MAUDE FINANCIAL INC.

# Quarterly Update

## Canadian Household Debt All Time High

The Globe and Mail just reported that "the average Canadian now has a record-high debt load equal to 154 per cent of their disposable income". This does not include the mortgage on their home. If interest rates rise even modestly (which they are sure to do) many Canadians could be in a precarious position. We would like to encourage you, as our clients, to manage your debt wisely.

## Third Quarter Review

Markets rebounded significantly in the third quarter with the biggest increases in the U.S and German markets (again!).

As in the first and second quarters Canada continues to be the laggard. While the U.S. S&P 500 is up 14.5% year to date, the TSX is up only 3%.

Earnings season in the U.S starts the second week of October and it's all good news.

Alcoa, the big aluminium producer, has just reported earnings higher than analyst expectations. The unemployment rate in the U.S. has dropped to 7.8% and the U.S. debt, as a percentage of GDP is at a 6 year low. These are all indications of an improving economy; slow but sure.

European turmoil has quieted for the time being. The European Union has created a 500 billion Euro bailout fund. This will shore up the banking system if needed. Germany will fund the majority of contributions.

Some analysts are concerned with slowing growth numbers in China. The Chinese Central Bank recently pumped 48 billion Yuan into the economy to spur growth – just 18 months ago they were trying to slow an over-heated economy. Slow growth in China could slow the demand for raw materials in the world. What do we produce in Canada? … raw materials.

Having said all that the year to date numbers are promising. Cautious optimism is appropriate.

| | Market | Dec 31, 2011 | Mar 31 | June 30 | Sept 30 | YTD |
|---|---|---|---|---|---|---|
| **Canada** | TSX | 11955 | 12392 | 11597 | 12317 | 3.00% |
| **U.S.** | DOW | 12212 | 13264 | 12880 | 13437 | 10.00% |
| **U.S.** | S&P 500 | 1258 | 1408 | 1362 | 1441 | 14.50% |
| **U.K.** | FTSE | 5572 | 5768 | 5571 | 5742 | 3.00% |
| **France** | CAC | 3160 | 3423 | 3192 | 3355 | 6.20% |
| **Germany** | DAX | 5898 | 6947 | 6416 | 7216 | 22.30% |
| **Japan** | NIKKEI | 8455 | 10084 | 9007 | 8870 | 4.90% |
| **Canadian $** | | $98.07 US | $100.09 US | $98.33 | $101.70 | 3.70% |
| **Oil (US$)** | | 99.66 | 105 | 84.96 | 92.19 | -15.00% |

*** Source: CNN Money*

"The bitterness of poor quality remains long after the sweetness of a low price is forgotten." ~ Benjamin Franklin

## *Did you know…*

If you invest $200/month (preferably by automatic withdrawal!) starting at age 25, you will have $267,443 at age 60. This number is calculated using a 6% return, which is the average expected return for a balanced portfolio.

## *In Addition…*

Your total input over those 35 years is only $84,000. That means your hard working investments made you $183,443. The ease of **paying yourself first** and the power of compound interest work together to make saving for your retirement a breeze!

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# Risk Tolerance = Ability + Emotion

Risk tolerance is one of the most important issues to consider when building an investment portfolio. And it may be one of the most misunderstood. Many investors believe risk tolerance is a reflection of their emotions, but the more important component is your financial ability to take risk. Your portfolio needs to suit both your personality and your pocketbook.

**Key points:**

1. **Emotions: important but unreliable.** Investors' feelings about risk can change from day to day and can run counter to sound investment strategies.
2. **Ability: based on facts.** Your true risk tolerance is grounded in your financial ability to take risk, rather than your emotional willingness to take risk. This includes your time horizon, income, debt, liquidity needs, level of portfolio contributions and more (see chart below). When you're pursuing financial goals as a household, your spouses' or partner's risk tolerance must be analyzed as well.
3. **Intentional Investing℠.** Over time, your risk tolerance will change – due to major life changes such as having children and also due to the passage of time. You need to take deliberate, intentional steps to make sure your portfolio continues to suit your situation. Visit or talk to your financial advisor annually – or sooner, if you experience a major life event – to determine whether your investments are still appropriate for your risk tolerance.

## How much risk can you take?

Consider these factors and how they interact

| Lower ability to take risk | Higher ability to take risk |
|---|---|
| **Time:** | **Time:** |
| ■ Short time horizon (a few years before your financial goals) | ■ Long time horizon (many years before your financial goals) |
| **Level of Portfolio Contributions:** | **Level of Portfolio Contributions:** |
| ■ Low relative to your financial goals | ■ High relative to your financial goals |
| **Income and Savings:** | **Income and Savings:** |
| ■ Low to moderate income | ■ Moderate to high income |
| ■ Low income stability | ■ High income stability |
| ■ Low job security | ■ High job security |
| ■ Low savings rate | ■ High savings rate |
| **Other Factors:** | **Other Factors:** |
| ■ High debt levels/ratios | ■ Low debt levels/ratios |
| ■ High liquidity needs (for example, may need to withdraw funds from the portfolio in an emergency) | ■ Low liquidity needs (for example, would not need to withdraw funds from the portfolio in an emergency) |
| ■ Underinsured | ■ Adequately insured |

*Article above are from * Invesco (www.invesco.com)*

**Are you interested in receiving our Quarterly Newsletter by e-mail? Send your request to maudefin@incentre.net. Please ensure that your full name is clearly marked on the e-mail.**

"Envy is the art of counting the other fellow's blessings instead of your own." – Harold Coffin