shows the 5 worst market decades, by month, since 1926. Of note, 4 of the 5 occurred in the last 6 months.

5 Worst Market Decades Since 1926: Ending Month (Dow Jones)	Annualized Return
February, 2009	-5.8%
March, 2009	-5.3%
January, 2009	-4.9%
September, 1974	-4.3%
December, 2008	-3.8%

The above chart is of course highly skewed as the most recent 120-month period straddles not one major market drop but two. Either way, it's depressing. Even though the fundamentals of the real-world economy do not justify such a drop, we have

Just endured the worst market drop since the Great Depression. Over the last 110 years, there have only been a handful of times that the markets (again using US Data) fell by over 40% and only once, until now, did they fall greater than 50%.

Severe Market Declines Since 1900 (Dow Jones)	
1906-1907:	-49% in 665 days
1929-1932:	-89% in 1,039 days
1937-1938:	-49% in 386 days
1973-1974:	-45% in 694 days
2000-2002:	-38% in 999 days
2007-2009:	-55% in 514 days
Avg (Ex Depression):	-47% in 652 days

Note: the above research, compiled by Navellier & Associates, uses the Dow Jones as the market proxy with the longest history. Generally the Dow Jones (an average of the largest & most widely-held companies in America) tracks the performance of the overall markets but during the 2000-2002 period it fell by less than the overall market, which was down 48%. If we use the broader market drop of that period, there are actually 7 periods over the last 110 years where the markets fell by over 40% and all of these were followed by extremely large gains in

a concentrated period of time. Interestingly, the few periods where the stock market has had flat returns for 10 years or more (ie now) have been followed by annualized returns of over 14%.

The following chart shows US stock market gains following the last 5 recessions, and as you can see the gains are very strong and happen in a short amount of time. Note that the market bottoms tend to happen 6 months before the end of a recession. The average gain coming out of a market bottom in the last 5 recessions is 54% in 17 months so you can see that, however unpleasant it is in the eye of the storm, it shouldn't take long to reverse the losses if you stay the course.

Recession Period	Market Bottom	Next 1-2 years
Nov '73-Mar '75	Oct 3, 1974	+76% in 21 mos
Jan '80-Jul '80	Mar 20, 1980	+35% in 12 mos
July '81-Nov '82	Aug 12, 1982	+66% in 15 mos
Jul '90-Mar '91	Oct 11, 1990	+45% in 19 mos
Mar '01-Nov '01	Oct 9, 2002	+50% in 17 mos
Dec '07-Aug '09?	Mar 9, 2009?	???
Average Length/ Recession: 10 months*		Average: 54% in 17 mos

*Expected length: current recession: 20 months, twice the average

Estate Planning Issues & New Parenthood

The birth of your baby is the ideal time to review your insurance policies, your Will and Power of Attorney and how your tax situation will change. It is now even more important to ensure your loved ones are well looked after if anything should happen to you. Here are a few topics to consider helping you prepare for some of the unexpected events that can happen in life.



Life insurance

If something happened to you tomorrow, how much financial assistance would your family need to manage everyday living expenses – and for how long? A financial advisor can help you plan out how much coverage you need and what type of coverage is best as well as recommend ways to save on your insurance costs. For example, if you and your spouse purchase policies together you can save significantly, and some plans will discount your costs by up to 15% if you pay annually instead of monthly. Remember that your premiums are lower when you're younger as statistically you're generally healthier and will likely live a long time. If you are a non-smoker you can also ask for 'preferred' rates, which may also reduce your premiums.

Disability insurance

An employer often offers about two thirds of your pre-tax employment income as part of a basic disability insurance package. In fact, according to *Today's Parent* magazine, a 35-year-old woman is seven times more likely to suffer long-term disability than die before she turns 65. The last thing you want to worry about if you are sick is your finances. If you do not have disability insurance through your employer you should consider obtaining this on an individual basis.

Update your Wills and Powers of Attorney

It is always important to keep your Will and Power of Attorney up-to-date with changes in your life – especially the birth of a new baby. When you have a legal Will, you control who receives your assets and money. Without a Will, the government decides who gets what. It's also important to name a guardian for your child in your Will. When choosing a guardian consider these issues:

- Will they be comfortable with the emotional and financial responsibilities of raising your children?
- What are their attitudes on how to bring up children – and are they very different from yours?
- How do they get along with the rest of your family, who will likely want to remain involved with your children and continue spending time with them?
- If you are thinking of a married couple, how old are they? If something happens to them, who will be the backup guardians for your children? What will happen if they divorce? It may be better to appoint one as the primary guardian.

Filing your Tax Return

While having children in Canada doesn't result in much in the way of immediate tax savings, there are some tax-related benefits, as follows:

Child Care Expenses

If both partners work outside the home, the lower-income spouse can deduct a certain amount of child care expenses. For every child who is under the age of seven at the end of the year, you can claim up to \$7,000 for daycare expenses. For every child over seven but under 17, you can claim up to \$4,000 for daycare expenses, including the costs of many summer day-camps.



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A referral is the best compliment that a client can give. Many thanks to all our clients who have referred us over the past year!

Transitioning into Retirement



For those about to leave the work force after many years of hard work and toil, you are now making the transition to what may be the most rewarding and satisfying period of your life, retirement. Over the years you have no doubt had some pleasant day-dreams about the pleasures of retirement and the rewarding and relaxing time to be spent. In many cases those daydreams have been of a very general nature; I want to relax, I want to spend more time with my family, I want to play golf, or I want to travel. However, now that retirement is actually here, you should probably spend some time considering what retirement will mean specifically for your time and lifestyle. If you have a spouse you should approach this pleasant task together to ensure that you both enjoy the coming years as much as possible.

Transitioning into retirement will mean a change in your lifestyle and some of your life goals. Part of my role is to help with strategies and advice for balancing your priorities and making progress towards achieving your financial goals. Take this opportunity to review your priorities and consider asking your advisor these questions:

- How will my investment requirements change in retirement?
- What is the best way to structure my retirement income so I don't lose age benefits and credits?
- How can my spouse and I minimize taxes in retirement?
- My spouse and I both have sources of income, which should we use first?
- Does my provincial health plan cover me when I spend time in the US?
- Should I be updating my Will?
- Should I be passing on assets to my family now or should I do it through my Will?
- Should I consider a Reverse Mortgage or Home Equity Line of Credit?
- How can I reduce my financial risks due to health problems?
- What do I need to consider if I travel outside the country?

If you are interested in exploring this issue, I have a useful retirement planning workbook called "What do you love to do" that helps you paint a picture of your ideal retirement. From there we can work together to help ensure your nest egg will be sufficient to support your core needs as well as your dreams. As investors-and as financial planners too-often we are focused on creating and preserving the wealth and less on what that wealth can actually do for us when the time comes. As the saying goes: "a map is only good if you know where you are going."