

Insights

SPRING 2010

STRATEGIES FOR YOUR FINANCIAL SUCCESS

Interest rates in the spotlight as economy recovers

On April 21, 2009, in the midst of the worst recession in 70 years, the Bank of Canada took the unprecedented step of lowering its key lending rate to a record low of 0.25% in an effort to jumpstart the economy. As the country climbs out of recession, Canadians are now wondering what will happen when interest rates rise, as predicted for mid-2010.

Over the past year, low interest rates have helped to stimulate economic growth by making it easier for people and businesses to borrow money. In Canada, consumers took advantage of low mortgage rates, leading to a rebound in the housing market. Lower mortgage and car payments left consumers with more disposable income to buy other goods and services. With cheap, available financing and resilient domestic demand, corporate Canada began investing again in machinery, equipment, and buildings.

But a rapid rise in interest rates could derail business growth and prove costly for consumers, especially new homeowners who have not evaluated their ability to carry their debt at a higher interest rate.

Furthermore, rising rates tend to dampen stock market growth, as corporate profits are squeezed by higher interest costs. Inflationary concerns could intensify hikes if domestic or



global demand rises too quickly; however, economists expect a slow recovery with a strong Canadian dollar putting a damper on exports and inflation.

The good news is that even with rising rates, Canadians should still be enjoying a low-interest-rate environment, relative to historic averages. And on the investment front, there will continue to be asset classes, market sectors, and geographic regions that should perform well, regardless of prevailing rates. ■



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Stepping back to take in the big picture helps us bring things into clear focus. It allows you to reassess and reconfirm what's important to you — your family's health and security, your plans for retirement, your children's education, your home, or maybe all of these.

I can help to ensure your priorities are being addressed within a sound plan. Adjusting your RRSP contributions, investing wisely to build your wealth, assisting with your estate plan, and helping to preserve your assets are just a few ways I can assist to keep your financial plan on track.

Call me — I'm always available to provide you with my professional advice and my services.

Recent oil prices make for good long-term buying opportunity

Oil prices have been extremely volatile over the past few years as a result of the global financial crisis. The price of a barrel of oil rose to the shocking high of US\$140 in the first half of 2008, then plummeted by more than US\$100 in subsequent months.

Here is a look at the factors behind oil prices, and what the future may hold.

A bullish viewpoint

While oil prices may be volatile in the short term, the Scotia Capital equity team sees many factors that support oil prices going forward.

Supply slowdown. Under-exploration over the past few years, as a result of the financial crisis, has lowered production to the point where inventories will be depleting when the economy recovers. The International Energy Agency estimates that \$100 billion of oil production expansion projects were can-

celled or postponed. "Bullish longer-term fundamentals are extremely supportive of the underlying commodity price going forward," notes Geoff Ho, Director and Canadian Equities Specialist for the ScotiaMcLeod Portfolio Advisory Group.

Rising cost of production. There is an increasing need to produce oil in ever-challenging regions and the need for expensive technology. Scotia Capital equity analysts believe the minimum price required for deep-water and oil-sands projects is in the US\$75-100 per barrel range.

U.S.-dollar weakness. Most commodities, including oil, are priced in U.S. dollars. In recent years, the U.S. currency has fallen dramatically and that weakness is expected to continue as America contends with soaring budget deficits. A weak U.S. dollar means that oil rises in price, which benefits Canadian producers.

Recovery of demand. Crude oil has seen lower demand during the economic downturn, leading to higher inventories, which tends to put a damper on prices. Demand could bounce back more strongly than expected, with production playing catch-up.

Demand shifting away from North America. Ninety per cent of future demand growth for oil will be in Asia, South America, and the Middle East. Consumption in China is expected to rise by 4% in 2010 as car sales surge; currently, just 2% of the population owns a car.

Inflation hedging. Investors flock to commodities when there is a risk of inflation, since the price of raw materials tends to keep pace with inflation. As the global recovery heats up and inflation begins to rise, investors may increasingly turn to oil as an investment, pushing up prices.

Speculative activity. Over the past two years, we have seen price swings caused by speculation over oil prices, with many investors hoping to cash in on rising oil stocks. Investment funds in commodity markets have risen from an estimated \$15 billion to \$260 billion since 2003.

Geopolitical risk. Continued and rising tensions in the Middle East may cause prices to rise, since Saudi Arabia is the second-largest supplier of crude oil in the world.

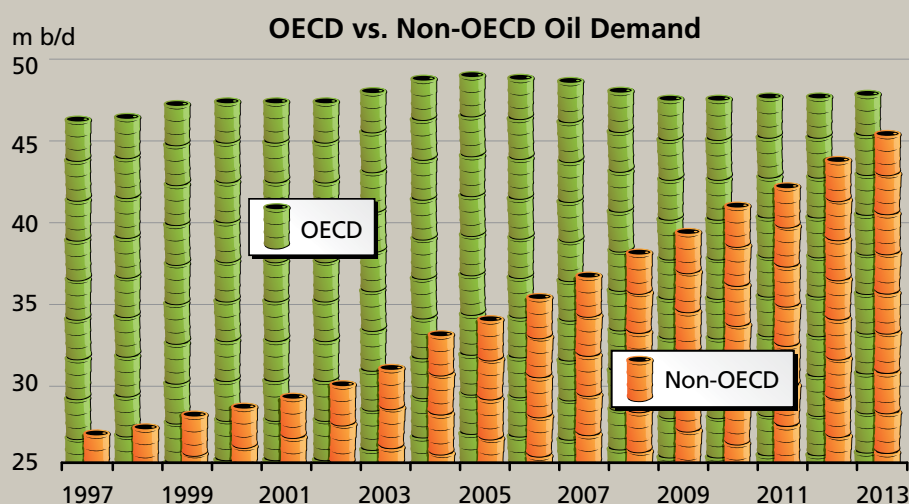
A long-term outlook

The Scotia Capital equity team sees oil as an excellent long-term buying opportunity with price increases supported by strong demand, particularly from Asia.

We can help you to determine appropriate exposure to the energy sector for your personal situation and risk tolerance. ■

Demand for oil is growing in emerging world

As developing economies like China and India expand at a rapid pace, countries that don't belong to the Organisation for Economic Co-operation and Development (OECD) are expected to begin consuming almost as much oil as developed OECD nations.



Source: International Energy Agency

m b/d = millions barrels/day

Four strategies to boost your retirement income

If you are retired or close to retirement, generating income is probably one of your biggest concerns.

You count on your investment nest egg to supplement the income you receive from government sources. But in a low-interest-rate environment, your money needs to work harder.

Consider these four investment strategies that may allow you to achieve higher after-tax income.



1 Choose a T-SWP for a tax-efficient income stream. A tax-efficient systematic withdrawal plan (T-SWP) works with special “T-series” mutual funds, which are set up to include tax-free return of capital (ROC) in your payouts. Once all of your original capital has been returned to you, withdrawals are taken by redeeming units.

Note, however, that as you deplete ROC, the adjusted cost base of the units decreases as well. This means a higher taxable capital gain when you

sell or transfer the units. T-SWPs are best suited to non-registered plans.

2 Consider high-income-generating asset classes, such as real estate and infrastructure. Both commercial real estate and infrastructure investments have the potential to provide a regular and reliable income flow at a level that’s potentially higher than that available from current guaranteed investment rates. And while there is

greater short-term risk associated with these sectors than with guaranteed investments — as investment prices can rise and fall with market conditions — they are generally less volatile than other types of equity investments.

In addition, these sectors offer diversification, with lower correlation to traditional asset classes.

3 Invest in dividend-paying Canadian companies. To encourage Canadians to invest in their own backyard, the government offers a tax

credit when you invest in dividend-paying Canadian companies.

The tax payable on dividend income is lower than on interest income and can, depending on the provincial and federal tax brackets, in certain circumstances, be as favourable as capital gains tax treatment. Keep in mind that successful companies often increase the dividends to their investors year after year. Many dividend-paying shares also have solid growth potential over the long term.

4 Climb a bond ladder as interest rates rise. With interest rates in Canada expected to begin rising as early as mid-2010, you may want to consider making bond investments using a ladder strategy. This strategy allows you to take advantage of higher rates as they become available.

Here’s how it works: You start by buying roughly equal dollar amounts of bonds with a variety of maturities, each maturity date representing a different rung on the ladder. When the shortest-term security matures, reinvest the proceeds in the best-returning rung on your ladder, which usually is the top rung, with the longest maturity.

In time, the shorter-maturity, lower-paying rungs will be gradually replaced by higher-paying, longer-maturity securities. You will have securities maturing every few months or every year, depending on how you construct your ladder. Given that longer-term yields are normally higher than short-term yields, you are reinvesting funds at higher rates, on average, over the long run. This enables you to reinvest matured securities at the highest available rate.

We can help you get your retirement savings working hard to generate the income you need in retirement. ■

The art of collecting art

A beautiful piece of artwork can provide you with a lifetime of pleasure, and be a potentially rewarding investment, as well. But the first rule of collecting art is never to buy purely for financial gains — you should buy only what you love.

Getting started

Before you can begin to consider collecting, you first need to develop an area of interest. Consider not only paintings, but also decorative art, such as sculpture, glass, metalware, antique furniture, jewelry, carpets, and clocks. You may find that your passion lies with Latin American abstract impressionism, Chinese ceramics, or Art Deco glass.

Educate yourself and train your eye by visiting public and commercial galleries and art fairs. Speak with gallery owners, artists, and people who have bought art before. Learn about art: read books and art magazines.

A reputable dealer who has been in the business for many years can be an enormous help; he or she will have the necessary knowledge and experience regarding quality, market trends, and pricing practices.

Tips for collecting art

If you want to improve the chances that your art collection will hold its value, and perhaps even increase in value over the years, follow these tips from experienced art buyers:

- Buy top quality. Top-quality items

tend to appreciate even in poorer market times. Choose a field in which top quality is within your budget.

- Obtain a written appraisal or certificate attesting to the item's authenticity.
- Buy items in perfect condition.
- Keep items in perfect condition.

Maintain the item properly with appropriate environmental conditions and regular maintenance.

- Insure items adequately for theft, fire, or breakage.

- Make a detailed plan for disposition. Your attorney or estate manager may not be sensitive to the value or importance of your collection.

Assess trends with an index

The price of art is affected by such an array of factors that valuing it can't be an exact science. Nonetheless, art indexes do exist and can be useful for assessing trends before taking professional advice. The best-known index is the Mei Moses® index, which tracks auction prices of more than 15,000 art pieces sold by Sotheby's and Christie's.

Keep in mind that indexes are based on auction prices, which represent just a quarter of the market. Plus, dealers tend to increase the price when selling at a public auction.

While art can be a lucrative investment, it is first and foremost a tangible asset that is a source of enjoyment, pride, and personal expression. If you buy only pieces that you love, your investment will never disappoint. ■

What you should know about ETFs

The popularity of exchange-traded funds (ETFs) has exploded since 2007. Activity quadrupled to seven billion shares traded in 2008 in Canada, and there are now more than 100 ETFs listed on the Toronto Stock Exchange. ETFs can be a cost-effective way to diversify your investment portfolio. Here's how they work.

Like mutual funds, ETFs are baskets of stocks. Most of them mimic stock indexes, providing exposure similar to that of index mutual funds.

However, unlike mutual funds, ETFs trade like stocks. While mutual funds are priced at the end of the day, ETF prices change throughout the day and trades may be made any time the stock market is open. With no minimum holding period or redemption fees and real-time trades, flexibility is a key advantage.

The other key advantage is a very low expense ratio. However, be aware that there is a brokerage commission each time you make a trade.

Like stocks, the price of an ETF is determined by the market. That means, depending on demand, you could pay more or less than the net asset value of the ETF.

While ETFs are not for everyone, these popular investment vehicles may be worth investigating. Contact us to discuss whether investing in ETFs is a suitable investment strategy given your needs and goals. ■

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