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Annual Performance Report

Enclosed is your performance report for the past three year period ending on December 31, 2011. The report shows the value of your accounts (on a combined basis). If you have dealt with us for less than three years, we show your return ‘since inception’. RESP’s or ‘In Trust Accounts’ are not included.

‘Inflows’ is defined as how much money came into your accounts, including amounts transferred from another CIBC Wood Gundy account. ‘Outflows’ is defined as funds withdrawn from an account, including transfers to another CIBC Wood Gundy account. ‘Revenues’ is defined as total cash interest and dividends paid into your account.

The percentage profit on a three year basis is the average annualized (per year) return for the past three years. Returns include cash interest and dividends plus capital growth.

The report also shows a comparison of how your accounts performed against various indices. The first index is the Canadian bond index, the second is the global stock market index and the third is the Canadian stock market index. Overall, client returns have been strong in comparison to these index average returns.

We have discussed at length in previous letters and client discussions our focus on increasing fixed income quality and being relatively defensive in terms of the nature of our stock exposure. Sovereign debt risk remains our number one concern and we have built your investment portfolio with this risk in mind. We are also mindful of the fact that our average client is 63 years of age, so capital preservation and income are key objectives. With risk free interest rates so low, our emphasis remains on corporate (rather than government) fixed income but as said, the quality of issuer is of prime importance. We see a window of opportunity however in high yield (below investment grade bonds) as the yields there have increased to seven to eight percent on many issuers that have reasonably low default risk. We now see little chance of any material increase in interest rates over the next couple of years so we are beginning to shift some money out of short term variable rate high yield fixed income (yielding 3%) into fixed rate high yield bonds (which have much higher yields at present). In order to avoid individual issuer risk with respect to this attractive (but somewhat aggressive fixed income asset class) , we use low management fee ‘pools’ of high yield bonds.

We just had about seven million dollars of bonds mature at the beginning of January. We spoke to a number of clients about this already but still have a number of calls to make. We have also spoken to a lot of clients (in terms of how they wish to fund TFSA contributions for this year) and are proceeding with a number of ‘in kind’ contributions right now. We will endeavor to contact all remaining clients over the next couple of months, but please do not hesitate to contact us, particularly if your preference is an ‘in kind’ rather than cash contribution. We now begin year four of TFSA’s and the limit remains at $5,000 per year.

It is also ‘RRSP’ time. Your limit is eighteen percent of trailing net earned income (plus net rental income) to a maximum of $22,450 for 2011 (and $22,970 for early bird 2012 contributors). If you are in a pension fund, your RRSP limit is lower and is shown on the CRA Notice of Assessment you would have received following your most recent tax filing. Also shown on your Notice of Assessment is any unused RRSP contribution room. The form can be a bit confusing and sometimes overcontribitions can be mistakenly made so please pay special attention to any amount (showing up at the very bottom of the CRA RRSP contribution limit calculation) that is classified as ‘RRSP money contributed but yet to be deducted’. If that is the case, please let us know and we suggest using that amount towards your RRSP this year.

As income splitting on RIF income is now allowed , spousal RRSP’s are not as important as they were in the past; however if one spouse will be in a materially lower income tax bracket in retirement, spousal RRSP’s can still be advantageous.

It is ‘New Years Resolution Time’, so I encourage all our working age clients to open up (or add to) monthly saving plans. Most of us see ‘many’ debits on our monthly checking statement, so it is nice to have at least one of these debits being paid to ‘oneself ’. Also, if you are a CIBC client and bank ‘online’, you can now add your Wood Gundy account as a ‘bill payee’. Simply select Wood Gundy, type in your eight digit Wood Gundy account number and presto, you can add funds to your account here at a click of button.

This is busy time of year and tax time is also around the corner. Cheryl is our team’s ‘tax info expert’ and knows as much as anyone out there in terms of calculating fun things like ‘ROC’ and ‘phantom distributions’. As always, we are here to help you with regard to tax reporting.

Please call us if you have any questions whatsoever including any stemming from your review of this performance report.

Thanks to all clients who have referred someone to our practice in the past. It is really appreciated. We will do our very best for any new and existing client and as mentioned a few months back, we were pleased to hear we scored in the top five percent (in overall satisfaction) in the Vancouver Magazines 2011 survey. We continue to add some clients to our practice but our new account minimum is on the high side at around one million dollars. We are always pleased though to help anyone you know with some general advice over the phone (regardless of how much they have to invest) and welcome as clients any direct family members regardless of account size.

All the best in 2012 and we thank you for the opportunity to be of service.

Regards,
CIBC Wood Gundy

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