



TIER ONE PLANNING

# Fall 2010 Newsletter

## What We Do

Recently we had a client e-mail me and ask for a referral to an insurance agent. I was quick to respond that he had already contacted a Life Insurance Agent – “ME”. Sometimes we fail to inform our clients of the full range of our products and services. Please go to our Web Page at [www.TIEROnePlanning.ca](http://www.TIEROnePlanning.ca) for a full list. (We are updating so access may be temporarily limited)

## Outline of this Newsletter

Market overview

Important improvements –positive change that will affect you!

Long Term Care

Income for Seniors

Income Tax Preparation

Other Items of interest

## Market Overview:

Early July appears to have been the low point for the 2010 year. Anyone looking at their accounts recently would see a significant improvement from their June statements. We expect the balance of the year to be overall positive. This does not mean that we are blind to the problems - and there are many. Economic growth is slowing, long term bond yields remain stubbornly low, and the US is spending money to fuel what they believe to be healthy inflation as Europe and China are belt tightening. Currencies are fluctuating wildly with each country trying to protect its export market when the US dollar is being devalued and China is raising interest rates.

## **Public sector reckoning**

One of the main themes for the rest of this year and into 2011 is and will be the public sector adjustment to the credit crisis. Western governments are facing a fiscal reckoning after running up substantial deficits related to the massive stimulus measures of 2009 and 2010 – they have added anywhere from 10% to 30% to their debt-to-GDP ratios. Higher unemployment, and falling sales and property taxes are hurting government revenues. We are looking at about 12-24 months of layoffs, wage freezes and benefit reductions in the public sector that will translate into service cuts and increased user fees and taxes. Expect substantial public sector strike activity in 2011. This is not just a Greek or French issue.

## **European debt crisis**

In Europe, Jean-Claude Trichet of the European Central Bank has been busy on several fronts: putting into place a 750 billion euro stability fund as a backstop for those European countries that could not refinance their debt, coordinating stress tests for European banks, and chairing the Basel Capital Committee that set out new capital regulations for banks. Despite skepticism, the ECB has contained the Greek debt crisis. Banks largely passed the stress tests, the stability fund has not been drawn on and they were able to find good compromises for ensuring bank and sovereign stability in Basel. There will be bailouts, but there will be strict terms and conditions attached. The euro has also rebounded.

## **U.S.**

Many are concerned about a Japanese-style liquidity trap and deflation in the U.S. They have seen falling asset prices, bank failures and consumer de-leveraging that will likely carry on for another few years. The U.S. has a highly developed debt market. It took Japan five years to get real interest rates to go negative, while U.S. monetary conditions have made it extraordinarily easy. Federal Reserve Chairman Bernanke knows he needs to overdo stimulus and do it early, because once deflation sets in, there are negative feedback loops that can cause a liquidity trap. This was a massive global financial crisis. It's going to take time for confidence to return.

## **Emerging Markets**

WE are looking at continuing to increase the percentages we have in developing nations. These countries have both growth and capital and their banks are far more stable than many developing nations. China really put the brakes on its overheating economy this year by clamping down on bank lending and taking measures to cool the property markets. Our sense now is that they're easing up. In terms of Chinese GDP and wage growth, consumer-related growth is just taking hold and will gradually overpower the export story. So our China-related investments are oriented to businesses that benefit from that, and resources and agriculture.

## ***Important Improvements***

Over the last number of months we have been participating in an exercise to evaluate and strengthen our investment management practices. We have brought in a third party to delve into our portfolio development and investment selection. They have helped us with analysis as well as review. We did this to be able to verify the value that we have brought to clients in these volatile times as well as to look for ways to improve. The reports were very positive. Our existing strategy showed consistent returns above the benchmark. At the same time, however, there are some processes that we can improve upon.

As a result of this, we will be making suggestions to bring portfolios into alignment with our umbrella strategy. There have been some funds that have been on our “watch” list; where appropriate these will be sold. Criterion for the “watch list” includes – manager change, mandate change, geographic concerns and performance (involves benchmark analysis, net redemptions, correlation with other holdings). We have also determined that some clients asset mix is not ideal (e.g. % of bonds, stocks, treasury bills); these will be re-balanced.

This is being done at significant cost to us but we continue to be committed to not passing these on to clients. Some of these changes may involve fees. If they do, we will be aware of them in advance, and wherever possible will be giving a full reimbursement. Unfortunately this will require paper. As we have stated in the past – we are not a paperless industry. Please – if you are notified of a strategic realignment, sign and return the forms as soon as possible. This provides the best opportunity for us to provide the best service to you.

## **Long Term Care**

In times of good health, it's only natural to pay little attention to the routine activities of daily living – getting bathed and dressed, running the household or going to work, eating meals – or even the simple act of getting into bed at the end of a busy day. But unfortunately, an accident or illness can make tasks that we all take for granted impossible to manage on our own.

**What would happen if you suddenly had to depend on someone to assist you with the routine activities of daily living?** While it's likely that family and friends would be more than willing to help, taking care of a loved one often has significant physical, emotional and financial consequences for the caregiver. And even though government and employer-sponsored health care programs provide some assistance, they often fall short when it comes to covering the cost of extended care.

If faced with the need for ongoing care, the best way to avoid placing a burden on those most important to you is to plan ahead by obtaining long term care insurance. Long term care insurance can help you maintain your independence. We have attached some links for those who may be interested.

If your interest goes further we would love to answer questions. We can provide quotes to better illustrate the coverage and the specific costs.

[http://www.sunlife.ca/plan/v/index.jsp?vnextoid=a8107f2bc7da5110VgnVCM1000002dd2d09fR CRD&vnextfmt=default&vgnLocale=en\\_CA](http://www.sunlife.ca/plan/v/index.jsp?vnextoid=a8107f2bc7da5110VgnVCM1000002dd2d09fR CRD&vnextfmt=default&vgnLocale=en_CA)

## **Income for Seniors!**

Most of our clients are not retired and many have living parents. With interest rates abysmally low it is easy to understand the discontent of those using interest income to supplement pensions. There are other options – ones with higher current yields. The list includes holdings in dividend funds, high income funds and Real Return Bonds. We would be happy to discuss specifics with you but that would require an extra page on this Newsletter to simply cover the various required disclaimers. Please give us a call instead!

## **Helping your parents stay in their home**

Your parents' health may be failing but they still want to continue to live in their own home with a reasonable degree of independence. They may need some assistance. There are a variety of in-home care services available to seniors including everything from meal delivery, transportation support and medical aid. Here's an overview of the areas of assistance to be considered. Also be aware that many tax deductions exist that do offset some of these costs. [Full article](#)

## **Income Tax Preparation**

Over the years we have witnessed our client's endeavors with tax preparation. We have found that our more intimate knowledge of the family situation with respect to taxation proves to be frequently very beneficial. To address this we now have a member of our team (Esther) who is certified as an individual tax preparer. If you have interest in those services please let us know. WE will do returns for anyone, not just our clients, so referrals will be appreciated.

## **Misc**

Our web site is currently under renovation. We are re-organizing and do expect it to be up by the end of November.

The year end is quickly approaching. Just a reminder that all tax planning – except RRSP's, must be done prior to December 31<sup>st</sup>. Please contact either Bob at 519-620-0086 or Morgan at 519-954-1764.

Bob & Morgan Adams

TIER One Planning

Visit us in either Cambridge or Waterloo soon!