CIBC Wood Gundy

Perspective

Personal Newsletter From Anton Voronoff

Fourth Quarter 2012

Back To The Future?

As an investor, wouldn't it be great to travel back in time 30 years and alter the course of the future? Knowing what you know now, would you choose to do things differently?

It is easy to forget what the world looked like just 30 years ago. In 1982, the economy was in the depths of a severe recession. Pessimism was rampant. Unemployment was around 11 percent in Canada and similar in the U.S. By the summer of 1982, the predecessor of the TSX Composite Index had posted a loss of over 39 percent over a 12-month period.

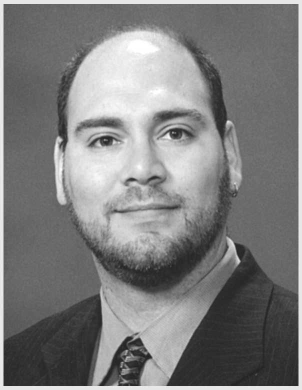
And yet, this period of bleakness preceded one of the greatest bull markets in history. An equity investment of $1,000 in 1982 would have yielded over $19,000 today*, an annualized growth of over 10.5 percent! Could this happen again?

Conditions today are markedly different. Unlike in 1982, interest rates are at rock-bottom levels, and central bankers seem determined to maintain their fight to keep inflation under control. Many questions still remain about the financial stability of various countries, particularly those in Europe.

Even so, history has shown that times of greatest uncertainty have provided some of the best opportunities for profitable investing. Investors who realize these opportunities take action and don't sit on the sidelines.

What about your own portfolio? As individual investors, we need to assess each of our positions and reflect on our personal circumstances as we seek opportunity. If you have not reviewed your holdings recently, perhaps now is the time.

Recovery has been a slow process, but there are many positive signs of improvement. Is the climb towards longer-term recovery just around the corner? A trip to the future will be the only way we will know for certain.



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Students of all ages have returned back to school and autumn is in full swing. Before we know it, the end of year will be quickly approaching.

We hope that the turn of the seasons will bring bright investing days ahead. If you know someone seeking assistance in reviewing their financial situation, we would be pleased to assist and would appreciate the referral.

Financial Market Monitor

	Recent 09-07-12	Six Months Ago (03-08)	One Year Ago (09-06)
S&P/TSX Composite Index	12268.01	12461.93	12518.54
Dow Jones Industrial Average	13306.64	12907.94	11139.30
Canadian Interest Rates/Yields			
Canadian Prime Rate	3.00%	3.00%	3.00%
Treasury Bills* -3 month	1.00%	0.91%	0.91%
-6 month	1.07%	0.98%	0.88%
Gov't. of Canada Bonds* -5 year	1.42%	1.50%	1.40%
-10 year	1.85%	2.01%	2.24%

* Approximate annual rates.
Subject to transaction volumes, availability of specific issues, and other important factors.

In This Issue:

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Protecting Yourself

Your Cyber Safety: Preventing Identity Theft

As the internet plays an increasing role in our lives, the amount of cyber crime continues to grow. Identity theft — a crime in which an imposter uses your personal information for illegal purposes — has become a common offense. With the vast amount of information shared electronically through online banking, e-commerce and social networking sites, criminals have found new ways to easily obtain others' personal information from the internet.

Are you taking the necessary precautions when you are online to avoid becoming a victim?

Here are some ways to improve your cyber safety:

- Subscribe to the highest level of privacy on social media accounts so strangers cannot access your information. Avoid posting personal information like birthdays or addresses.
- Limit downloads to reputable sources.
- Never share passwords, even if a request appears to be legitimate.
- Ensure you have carefully chosen personal verification questions.
- Change PINs and passwords periodically; use letter/number/symbol combinations where possible.
- Create different passwords for each of your accounts. If one account has been compromised, you will still have the peace of mind knowing that others have not.
- Use alternate email addresses for different purposes. For example, use one account for trusted business transactions (such as online banking) and another for activities on websites that you cannot fully trust. Remember that many websites often share your information with others.
- Buy carefully when you make online purchases. Look for reviews on vendors to confirm their reputation. Ensure you are dealing with secure sites before entering any transaction information.
- Keep computer security software up-to-date.
- Review your bank, credit card and other financial records frequently and report any questionable activity.

Sector Watch

A Brief Look At Canada's Oil And Gas Industry

As a Canadian investor, oil and gas likely makes up some part of your portfolio. Did you know that more oil and gas companies are listed on the TSX/TSX Venture Exchange than on any other exchange in the world?

Across the value chain, many types of companies are involved in the industry, including within exploration and production, ancillary and well services and pipeline construction.

The dynamics of the oil and gas industry are changing and here we provide a brief update on market developments.

Natural Gas

North American natural gas prices have been depressed for several years now, with prices this year reaching their lowest levels in a decade — off more than 80 percent from 2005.

Drilling innovations over the past few years have allowed natural gas production from shale reserves, which was previously uneconomic. This has contributed to rising inventories and put downward pressure on prices.

There has also been an increased focus on liquefied natural gas (LNG), a condensed and liquefied version of gas that allows for transport over long distances. Many countries, including Canada, have started to ramp up construction of LNG terminals to export natural gas to Asia where prices are higher.

Oil

One of Canada's rapidly growing sources of oil production is the oil sands, a unique resource containing vast amounts of recoverable bitumen. Bringing on new oil sands mining operations is economical at high oil prices. In the first half of 2012, the average monthly price of WTI oil (West Texas Intermediate oil, a grade commonly used as a benchmark) ranged from $82 to $106 per barrel resulting in a ramp up of oil sands projects.

Infrastructure to move recovered oil from the Western Canadian Sedimentary Basin (WCSB) to coastal shipping locations is being developed by pipeline companies to meet global demand.

Changing Industry Dynamics

Recently, there has been increased foreign acquisition interest in the Canadian oil and gas industry. This has generally been driven by Asian countries that do not have domestic energy reserves and are looking to secure energy sources.

Lower commodity prices and increased acquisition activity in this sector may present investment opportunities. Improvements in the economy are also expected to increase the demand for energy and improve corporate profits.

Back-To-School Time!

Tax-Efficient Education Savings Alternatives

With students back in school, now may be a good time to think about tax-efficient ways to fund the rising costs of post-secondary education for a child. Here are a few thoughts.

Investing In An RESP

A Registered Education Savings Plan (RESP) is one of the most popular forms of education savings, allowing savings to grow on a tax-deferred basis. The RESP lifetime contribution limit is $50,000 per plan beneficiary.

In addition, the federal government offers a Canada Education Savings Grant (CESG) incentive that may provide up to 20 percent on the first $2,500 per beneficiary of eligible annual contributions made to an RESP. Eligible RESP beneficiaries may receive a maximum CESG grant of $500 per year (or up to $1,000 if unused grant room exists), to a lifetime limit of $7,200. CESGs are only available up to and including the year in which a beneficiary turns 16 or 17 years of age.

Depending on province of residence, there may be other provincial government incentives available.

Spending After Saving

Contributions to an RESP are not tax-deductible so they can be withdrawn tax-free by the subscriber or beneficiary.

Educational Assistance Payments (EAPs) are made up of accumulated investment earnings and incentives paid from an RESP to an eligible beneficiary to assist with education-related expenses at the post-secondary school level. An EAP does not include the subscriber's contributions.

EAPs are taxed to the beneficiary at his or her personal tax rate at the time of the EAP withdrawal. All applicable grants and incentives may be clawed back if the beneficiary does not qualify for an EAP at the time of the withdrawal.

Alternatives To An RESP

If you have reached the RESP contribution limit, or have made sufficient RESP contributions to maximize the grants and incentives available, there may be other tax-efficient options available to you, including:

- **TFSA** — A TFSA provides the ability to earn income on a tax-free basis. Contributions are not subject to tax on income or capital gains earned. Since TFSAs are only allowed for Canadian residents who are 18 years of age or older, an adult may have to use their own TFSA to save for a child's education.
- **Corporate Funding** — If you own a company, there are a variety of tax-efficient ways to help fund a child's education. As examples, you may consider paying the child a reasonable salary to work or create a scholarship program.
- **Trust Account** — A trust can be set up to provide for beneficiaries, including for education. A properly established trust may provide additional benefits, such as tax-efficiency, asset protection, minimizing probate fees and allowing for control over the assets. Depending on how funds are contributed to the trust, income attribution rules will determine how the income earned and gains realized by a trust are taxed.

There are many tax-efficient alternatives that may be available to you depending upon your situation. Please consult with a tax advisor to formulate the best strategy for you.

A Sign Of The Times?

When Cash is No Longer King

Have you ever forgotten your wallet at home and struggled to get through the day? With new smartphone technology, this scenario may be one of the past.

Although in its infancy, the age of smartphone payments is developing quickly.

Is this the blueprint for the future: new applications that turn your smartphone into a digital wallet, replacing the physical contents of your wallet, including credit cards, gift cards, loyalty cards and identification cards? With a couple of taps, you will be able to make purchases at a store checkout or conduct a variety of other transactions using the information stored on your smartphone.

Electronic money comes with its advantages — it is faster to process than cash or credit and is expected to save consumers time. It will also likely save in transaction costs for financial institutions and vendors.

Of course, there are a variety of security issues that will need to be addressed. However, the supporting infrastructure continues to be developed and it will be interesting to see whether Canadians adopt this technology going forward.

Fixed Income: Where To Now?

Here are some things to consider when it comes to fixed income in a low rate environment.

Remember the days of guaranteed double-digit returns on fixed income products? At one point, it may have been prudent to weigh your portfolio in favour of these "riskless" fixed income investments to take advantage of skyrocketing interest rates. In 1981, a Canada Savings Bond had a guaranteed return of 19.5 percent, which seems almost too good to be true by today's standards!

Historically, investing in bonds has been an effective way to diversify risk in a portfolio. Although current interest rates are at record low levels, this doesn't mean that investors should abandon the strategy of allocating part of their portfolios to fixed income investing.

Why Are Interest Rates So Low?

As a result of ongoing financial market uncertainty and weaker economic growth, the central banks of Canada and the U.S. have been holding interest rates at low levels. In the U.S., the federal government's stimulus program of selling short-term securities and buying back longer-term bonds to lower rates has also reduced yields.

When Will Bond Yields Rise?

Unfortunately nobody can predict when yields will rise. In the U.S., the Fed has stated that it will keep interest rates low until at least the year 2014. Whether Canada will follow suit is uncertain, but this will be driven by the future domestic and global economic situation.

As bond yields rise, a potential bond bear market may be a risk for fixed income investors. If an investor has purchased bonds with long maturities and interest rates rise, the face value (or price) of the bonds will decrease. As interest rates rise, there may be better opportunities to purchase bonds with higher yields, but if existing bonds are replaced prior to maturity, these bonds would end up being sold at a discount.

How Does Fixed Income Fit In My Portfolio?

Fixed income investments still play an important role in providing diversification to mitigate the volatility of stocks. In this low-rate environment, a fixed-income allocation strategy should consider other forms of fixed-income products, not just traditional bonds. This will allow for the potential to generate better income, while still balancing equity volatility and providing portfolio diversification. Here are some things to think about:

- **Capital Preservation** — Government bonds are still a reliable way to preserve capital during these uncertain times. Cash isn't a good alternative as inflation will erode any small interest returns. Even modest bond returns are often better than holding cash.
- **Time To Maturity** — The longer the time to the bond's maturity, the greater the opportunity for interest rates to change. A 15- or 30-year bond may appear attractive today with comparatively higher yields than one with a shorter time to maturity, but it is difficult to predict how interest rates will affect the bond over this longer time period.
- **Risk** — Higher-risk fixed income securities often offer higher returns. For instance, a bond with a greater risk of default may offer higher interest payments. In the current rate environment, investors may wish to evaluate their risk appetite to improve income potential. Corporate bonds, high yield bonds or international bonds may be considerations. A bond fund or exchange-traded fund may help to diversify some of the risk depending upon the underlying fixed income securities. There are many fixed income alternatives available and we can offer recommendations depending on your risk profile.

We're Here To Help

We are here to assist should you wish to discuss the fixed income component of your portfolio or examine suitable alternatives for your particular situation.

With the compliments of...

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