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

We have been getting some good news from the U.S. lately in terms of employment, retail sales and industrial production. With the economy likely to expand by close to 4% in the second quarter, look for corporate earnings to accelerate. Based on the 40% of the S&P 500 companies that reported earnings for the first quarter, average earnings growth was 7.5% on a year-over-year basis – well above expectations. The main drivers here were cyclical stocks followed by the telecommunications and IT sectors.

In Canada, the Bank of Canada (BoC) made it very clear that it is not in any rush to raise rates. The BoC is still hoping for a more meaningful recovery in business investment and exports, and the fact that at this point it expects inflation to ease, suggests that the BoC is not overly optimistic about a strong rebound in those drivers any time soon.

Officially the BoC is in neutral. But the reality is that at this point it is very unlikely that the next move will be to cut rates. In all likelihood the BoC will start raising rates in mid-2015. The more relevant question is how quickly rates will rise. The fact that Canada did not go through the deleveraging process seen in the U.S. (with the debt-to-income ratio there falling from 165% to 145%) suggests that households in Canada are much more sensitive to the impact of higher rates.

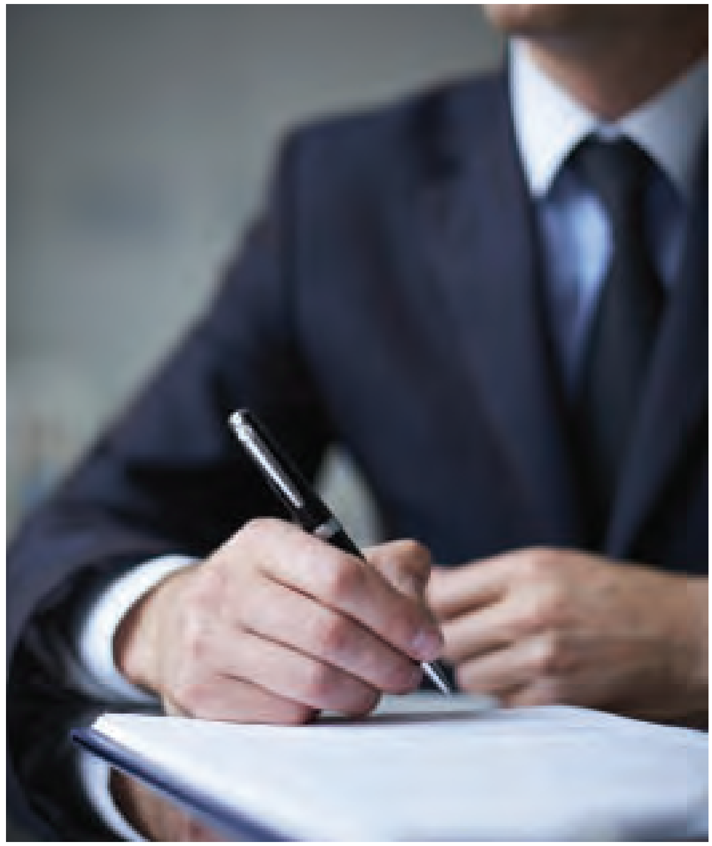
Accordingly, when rates start rising, the likelihood is that the BoC will go more slowly. Along with the negative impact of higher rates on the economy, interest rate differentials will act as a negative for the value of the Canadian dollar.

Elsewhere, it appears that investors are starting to warm up again to emerging markets (EM). Overall valuations for equities are still very attractive; ditto for EM bonds where high-yield spreads of over 600 basis points almost double the spreads in the U.S. and Europe. Not surprisingly institutional investors have been sizeable net buyers of EM bonds and equities in recent weeks. Retail buying will probably follow.

While it is impossible to predict the ultimate outcome of the situation in the Ukraine, investors are not taking any chances. As investors brace for the possible imposition of broader economic and financial sanctions on Russia, outflows of foreign capital from Russia have accelerated. As of the first quarter, capital outflows had reached a near-record high of $70 billion, and a collapse in investment has plunged the economy into recession. From a longer term perspective, the crisis might end up being a positive development for Canada as it will accelerate attempts by the EU to reduce its dependency on Russian energy. Canada might be able to play an important role in this process.

What does Warren Buffett have that you don't?

A Succession Plan



Over the next 15 years, more than half of Canada's current small business owners are expected to retire.

Despite this, only 30% of family-owned businesses survive the transition from founder to the second generation, according to the Canadian Federation of Independent Business.

And yet, 60% of entrepreneurs have yet to start discussing their exit plans with their family or business partners.

Whether you plan to retire next year or in decades from now, it's never too early to start talking about what will happen to your business when you're ready to retire. On top of that, you should be ready for any potential scenario to ensure your business can go on without you.

These three titans of industry have dealt with succession planning issues familiar to businesses of any size:

Warren Buffett
Founder, Chairman & CEO
Berkshire Hathaway

Billionaire investor Warren Buffett, 83, has not said when he will hand over the reins to Berkshire Hathaway, but he has reassured investors a successor has already been chosen should he suddenly become unable to call the shots. Even still, many wonder whether anyone can really replace Buffett.

Peter Munk
Founder & Former Chairman
Barrick Gold

At this year's annual meeting, 86-year-old Peter Munk officially stepped down as Co-Chairman of Toronto-based Barrick Gold, the world's biggest gold miner, which he founded in 1983. He will be succeeded by former Goldman Sachs President John Thornton, who was appointed as Co-Chairman in June 2012 when the board signaled he would eventually take over Munk's role completely. Munk's age may have played a role in his departure, but the announcement came at a time of controversy over executive compensation and governance, lower gold prices and poor share price performance.

Isadore Sharp
Founder & Chairman
Four Seasons Hotels & Resorts

Although 82-year-old Isadore Sharp sold off all but 5% of his interest in the Toronto-based Four Seasons luxury hotel chain in 2007, the new owners (firms owned by Bill Gates and Prince Al-Waleed bin Talal of Saudi Arabia) are still counting on Sharp's expertise as Chairman. Sharp has said he plans to stay involved for as long as his health will allow him to travel. His dad lived to 103.

Risk & Reward

Why asset allocation matters

The unpredictable nature of the markets can have a powerful effect on investors' emotions. When equities are on the rise, many investors flock to stocks, but in times of ongoing market turmoil the natural instinct is to sell. And while reacting to specific stock market news is a necessary part of managing risk, the key to a successful asset allocation strategy is to stay fully diversified over the long term according to one's risk profile.

There are two common styles of asset allocation. Strategic asset allocation focuses more on the risk level and lifestyle objectives of the investor and is best applied when considering a time frame of five years or more. Tactical asset allocation is suited to trading-oriented investors as it focuses on maximizing an investor's return over the near term and takes a market-timing approach.

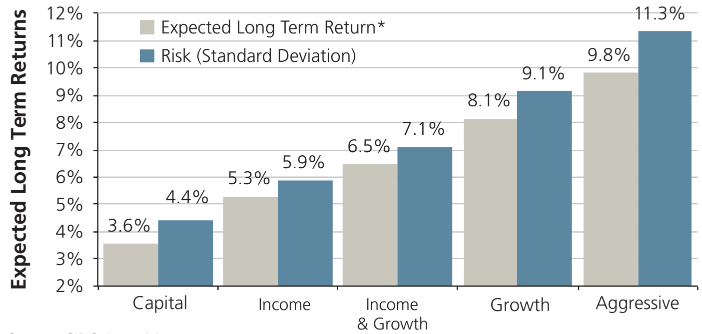
When applying the strategic asset allocation model, the basic question an investor will need to ask is how much of a portfolio should be in equities, bonds and cash. Investors will also want to consider the value of other assets such as their home, cottage or alternative investments. Your advisor can help you determine a suitable allocation for you. Here are five common strategies:

Possible Breakdown of Various Asset Allocation Strategies

	Equities (%)	Bonds (%)	Cash (%)
Capital Preservation	15	65	20
Income	35	55	10
Income & Growth	50	40	10
Growth	70	25	5
Aggressive Growth	90	10	0

At the end of the day, it's almost always the length of time in the market that contributes to success, not timing it. History shows that equities have outperformed bonds and bonds have outperformed cash over the long term but higher returns sometimes come with a higher level of risk (some blue chip stocks have produced stellar returns for investors).

Investor Profile Expected Returns & Risk (1950-2013)

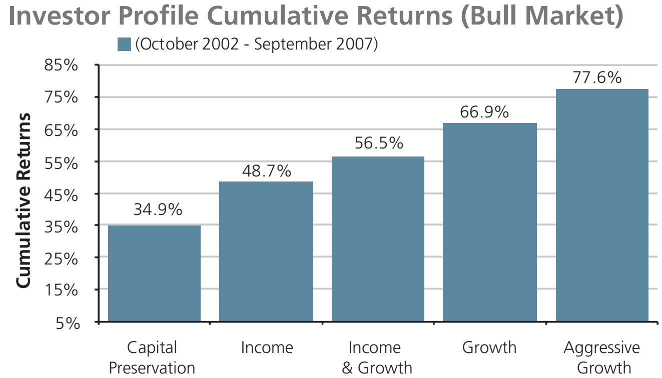


Source: CIBC Asset Management

*Expected Returns for Bonds and Cash are based on current bond and money market yields as at the end of December 2013 while expected returns for equities are based on historical data from 1950 – 2013.

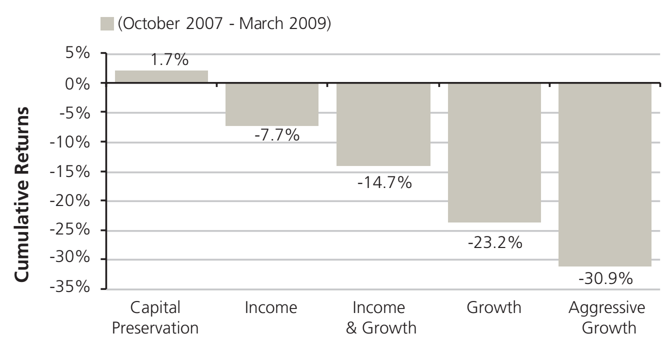
Asset allocation can have a dramatic impact on a portfolio's performance. An investor who applied the capital preservation strategy during the bull market between 2002 and 2007 would have seen a cumulative return of 34.9% while someone with an aggressive growth strategy would have seen their portfolio surge 77.6% (though it should be noted that this was an unusually long bull market). But looking at the bear market between 2007 and 2009, when the capital preservation portfolio rose 1.7% and the aggressive growth portfolio plunged 30.9%, demonstrates how bonds do offer protection in down markets.

Investor Profile Cumulative Returns (Bull Market)



Source: CIBC Asset Management

Investor Profile Cumulative Returns (Bear Market)



Source: CIBC Asset Management

Using Life Insurance to Plan for Taxes on the Family Cottage

For many Canadians, the family cottage is like a second home. It's a place to relax, get away from fast-paced city life and spend invaluable time with family and friends.

So naturally, the family cottage often becomes an important part of the legacy for those who wish to leave it for future generations to enjoy. The problem is, upon death, assets can be transferred to a spouse tax-free, but a transfer to children may trigger a **capital gains tax.** Fifty percent of any increase in the cottage's value, which may be significant, could be taxable at death. If you haven't planned for this tax liability, your estate may be forced to sell the cottage to pay the tax.

Consider the following example:

Mike and Kathy are both 60 years old. Thirty years ago, they bought their cottage for $40,000. It's now worth $180,000. Upon the deaths of both Mike and Kathy, their heirs may be faced with an unpleasant decision: sell the cottage or come up with approximately $33,000 in taxes.

Luckily, there is a simple option to manage the anticipated tax liability. By purchasing a **joint-last-to-die insurance policy**, Mike and Kathy can prepare for the eventual tax bill. On the death of the second spouse, the proceeds from the insurance policy could be used to pay the taxes owing on the cottage. The result? For the cost of an affordable monthly premium, Mike and Kathy can ensure that their cottage remains in the family.

For more information and to discuss the various options available to you, contact your Investment Advisor.