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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Living With Higher Bond Yields

By Avery Shenfeld, Chief Economist

Bond yields moved higher in both the US and Canada as the US Federal Reserve warned that its quantitative easing program, under which it's been a huge buyer of US government and mortgage bonds, would be ended if the unemployment rate kept moving lower. That sell-off was a clear negative for investors holding long-dated bonds, but should it also be seen as a negative for the stock market, and the North American economic recovery ahead?

Not really. Pointing to the climb in bond yields as a risk to growth is a circular argument, since the very reason that the Fed will back away from its support for the bond market is that the US economy is improving. For Canada, healthier American demand for our exports is now paramount, since we don't want to return to heavily-debt-financed consumer spending, and homebuilding will likely plateau in the coming year.

To the extent that either the economy or the equity market has short-term trouble digesting the rise in long-term interest rates, it's because we saw them before seeing a sustained acceleration in global growth or corporate earnings. But there are reasons to expect that such a turn is coming. US housing and consumption are doing reasonably well considering the income hit from this year's tax hikes; next year's growth rates won't suffer from an equivalent squeeze. China is having difficulties sustaining growth while turning the switch down on housing and credit growth, but that transition should pave the way to at least some improvement come 2014. Even Europe could do better if it lightens up on budget restraint.

Remember too that by historical standards, long-term interest rates are still extremely low. The US Fed will tolerate a gradual climb from these levels as the economy improves, taking long yields higher in Canada in the process. But Bernanke has warned that the Fed will "push back" against a steeper jump that jeopardizes the recovery, presumably by reinstituting bond purchases or slowing the exit from them.

Short-term rates are at all time lows in the US, and not too far from them in Canada. Neither the Fed nor the Bank of Canada will be in any hurry to move them higher, given how low inflation has been running and, particularly in the US, how much slack there still is in the labour market.

For equities, higher interest rates pose a challenge for those stocks whose values have been driven by their role as a substitute for ultra-low bond and GIC yields. But history shows that for the broader market, the only thing to fear about a US bond market sell-off is fear itself. Because bond yields usually begin to come off their lows when the economy turns stronger and profits accelerate, equities have typically climbed during such periods. The TSX rallied in the first half year following each of the last five troughs in US Treasury yields dating back over the last quarter century, with a median gain of 14%.

As they say, past performance does not guarantee future results. But overall, Canadians should hope that we have indeed seen the lows in interest rates. If interest rates don't move higher in the next two years, it will only be because growth failed to gather steam.

Power of Attorney:
You Decide Who Decides

If you can't make a decision about your finances or personal care, the law sets out who can. You can control who that may be by setting out your wishes in a document as provided in the laws of your province – this document is often called a power of attorney.

Most people acknowledge that a properly drafted Will is an important component of a prudent financial plan; a Will sets out your wishes of what you want to happen to your property on death. However, you may not realize that it is also important to consider who will be making decisions for you, financial and personal, if you are alive, yet incapable of making decisions yourself; and you can choose who that will be.

There are several forms that power of attorney can take. Some relate to decisions regarding your assets and include a Limited Power of Attorney and a General Power of Attorney. A different type is called Power of Attorney for Personal Care which may grant your "attorney" decision-making power regarding your medical treatment, health care, shelter, clothing, hygiene and safety should you become mentally incapacitated.[1] Depending on your personal circumstances you may wish to consider the merits of each type.

Limited Power of Attorney may apply to circumstances where you require a legal representative to act on your behalf regarding your finances when you are unavailable to grant authority yourself, or if you require specific acts conducted on an ongoing basis. Examples of this type of situation might be the purchase and sale of real estate where you may be unavailable on important signing dates, or the negotiation of securities transactions within an investment account.

A General Power of Attorney can grant "all-encompassing" authority for virtually any type of decision relating to your property that you can make yourself, except to make a Will. In order to remain binding should you become mentally incapacitated, it may contain a "continuing" or "durable" clause.

If you are concerned about the decisions regarding your personal care should you become mentally incapacitated, you could consider making a Power of Attorney for Personal Care naming a person you trust to act in a manner consistent with your personal wishes.

Regardless of the form of power of attorney, choose carefully the one you want to act in this regard. An attorney for property can be: a trustworthy individual (i.e. friend or relative, preferably well versed in financial matters), an accountant, a lawyer, or even a trust company. Whoever you choose, you should feel comfortable that you can depend on them to act with your best interests in mind.

The law does provide alternatives to power of attorney as to who can make decisions related to your financial assets. You should consult with your lawyer, and tax advisor if applicable, on any decisions relating to either power of attorney or alternative planning for incapacity.

[1] Also known as a health or personal directive in some provinces

Saving For A Child's Education

With the new school year quickly approaching, now is a great time to think about or revisit your plan for your children's education costs. While there are many options available to help you save, the strategy you choose might depend on your financial means, the children's age and the length of time you have to save.

Education Savings Plan (ESP)

The most popular way to save for a child's education, while retaining ownership of assets, is to become the subscriber and make contributions to an Education Savings Plan (ESP). An ESP, which has a lifetime contribution limit of $50,000 per beneficiary, offers some tax advantages, and government grants (federal and provincial, where applicable) that make this an attractive savings vehicle. Although an ESP is subject to contribution limits and various other restrictions, it can be very effective under the right circumstances. An ESP can also be used in combination with other savings options.

ESP Rules

1. The lifetime contribution limit is $50,000 per beneficiary. Annual contribution limits do not apply.

2. Contributions may attract a Canada Education Savings Grant (CESG) from the federal government and will be paid directly into the RESP. CESG accumulates for a child until the end of the year in which the beneficiary turns 17.

3. From 1998 to 2006, up to $400 in annual grant was made available for each eligible beneficiary (20 percent of the first $2,000 of annual contributions). From 2007 on, up to $500 in annual grant is available for each eligible beneficiary (20 percent of the first $2,500 of annual contributions).

4. Up to $1,000 in annual grant may be received if there is unused grant room available from previous years (20 percent of the first $5,000). The maximum lifetime CESG amount each beneficiary is eligible to receive is $7,200.

5. To receive CESG, a separate government grant application must be completed (one per beneficiary).

6. Contributions for children ages 16 and 17 are eligible for CESG grant only if:

- at least $100 was contributed per year in any four years before the year the child reaches age 16, or;
- a minimum of $2,000 has been contributed before the year the child reaches age 16. Unused basic CESG amounts may be carried forward until the end of the year in which a child turns 17. Even if an ESP has not been opened for the child, grant room is still accumulated.

7. Taxes on income earned are deferred, but contributions are not tax-deductible.

8. Contributions can be withdrawn tax-free but may trigger a repayment of government grant(s) unless the beneficiary is attending a post-secondary school and has received an Education Assistance Payment (EAP).

Tax-Free Savings Accounts (TFSA)

The introduction of the Tax-Free Savings Account (TFSA) provided a new option to assist in saving for a child's education. Canadian residents 18 years of age and older can contribute up to $5,500 each year to a TFSA*, and amounts saved can be used at any time for any purpose. Contributions to a TFSA are made with after-tax dollars and cannot be deducted from your income for the year. Your annual TFSA contribution room is not determined by earned income and will accumulate even if you do not have any earned income in a year.

While contributions to a TFSA are not eligible for government grant, there are no restrictions on withdrawals and you will not be taxed on income or capital gains earned within the account. In contrast, a withdrawal of earnings from an RESP, where the withdrawal is taxed in the hands of the beneficiary, is generally permitted only when the RESP beneficiary is attending a post-secondary institution and the withdrawal qualifies as an Educational Assistance Payment (EAP).

You can contribute to both an RESP and a TFSA to take advantage of the benefits offered by both plans. One option to consider is contributing the maximum amount that will attract government grants to an RESP and directing the remainder of your education savings to a TFSA.

Invest In Your Name

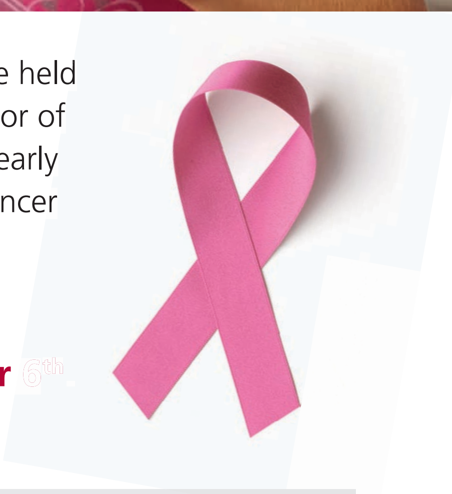
You may prefer to save for a child's future education needs, while retaining ownership and complete discretion over all of the funds. One way to do this is to simply invest in a non-registered account held in your own name. However, with this option, any interest, dividends, or capital gains earned on the investments will generally be taxable to you at your marginal tax rate. The advantage of investing in your own name is that you will always be in the driver's seat as far as if, why, when and to whom your assets are ultimately distributed.

There are several other education funding choices available, and depending on your financial means and time horizon, one or more of them may be suitable for you. To learn more, speak with me today.

*Effective January 1, 2013, the TFSA contribution room was increased to $5,500. From 2009 to 2012, the contribution room was $5,000.

CIBC Run for the Cure

This year, the Canadian Breast Cancer Foundation CIBC Run for the Cure will be held on Sunday, October 6th. This year, CIBC marks its 17th anniversary as title sponsor of the event, which brings together more than 170,000 Canadians annually in nearly 66 communities across the country to raise awareness and funds for breast cancer research, treatment and care.



Registration has already begun, so join us on Sunday, October 6th
Sign up at www.runforthecure.com.