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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Canada: No More Tricks up the Economy's Sleeve

By Benjamin Tal

In retrospect, it's fair to say that the performance of the Canadian domestic economy as it rebounded from the Great Recession was nothing short of remarkable. A generous government and resilient consumers softened the blow of a U.S. and global downturn, and provided a healthy lift during the early stages of the recovery. Strong export growth and a surge in capital spending followed, further spurring activity during the second leg of the economic revival. But does the economy have any more tricks up its sleeve? We doubt it. While growth should do well enough to avoid a new round of monetary policy easing, tapped out consumers and cost-cutting governments could see the Bank of Canada (BOC) wait for a U.S.-growth-induced pick-up in 2014 before raising rates.

Rising U.S. auto sales have been a boon to Canadian exporters recently, but the lift to trade could prove temporary given risks to stateside growth from a withdrawal of U.S. fiscal stimulus in 2013. The BOC's foreign activity index (which combines information on U.S. consumption, investment and GDP growth in 34 other countries) is a useful tool for predicting growth in Canadian exports. Based on our U.S. and global economic forecast (see U.S. and international section) growth in the BOC foreign activity index will soften as we head into 2013, suggesting a slower trajectory for Canadian exports.

As for the consumer, unlike the U.S. where years of pent-up demand have whetted the appetite to spend in the post-credit-crunch era, years of free-flowing credit in Canada has seen households overshoot by a wide margin what could be considered "normal" consumption relative to population trends. So, after gorging at the table of plenty for several years, Canadian consumer appetites may already be satiated. This lack of pent-up demand is probably the prime reason for the diminishing positive impact of low interest rates on the Canadian economy in general and households in particular. The effective interest rate on household debt has been hovering at a record low for over two years and has been on a clear downward trend for more than four years. As is the case frequently, the more a tool is used (in this instance, low interest rates), the less effective it is—most evident in the credit market.

In the first half of the last decade, a 100-bp decline in the effective rate translated into a 2.1% acceleration in the growth of household credit; however, households have since then been experiencing low-rate fatigue, as the same reduction has more recently seen a credit deceleration of 4.1%. Today, credit growth continues to slow as the impact of low-rates stimulus is waning.

The practical implication is that with global economic growth still mediocre in 2013, it is difficult to see the commodity market lifting Canadian markets. Add to it softening domestic demand and it is possible that the Canadian stock market will find it more difficult to outperform the U.S. market in the near-term.

Transition Triggers:
What's Prompting Canadian Business Owners to Head for the Door?

As the Baby Boomer generation starts turning 65 the business owners among them seem more focused now than ever on planning their exit from their business.

Recent private company transactions witnessed by some Canadian banks highlight the common triggers that are prompting business owners to plan for their exit:

Lack of a Willing, Able and Passionate Successor

More often than not, transitioning a family business from the first generation to the second generation fails. Aside from poor communication and the proper preparation of heirs, children of successful entrepreneurs rarely share the same interest and vision of their parents. Without someone in the family to take over, many owners are deciding to exit by selling their business to a third party.

"If only I were 10 years younger"

The hallmark of a successful entrepreneur is their keen ability to spot opportunities for growth, but as a person ages, they may sense limitations of their resources – financial, managerial, and emotional (their commitment factor). This can cause them to think that the best way to take the business to the next level is by using someone else's resources. Some business owners bring in capital partners to reduce their level of risk, secure their personal estate, and all while retaining the ability to benefit from future growth opportunities of the business.

Management Retention

In the war for talent, the winners acquire and keep the best employees. Private family-run businesses are faced with their own particular hurdles when it comes to attracting and retaining outside talent as those looking in from the outside often see family businesses as having extra challenges.

Family legacy and loyalty often conflict with the needs of the business itself. To retain top managers, entrepreneurs sometimes offer ownership or participation in ownership with third party buyers in an effort to retain the talent that will keep the business performing.

"I will let the next owner invest"

Financial resources are critically important for any business owner wanting to keep and grow their business. Competition, advancements in technology and the constant need to adapt all put pressure on the owner's capital.

Taking the business to the next level often requires capital the owner doesn't have or does not want to risk at this point in their lives. Handing the reins over to a better capitalized buyer is something many owners do in order to move their business forward.

What is driving today's entrepreneurs to find their exit strategy, is a consideration of assessing their resources in terms of successor leadership, capital, management, and their own emotional commitment to the business. Assessing these resources as objectively as possible is key to making a rational decision about what is best for your business going forward.

A proper business transition plan can ensure the smooth succession of your company, provide you with financial security and protect everything you have worked so hard to achieve. Whatever the goal of your business transition plan, the key is to identify your financial objectives, start planning early and use the advice of a team of experts to ensure your company will continue to be successful.

Health Care Costs in Retirement

There are several things to consider when planning for your retirement, but one area that many Canadians overlook is health care. In fact, only 9% of Canadians have fully factored in health care costs into their retirement plan[1].

One reason for the lack of planning may be due to Canada's health care system. While it's true that all Canadian citizens have equal access to coverage for any necessary medical treatments, there can be unforeseen long-term costs, and with the cost of health care rising faster than inflation, a trend that is expected to continue, it's important to factor in the following when planning for retirement:

Drug Costs

After hospital expenses, drugs costs are the second largest health care expense in Canada, and Canadians spend the second most per capita on drugs in the world. Though each province provides drug plans (e.g. Ontario's Drug Benefit Plan) that cover a wide range of prescription medication, these plans are provincial and only cover the cost of drugs purchased in the same province. In addition, treatments to more serious illnesses, such as cancer, frequently have newer, more expensive treatment options that are paid for out of your own pocket.

Home and Community Support Services

Home and community support services provide care for those looking to remain at home, even when their ability to live independently deteriorates. Personal support workers provide services, such as meal preparation, dressing, grocery shopping and transportation assistance as well as specialized care in the event of any unique health issues. These services are generally charged at an hourly rate.

Long-term Care Facilities

Long-term care facilities are for individuals who need comprehensive, 24-hour nursing care, and close to 43% of seniors above the age of 65 will require long-term care support in their lifetime[2].

Long-term care is an extended health care service under the Canada Health Act and provincial governments are limiting the expansion of these facilities by reducing the number of registered nurses, maintaining or decreasing the number of beds, and tightening the qualifications for acceptance into a facility. Public facilities can often have extremely long waiting lists for admittance and while private or semi-private facilities are available, they are significantly more expensive than public facilities.

Complete financial planning for your retirement includes preparing for the rising out-of-pocket health care expenses as well as any potential illnesses, and although it's not always possible to predict the road ahead, putting the right strategies in place, along with developing healthy habits such as eating well and exercising, can reduce your risk of incurring health-related costs so that you can make the most out of your retirement years.

[1] Sunlife Financial (link to http://www.sunlife.ca/canada/v/index.jsp?vgnextoid=56da3cfc9dc18110VgnVCM1000002dd2d09fRCRD)

[2] The Council on Aging of Ottawa (link to http://www.fsna.com/uploads/editor/Long_Term_Care_Insurance_Oct2008.pdf)

Miracle Day & CIBC Run for the Cure

CIBC Run for the Cure

On Sunday, September 30, 2012, CIBC employees, their families and friends, proudly took part in the Canadian Breast Cancer Foundation CIBC Run for the Cure as part of Team CIBC.

This year, CIBC marks its 16th anniversary as title sponsor of the event, which brings together more than 170,000 Canadians annually in nearly 60 communities across the country to raise awareness and funds for breast cancer research, treatment and care.

To all who ran, walked, volunteered or contributed, thank you for supporting the Canadian Breast Cancer Foundation's vision of a future without breast cancer.

CIBC Miracle Day

CIBC Miracle Day is an employee-driven fundraiser that started at a Wood Gundy branch in 1984. Branch Manager Timothy Miller and the Investment Advisors at the 42nd Street branch, named after the famous 42nd Street in New York and located on the 42nd floor of the Head Office, decided to donate their commissions for one day of business to children's charities. For people who count on commissions for their livelihood, giving them up – even if only for one day – was a sacrifice. However, the branch's Investment Advisors were fully supportive of the initiative.

Every year since then, on the first Wednesday in December, CIBC's wholesale banking employees and participating CIBC Wood Gundy Investment Advisors donate their fees and commissions to help kids in need. Since its inception, Miracle Day has raised $64 million for children's charities across Canada and $214 million globally.

This year, Miracle Day will be held on Wednesday, December 5th and you can help make a miracle happen. Trade with CIBC and invest in kids. To find out more, contact your CIBC Wood Gundy Investment Advisor.