

# Insights

FALL 2009

STRATEGIES FOR YOUR FINANCIAL SUCCESS

## Looking toward recovery? Keep an eye on fundamentals

**T**he turmoil that has gripped the financial markets has affected virtually every sector. However, market downturns don't last forever, and it's important that you be positioned to make the most of a recovery when it occurs and to benefit from the early stages of any upswing.

But which sectors will lead the way as conditions improve? A look at market fundamentals can help identify areas that could be in the forefront.

For instance, global trends point to a leading role for commodities stocks, such as oil, base metals, and materials, as global economies recover. An economic rebound in China and even a slow recovery in the U.S. could increase demand and boost commodity prices, which fell steeply in 2008.

Consider that car sales in China rose by 48% year-over-year in June 2009, spurred by government tax incentives. This is boosting the already rapidly expanding demand for gasoline.

With much global growth expected to come from emerging market economies, multinationals that export to the rising middle classes of the world may do well.

In all sectors, a prudent strategy is to concentrate on industry leaders, as



these large-capitalization stocks are often the first to hold onto their gains as the markets recover. Averaging into new positions with a regular investing program can minimize volatility.

We can help you identify longer-term value opportunities in the context of your investment objectives and tolerance for risk. ■



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The Canadian economy is on the mend. With that in mind, it's important to start preparing your portfolio for a lasting market recovery.

For instance, now may be the right time to increase your portfolio's potential for growth.

We can review your asset allocation strategy to help you identify longer-term equity opportunities in the context of your investment objectives and risk tolerance.

We will work closely with you to make sure your portfolio is positioned to help you reach your goals.

Let's get together soon to discuss a plan of action.

# Is gold right for your portfolio?



**T**urbulent times in the markets and economy have helped make gold a hot commodity. Since 2007, the price of gold bullion coins and bars has staged a strong rise that has seen it edge above the US\$1,000 mark. And there are signs that gold may show further strength in the short term.

Whatever direction the gold price takes, having some exposure to this precious metal can provide important diversification benefits for your portfolio.

## What's behind the recent strength

Gold's rise has been supported by a number of factors. One of the main factors has to do with supply and demand.

On the supply side, gold production on a global basis is slowing or declining, with older mines becoming depleted. While new mine projects are planned, these can take years to bring into production. And obstacles such as growing concerns over the environmental effects of gold operations may slow development further.

On the demand side, there is con-

stant and potentially growing demand from the jewelry industry. The main drivers are China and India, which generate a demand surge each year for their wedding seasons. Increasing affluence in China and India should help keep demand for gold buoyant in the coming years.

## Gold and the greenback

Another support for gold has been recent weakness in the U.S. dollar. Investors are concerned that huge U.S. government deficits could last for many years and help bring down the value of the greenback. Indeed, Scotia Economics sees the U.S. dollar falling to par with the Canadian dollar by late 2010.

Gold is denominated in U.S. dollars and traditionally rises when the dollar falls, so further weakness in the currency could help support the price of gold.

## What this means for your portfolio

For investors, having some exposure to gold can provide important diversification benefits. For instance, gold's

role as a store of value can help offset the risks of holding U.S.-dollar-based assets in your portfolio, and can provide protection in the event of further market volatility. While economic conditions may continue to improve in the coming months, any significant disappointments going forward could lend support to the gold price.

With a wealth of Canadian-based gold companies on the S&P/TSX index, gold mining shares and gold funds provide ready exposure to the sector. A number of gold Exchange-Traded Funds (ETFs) on the Canadian and U.S. markets also provide a convenient and cost-effective way to hold gold bullion and gold equities.

Finally, it's important to note the downside risks of gold. Some predict that a steady improvement in the global economy and the financial markets, helped by timely actions by the U.S. Federal Reserve, could

"Increasing affluence in China and India should help keep demand for gold buoyant in the coming years."

remove gold's "safe haven" appeal. A rebound in the U.S. dollar could also weaken gold prices.

Remember, as well, that gold has been volatile recently, and may not be suitable for conservative investors. Most experts suggest limiting gold to 5% to 10% of your overall portfolio.

What's right for you will depend on your investment objectives and risk tolerance. We can help you decide on the role that gold can play in your diversified portfolio and the best way to invest in the sector. ■

# How to enjoy guaranteed income for life and leave a legacy

**T**oday's low interest rates and volatile markets can present a challenge for investors who need income from their portfolios. Conservative investments such as Guaranteed Investment Certificates (GICs) may not produce the amount of income you need, yet you may not be comfortable with the volatility associated with an increased equity allocation.

An alternative you may want to explore is the Insured Annuity strategy. This strategy will assure you income for life, with no chance that your money can run out before you have planned, while providing a tax-effective legacy for your heirs.

If you are between the ages of 60 and 85, in good health, have a low risk tolerance and want to leave an estate, the Insured Annuity strategy may be an effective solution for you.



**The life insurance policy.** On your death (or the death of your spouse, with a joint-and-last-to-die insurance policy), the death benefit is paid directly to the named beneficiaries. The money is tax free and does not pass through your estate, avoiding probate fees and possible complications and delays.

The example below illustrates how the Insured Annuity strategy can provide a 65-year-old couple an

equivalent pre-tax return of approximately 7.47%.

## Is the Insured Annuity the right choice for you?

Before choosing this strategy, it's important to understand all of the considerations. First, an annuity investment is locked in for life and should not represent your entire fixed-income allocation. As well, the return is fixed and will not rise if interest rates increase in future.

If you are concerned about getting sufficient income from your assets and wish to leave a secure legacy for your heirs, the Insured Annuity strategy may be an effective long-term solution. Contact us for more information and an analysis of the potential benefits based on your circumstances. ■

## How the strategy works

The Insured Annuity strategy uses two products to produce its benefits: a Life Annuity, which provides guaranteed income for your life and for the life of your spouse, if you choose; and a permanent life insurance policy with a death benefit equal to the amount originally invested in the annuity.

**The annuity component.** The annuity pays a regular stream of income, part of which is a return of capital and therefore not subject to taxation. (Note that the annuity must be purchased with non-registered assets in order for the tax benefits to apply.) You can use a portion of each payment to cover the premiums on the life insurance policy.

## GIC versus Insured Annuity

The example below shows how a 65-year-old couple with \$500,000 in non-registered assets can use the Insured Annuity strategy to increase their cash flow while preserving their estate for their children and grandchildren.

GIC at 4.5%	Monthly income	Insured Annuity strategy
\$500,000	Total investment	\$500,000
\$1,875	Gross income	\$2,683
\$1,875	Taxable income (interest component)	\$919
\$870	Taxes payable at 46.4% rate	\$427
N/A	Insurance cost (premiums)	\$589*
<b>\$1,005</b>	<b>Net income</b>	<b>\$1,668</b>

\* Annuity payments will not cover initial premium requirements. Assumes 65-year-old couple, non-smoking. Rates will vary. Source: Insurance Policy – Empire Life; Annuity (joint and last to die) – Standard Life, July 2009.

# Raise a glass as Canadian wines come of age

Canadian wines made headlines this year when a Chardonnay from Ontario winery Le Clos Jordanne bested vintages from France and California in a tasting billed as “The Judgment of Montreal” by *Cellier* magazine. The victory underlined that Canadian wines can compete with the world’s best, and are well worth discovering from coast to coast.

Le Clos Jordanne is located on the Niagara Peninsula, a region whose winemaking reputation has attracted investments from celebrities such as Dan Aykroyd and Mike Weir to create their own labels. Distinctive Ontario wines are also emerging out of other regions on the Lake Erie North Shore and Pelee Island, as well as Prince Edward County.

For a taste of Ontario’s best, try Cabernet Franc reds, crisp Rieslings and iconic icewines.

## Production is on the rise in B.C.

Wine is booming in British Columbia as well. The Okanagan and Similkameen Valleys continue to produce some of Canada’s top vintages, with unique climates and soils creating fine whites and Bordeaux-style reds.

Supple Merlots have become a B.C. staple, along with whites from the Pinot Gris, Chardonnay, and Pinot Blanc grapes, as well as icewines.

## Eastern Canada’s distinct wines

In Nova Scotia, wineries are scattered through the Annapolis, LaHave River and Bear River Valleys, and the Malagash Peninsula. Look for French hybrids such as Marechal Foch and Seyval Blanc, and specialties such as the red Leon Millot and the white L’Acadie Blanc, a good match for Nova Scotia seafood. Best vintages: 2005, 2007.

And wine enthusiasts should take any opportunity to sample offerings from Quebec’s young wine industry, centred in the Eastern Townships and Monteregie regions, southeast of Montreal. These include little-seen varieties such as Vandal Cliche, Frontenac, and Geisenheim, as well as award-winning icewines. The only letdown: most are only sold within the province. Best vintage: 2005.

Learning about wine can be as pleasurable as tasting it. Your provincial liquor control board may offer wine appreciation courses. And this time of year is ideal for touring wineries during harvest — plan to make a day of it. ■

## Quick tips

Learn more about Canada’s regional wines on these websites:

[www.winesofontario.org](http://www.winesofontario.org)

[www.winebc.com](http://www.winebc.com)

[www.winesofnovascotia.ca](http://www.winesofnovascotia.ca)

[www.quebecwines.com](http://www.quebecwines.com)

# Charitable donations with the Insured Annuity strategy

Through this economic downturn, many charities have seen donation levels drop, as potential donors feel uncertain over their future income.

## Estate benefits

The charitable Insured Annuity strategy offers a creative way for retirement-aged donors to make a significant charitable gift, while still continuing to receive the guaranteed income they need.

This strategy uses the tax efficiency of annuity payments and the charitable donation tax credit to enhance the contributor’s returns.

## Gift plus income

The charitable Insured Annuity strategy preserves your gift for the charity upon your death. You purchase a life annuity and a permanent life insurance policy, naming your charity as the irrevocable beneficiary.

You get tax-efficient annuity income, plus a charitable tax deduction for the insurance premiums; the charity receives the insurance death benefit.

We can help you decide if the Insured Annuity strategy can facilitate your charitable giving. ■

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