October 2014 Update

One of our biggest jobs these days is to manage client expectations. Returns have been well above average over the last 5 years but are not sustainable at these levels. We will revert to normal levels over time. Balanced portfolios over the long term have averaged returns of about 6%. In the last year they have exceeded that number by an enormous margin. Always keep this in mind: market fluctuations are desirable. They allow fund managers to buy bargains when prices are low.

In the last three months, ending September 30, 2014, most markets in the world were even to slightly negative. Canada outperformed many developed markets with a gain of 9.84% so far this year. This rate of return is down slightly from its' close at the end of June.

Here is where it gets more interesting. When we bring in the declining price of the Canadian dollar versus the U.S. dollar, we see a very nice increase in values of foreign content. For example, the broad U.S. market is up 6.71% in U.S. dollars so far this year, but when reported back in Canadian dollars, that number would increase to about 15% due to the drop in our dollar.

In other words, the fact that most of our portfolios have exposure to foreign content means that the decreased value of the Canadian dollar helps overall returns.

Interest rates have declined slightly since the end of June. The 10 year U.S. bond is yielding 2.49% compared to 2.62% on June 30, 2014. For those counting on interest income to retire, times have been difficult and will likely remain so in the foreseeable future.

In the past three weeks we have seen some days with sharp reversals in markets. This is **normal!** We have had almost 5 years of up markets and we need corrections from time to time to keep the market healthy.

Our balanced portfolios are up between 7-8% year to date and there are still 3 months left in 2014. We cannot expect these levels of returns to continue.

	Market	Dec 31 2013	Mar 31 2014	Jun 30, 2014	Sep 30,2014	YTD
Canada	TSX	13621	14335	15146	14961	9.84%
U.S.	DOW	16577	16458	16827	17044	2.82%
U.S.	S&P 500	1848	1872	1960	1972	6.71%
U.K.	FTSE	6749	6598	6744	6623	-1.90%
France	CAC	4296	4392	4423	4416	2.80%
Germany	DAX	9552	9556	9833	9474	-0.80%
Japan	NIKKEI	16291	14288	15162	16174	-0.72%
Canadian $		$98.42	$90.47	$93.62	$89.23	-9.35%
Oil (US$)		94.00	101.55	105.37	91.27	-3.00%

*** Source: CNN Money*

"Too many people spend money they haven't earned, on things they don't want, to impress people they don't like." ~Will Smith

Economic Outlook

Last week Bridget and I attended an investment forum in Vancouver.

We heard from economists and fund managers from both the U.S. and Canada.
Amidst the current volatility it was encouraging to hear positive outlooks for global recovery over the next several years. They mentioned low unemployment rates and growing productivity in the U.S. market, emerging markets recovery and increases in consumer demand in India and China. This is all good news.

One of the economists forecasted that interest rates will remain low in order to foster economic recovery and growth. Yet, she noted that risk (meaning interest rates) is properly priced at 7-8%. Keep this in mind when looking at your debt repayment schedules. It may be worth it to pay your debt off sooner while interest rates are low.

-John Maude

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"All I ask is a chance to prove that money can't make me happy." ~Spike Mulligan

Talking to Parents About Money

The idea of discussing financial information with aging parents while they are independent can be beneficial to all. I came across the following article in a recent Manulife publication and thought it was worth sharing, as it suggests some different ways to approach the conversation in a positive and respectful manner.

It can be one of the most difficult conversations to start - but it's also one of the most important. As parents get older, it's essential for their adult children to understand the investment, insurance and estate plans they have in place.

An open approach can help identify and address any gaps in planning. In addition, a multi-generational perspective frequently enables implementation of more efficient and cost-effective strategies that benefits the entire family. Here are some ways to raise the topic and make the most of money conversations with your parents.

Open your books: Set the tone with a frank discussion of your own financial plans. Explain the work you are doing with your advisor to build wealth and protect your family. Describe why you've made this a priority in your life.

Emphasize the benefits: Tell your parents that you would like to become familiar with their financial plans to ensure that you are prepared - whatever happens.

Acknowledge discomfort: Don't be afraid to admit that you feel awkward talking about money, if you do. You might want to lighten the mood by pointing out that this discussion is easier than conversations you may have had with them as a teenager.

Don't judge: Whatever immediate thoughts you have about your parents plans, be positive, not negative, in initial discussions. You don't want to shut down lines of communication before they're fully open.

Be patient: It may take time for your parents to feel comfortable sharing all the details of their financial plans with you. Be prepared to have a series of conversations over a period of some weeks or months.

Offer a referral: If your parents aren't working with an advisor, point out the benefits of an objective, professional opinion. Offer to put them in touch with an advisor.

Involve other family members: How soon you ask other family members - such as siblings - to join the conversation depends a lot on family dynamics, aptitudes and interests. While this process may be complicated by geographic distance, it can help to prevent resentment and family disputes later in your parents' lives.

Fine-tune your plan: Understanding what strategies your parents may or may not have to manage costly risks - from requiring long-term care to running out of money in retirement- can help you prepare for expenses you may be expected to finance. It is always better to anticipate than to manage unexpected costs on the fly.*

**Source: 2014 Fall Edition of Solutions for Financial Planning. Published by Manulife*

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Securities

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