

# Insights

FALL 2010

STRATEGIES FOR YOUR FINANCIAL SUCCESS

## Where to put cash when interest rates are low

**W**ith today's low interest rates, it's important to manage the cash component of your investment portfolio wisely. There are a variety of cash solutions offering varying trade-offs between risk, return, and liquidity.

### Short-term solutions

For stashing cash on a very short-term basis, an Investment Savings Account offers competitive rates with the liquidity, convenience, and security of a bank account. Other options include:

- Cashable Guaranteed Investment Certificates (GICs), which can be redeemed as early as five days after purchase without interest, and 30 days with interest. Investments up to \$100,000 are insured against default by the Canada Deposit Insurance Corporation and carry very little market risk, as rates are fixed for one year.

- Federal or provincial Treasury bills are issued and guaranteed with maturities up to one year. T-bills can be traded at any time and rates fluctuate with the markets.

### For the longer term

If you are willing to sacrifice some liquidity and security for higher interest than Treasury bills, Banker's Acceptances and commercial paper are good options for money to be invested for up to six months.

To hold your cash for one year or



longer, consider GICs or Canada Savings Bonds, particularly the Canada Premium Bond, which is cashable once a year. Provincial savings bonds may also be an option.

While cash investments may feel safe and secure, it is important to recognize that if rates fail to keep pace with inflation, your cash loses purchasing power.

We can help you find the best places for your cash and redirect it for longer-term investment gains when appropriate opportunities arise. ■



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For most Canadians, September is back-to-business time. Summer holidays are over, the kids (and teachers) are back at school, and it's time to refocus after a refreshing break.

Depending on your circumstances, part of that refocusing may well involve your investments or your retirement plan. Given the current economic outlook, what investment opportunities are appropriate for you? Do you need to adjust your portfolio in light of rising interest rates?

I'm here to help you answer questions like these and speak to any other questions that are on your mind.

# These defensive investments can help you ride out volatility

Following a year-long rally beginning in the spring of 2009, equity markets in 2010 have been hit with compounding concerns about the strength of a global recovery. The European debt crisis and possible contagion, slowing growth in China, upcoming expiration of stimulus programs, persistent U.S. unemployment, and the possibility of a relapse for the U.S. housing market have all weighed heavily on the markets.

Are there investments that can thrive in this uncertain environment?

ScotiaMcLeod's Canadian Equities Portfolio Advisory Group believes that investing in defensive stocks is the most effective way to achieve returns in any economic conditions. However, these investments may tend to underperform when the market is strong.

## Defensive markers

During any market downturn, some stocks will fare better than others. At least 100 stocks listed on the Toronto Stock Exchange increased

their dividends during the downturn of 2008 and 2009. Twenty-six of them increased dividends three or more times during that period, notes Geoff Ho, CFA, ScotiaMcLeod Director, Canadian Equities.

What makes a company more likely to succeed when others fail? Here are some of the defensive factors that our portfolio manager watches for.

**Increasing dividends.** Companies that have a proven history of increasing their dividends, particularly when the economy is contracting and other companies are under duress, are good choices for weathering future volatility and leading in the recovery. A dividend increase signals that the company's management and board of directors are confident in the strength of the company's capital position and operating outlook.

**Sustainable yield.** A defensive company will be able to pay its dividend in good times and bad. In addition to looking for high yield, our portfolio

managers look for a reasonable payout ratio (the percentage of earnings paid out to investors), which indicates that the dividends will be sustainable and reliable over the long term.

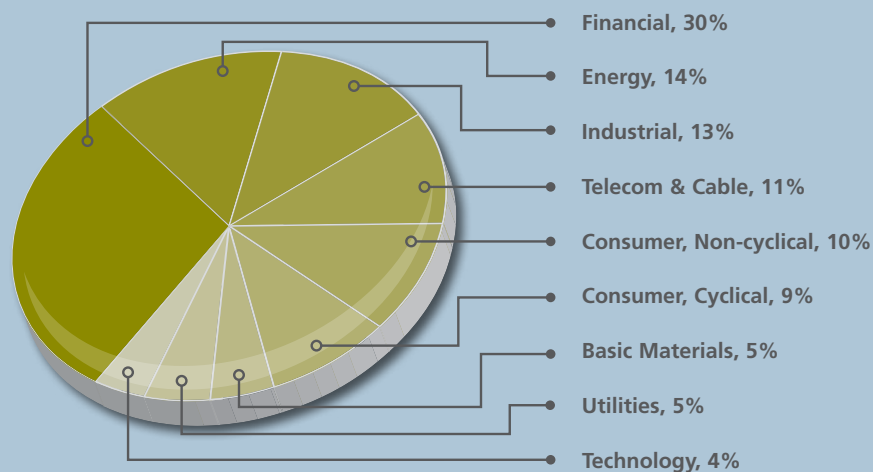
**Strong balance sheet.** A strong balance sheet means a company has low debt and lots of cash. Companies with high debt may have trouble meeting their obligations when interest rates rise; companies with surplus cash can ride out a temporary dip in revenues and take advantage of opportunities regardless of the credit environment.

**Recession-proof.** Companies that operate in defensive sectors consistently show stable and predictable earnings, regardless of the economic environment. These companies typically include essential products and services such as utilities, and consumer staples such as food and beverage, and health-care (see chart).

**Size.** The bigger the company, the more diversified its revenue streams. Diversification provides downside protection; for example, when a company's sales in North America decline, its sales in Asia may be robust.

## Defensive sectors

Defensive investments typically have a history of stable and increasing dividend payments. This chart shows the sector breakdown of companies listed on the Toronto Stock Exchange that have increased their dividends since 2008.



Source: Bloomberg, ScotiaMcLeod; numbers do not add up to 100% because of rounding.

## Why now is a good time to invest

While markets remain uncertain, the low-interest-rate environment will continue to support equities. As volatility gradually subsides, stock prices are likely to stabilize and begin rising. In the meantime, well-chosen defensive stocks will continue to make dividend payments to their shareholders.

Talk to us today to learn more about how your portfolio is positioned to weather uncertain times and benefit from economic growth when and where it occurs. We can help you explore defensive investment opportunities to meet your needs for both income and capital growth. ■

# Rethinking retirement: What will it mean to you?

**T**oday, retirement dreams and goals are vastly different from a generation ago. Whether you envision starting a new business, living in a different country, or volunteering, it all starts with a plan.

## Why is retirement changing?

Canadians are leading longer, healthier, and more active lives. Many can expect to live two or three decades in “retirement.” The average Canadian now lives to more than 80 years of age. If you and your partner are age 65 today, there is a 63% chance that one of you will live to age 90.

Most of us expect to spend those two or three decades pursuing some kind of fulfilling activity. Increasingly, many seniors are staying active in the workforce. Feeling productive, being with other people, and contributing to society are among the reasons why they want to continue working.

There may be health benefits, too. A recent University of Maryland study\* suggests that those who remain in the labour force maintain more cognitive abilities and have better physical dexterity than their retired counterparts.

Of course, money has a lot to do with the decision to keep working as well.

The recent economic downturn caused many people to delay their anticipated retirement. In addition, some people are feeling the financial pressures of being the “sandwich generation” — supporting children, and even grandchildren, while also supporting parents.

## What's your dream?

Retirement is an open book. How do you want to spend your time? Where do you want to live? Your answers will be as unique as you are. Here are just some of the possibilities:



**Work, with more flexibility.** Many people want to continue working, but in a less structured way, as they get older. For example, you might stay on staff with your current employer but work part time or from home. Alternatively, you might act as a consultant, setting your own flexible hours or even alternating between periods of work and periods of leisure.

**Start a new business or a new career.** Whether using your field of expertise or starting fresh in a new career, you can reinvent yourself during retirement and work on your own terms.

**Live abroad.** While travel is a typical desire for retirees, many Canadians are going one step further and living abroad. And their plans are not limited to Florida or Mexico. Canadians are retiring in places as far afield as Costa Rica, Portugal, and Thailand.

**Become a community leader.** Many seniors choose to volunteer their

time and share their wealth of experience by participating in their local community. This might include activities with local charitable groups, schools, hospitals, or business associations.

**Travel with a purpose.** Overseas volunteer organizations offer the opportunity to travel with a purpose, aiding needy countries while immersing yourself in a new culture.

## How will you get there?

Whatever your vision of retirement is, we can help you lay the financial foundation to make it possible. Based on your current resources, anticipated savings, and desired outcome, we can help you map out a financial strategy for living the life you want in retirement. ■

\* “Bridge employment and retirees’ health: A longitudinal investigation,” *Journal of Occupational Health Psychology*, October 2009.

# 4 green renos that could help improve your bottom line

In a recent Scotiabank survey, more than 90% of Canadians said they would consider energy-efficient products for their next home renovation project. That's why Scotiabank launched the EcoLiving Website, which helps homeowners find green options, reduce their energy bills, and take advantage of government rebates.

Here's a look at four green reno ideas and their benefits.

## 1. Install solar panels

While the initial cost is high, a solar electric system has a 20- to 25-year life span and pays for itself in seven to 11 years.

After that, you can put money in your pocket, not only through energy cost savings but, in some cases, by selling your excess electricity to your local provider.

For example, the Ontario Power Authority runs the Micro Feed-in Tariff program (MicroFIT), which pays a guaranteed price for at least 20 years for electricity produced from a renewable-energy source. For more information, visit [microfit.powerauthority.on.ca](http://microfit.powerauthority.on.ca).

Alberta has a similar program, called Micro-Generation Regulation ([energy.alberta.ca](http://energy.alberta.ca)), and other provinces are expected to follow.

## 2. Recapture lost heat

When you bathe, shower, and wash dishes, hot water goes down the drain. With a drain water heat recovery (DWHR) system, you capture that heat to pre-heat

fresh water, reducing your energy costs.

How does it work? A special drain pipe coils around the intake pipe of your water heater, warming fresh water before it even gets into the tank.

A DWHR system can cut water heating costs by as much as 40% to 60%.

A family of four could save \$660 per year and reduce greenhouse gas emissions by as much as 0.9 tonnes.

## 3. Upgrade insulation and seal leaks

Upgrading the insulation in your ceiling and exterior walls and sealing leaks are perhaps the most obvious ways to save money on heating and cooling bills.

Natural Resources Canada's Office of Energy Efficiency estimates that a home heated by natural gas could reduce its greenhouse gas emissions by 0.77 tonnes. Homes with electric heating could reduce them by 0.93 tonnes.

## 4. Put in a green roof

"There isn't any other technology that provides as many benefits as a green roof," says Steven Peck, president of Toronto-based Green Roofs for Healthy Cities.

If you have a flat or gently sloping roof on part of your home, you can grow grasses that filter urban air, flowers that support biodiversity, or even food, while saving on heating and cooling costs.

Green roofs also help to cool temperatures in urban centres and retain rainwater. Visit [ecoliving.scotiabank.com](http://ecoliving.scotiabank.com) for earth- and money-saving ideas. ■

# Share the wealth wisely

Whether you have family members in financial need or you would simply like to see the impact of your gift during your lifetime, you may be thinking about transferring some of your assets. Before you do, however, it's important to consider the tax implications.

**No tax implications.** There are some easy ways, with no tax implications, to help out others during your lifetime. These include cash gifts (to adult children), paying family members' bills, providing a down payment for a house, and paying for education.

**Capital gains tax.** If you want to give away capital property, the transfer is considered a sale for tax purposes. Any increase in the value of the item since you purchased it will be subject to capital gains tax. Capital property includes real estate (with the exception of your principal residence), investments (stocks, bonds, mutual funds) and personal property such as cars, artwork, jewellery, and antiques.

**Complicating factors.** If the asset you want to transfer is located outside Canada or if the person transferring assets or receiving the property is a U.S. citizen, then there may be additional, significant tax implications. It's wise in these situations to seek specialized cross-border legal and tax advice.

Based on your situation, we can help you determine the best way to share your wealth with those you care about while keeping your own financial plan on track. ■

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