Quarterly Exchange

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Through the *Quarterly Exchange,* we'll keep you up-to-date on current investment trends and strategies. We are committed to working one to one with you to help you achieve your financial goals. Please contact us if you have any questions or wish to discuss any of the articles in this newsletter.

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Economic Update

By Benjamin Tal, Managing Director and Deputy Chief Economist, CIBC

It appears that the key focus in the market now is on the health of the U.S. recovery. While things are not as bad as suggested by some of the headline numbers, we are entering a period in which the market might have to lower expectations regarding U.S. growth. All recent indicators have shown consistent signs of weakness. The manufacturing sector showed a weaker than expected reading while consumer confidence is softening a bit. Add to it the disappointing labour market numbers of late and the picture that is emerging is consistent with our view that the strong growth in the first quarter will give way to a weaker second quarter.

In Canada, things are starting to make more sense. The 54,500 drop in payroll employment in March was simply a reversal of the unexplainable 50,700 increase we saw in February. Beyond the monthly volatility, we have been creating, on average, only 10,000 new jobs a month over the past six months. What's worrying is that despite the relatively strong U.S. economy in the first quarter, Canadian trade has disappointed in the first two months of the year with the trade deficit actually widening. Given that the U.S. economy is slowing this means that the trade performance will, in fact, worsen from this point.

What does all this mean for the market? Despite the gross under-performance of the TSX vs the S&P 500, many Canadian stocks have done quite well. Of the 10 major sectors in the index, one has essentially kept pace with the S&P 500 and three (health care, info tech and industrials) have nicely outpaced it. The lagging TSX pace owes to sectors that, unfortunately, include some of the most heavily weighted in the basket.

What could turn the tables? Global growth. An over-weighted position in energy and industrial materials would be to the TSX's advantage if, as we expect, 2014 brings better growth in the U.S. and Asia, and at least the end of recession in Europe. Gold might not get a similar lift on the commodity price front, and will need to prove to investors that they can do better in containing costs and meeting production targets.

For now, with interest rates so low, TSX stocks could still outperform fixed income. With 2013 economic news still muted, investors will be more reliant on dividends than capital gains to deliver near term performance. But late this year, as eyes turn to improved global growth prospects in 2014, the tables could turn, allowing Toronto to take the lead from New York in terms of the pace of improvement.

The Ways To Give Back

There are many benefits to charitable giving: from the satisfaction of giving back to the community and helping those in need, to the tax credits that can provide significant tax relief during your lifetime and minimize future taxes payable by your estate.

While the most common form of giving is making a direct contribution to a charity, you may want to consider planned giving. With proper strategic planning and an understanding of the different options, you can achieve your philanthropic goals and your chosen charity can make the most of your gift. There are different choices available for planned giving, but the most common ways through establishing a private foundation and setting up a donor advised fund.

Establish A Private Foundation

A private foundation is best suited for donors who have specific charitable goals and would like to participate actively in the management and distribution of their funds. Donors interested in a private foundation should have a significant amount of capital available to invest (typically several million dollars), given the costs associated with establishing a private foundation. A private foundation is a non-profit organization (a corporation or a trust) registered as a charity with Canada Revenue Agency. A foundation receives most of its funding from non-arm's length individuals, family members or corporations, and allows the donor to manage and control the distribution of donated funds. A private foundation may distribute funds to other charities or administer its own programs. Donations to a private foundation are generally eligible for the federal tax credit, with some exceptions, such as the donation of securities issued by non-arm's length persons or entities.

Donor Advised Fund

Donor Advised Funds (DAF) are an alternative for individuals who are attracted to the idea of a private foundation, but do not want to be involved in the administration and management*.

A DAF is an endowment fund opened with an independent public. Donors make irrevocable gifts, usually in the form of cash or securities, and in exchange, the donors assume the role of "advisor" on the fund.

Donors receive a tax receipt for the donations and assets can grow tax-free within the fund, allowing for more funds to be donated to the charities of choice. Most organizations have set out minimum donation amounts ranging from $5,000 to $50,000 and many funds also allow the donor to be involved directly in the fund's investments and recommend which charities should benefit from the investments. Some DAFs allow donors to name of the fund, for example "The Smith Family Foundation," in order to personalize the legacy.

Donor Advised Funds are available through CIBC Wood Gundy. If you are interested in setting up a Donor Advised Fund, please speak with me to determine if this option suits your current financial situation and your philanthropic goals.

**All administrative work associated with a DAF is taken care of by the charitable organization or third party foundation.*

Choosing A Mutual Fund

With more than 2,000 mutual funds sold in Canada, choosing which mutual fund to invest in can be difficult, even for the seasoned investor. But, by exploring the possibilities and deciding exactly what goals you have in mind, the choices can be narrowed down to a smaller number of funds, some of which are eligible for tax shelters like Registered Retirement Savings Plans (RRSPs).

While there are no guaranteed techniques for picking a top performer in the mutual fund field, there are a number of trends an investor should examine before making an investment decision.

Historical performance is a means of judging how a fund has performed in the past. Although past performance is no indication of how a fund will perform in the future, it can reveal how a fund performed under particular market conditions. For example, some funds might perform well in strong, active markets, but have historically not fared so well when the market takes a downturn.

When reviewing the performance of a mutual fund, you may ask what is more important: short-term or long-term performance? Many investment professionals consider mutual funds to be long-term investments. But investors should also examine the fund's current performance as it may reveal some changes that could conceivably cause an investor to change or reconsider their investment.

It may be difficult for the average investor to ascertain why the fund has taken a turn for the worse, despite all the research tools at your disposal. The fund's quarterly report might provide some explanation of the fund's performance. Your Investment Advisor may also have data tracking the performance of a particular fund.

When measuring the returns of comparable funds, an investor should also examine their risks, such as how stable the fund is. This is known as volatility and can be measured in two ways. The first, called standard deviation, shows the relative volatility of a monthly rate of return.

The second measure is a percentage figure that ranks the volatility of a fund within a group of similar funds. When making a decision about a long-term investment between two funds with similar performance levels, you should always evaluate your own individual circumstances and tolerance for risk.

Performance consistency and your individual objectives are key when choosing a mutual fund. Better understanding the world of mutual funds may assist you in selecting one that meets your personal objectives and risk tolerance.

Estate Planning: Maximizing Savings and Minimizing Taxes

The rising costs of settling an estate have made careful planning more essential than ever. While there is a natural reluctance to talk about passing on wealth, you will lose control of the life-long accumulation of your assets if you don't spend the time formally planning for their disposition

Estate planning is long range personal planning aimed at ensuring that your assets and earnings do you the most good while you are alive, and your heirs the most good after you die. The three fundamental objectives behind the creation of a plan are to ensure you have adequate funds to cover estate costs, to conserve your wealth by sheltering as much money from taxation as possible, and to guarantee fair distribution of your assets upon death.

While estate planning tends to focus on death, you should prepare throughout your life by attempting to maximize savings and minimize income tax. It is vital to take the time to prepare a Will. Many people do not realize that if they should die "intestate", provincial laws will dictate the timing and allocation of asset disposition.

It may be difficult to pass wealth on effectively without a Will, and for this reason, it is not only important to draft one, but also to review it every few years. If you don't take the time to organize your estate carefully, your plans are not likely to be fulfilled. While no one likes to talk about planning for death, your wishes can be filled with as little aggravation to you as possible if you take a few simple steps. Seek qualified tax and legal advice and take action today.