Legacy Partners of London Inc.

Legacy Letter

Financial Planning for People with a Purpose !

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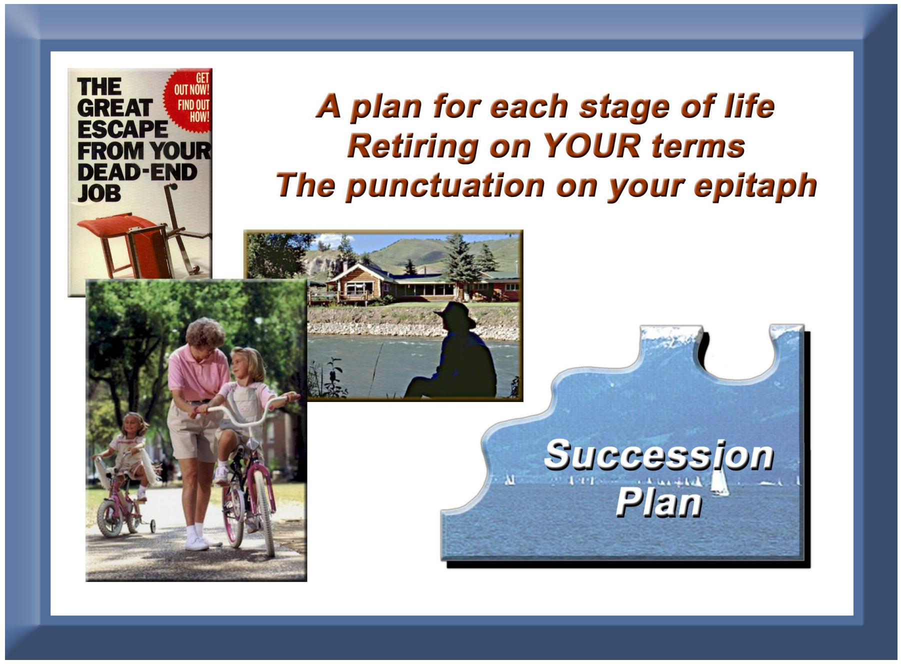
This Issue: Market Summary *and* New Retirement Opportunities



Weathered Markets: As we in SW Ontario continue to adjust to our first "true winter" in some time (usually winter takes at least a week off in January), we'd like to draw your attention to some interesting comparisons between the recent weather forecasts and the market stories from 2010. Both included some serious hype of potential events which netted very little results. After 8 months of benign results, the markets finished 2010 with a flurry. So while we dug out from a major December white-out, the S&P/TSX finished 14.4% in the black.

Canada's "big 3" sectors lead the way as Financials, Energy and Materials produced 94% of the S&P/TSX gains in 2010. The recovery in Canada began to broaden and multiple signs of strength and stability surfaced (corporate earnings, IPO's and jobs). With Emerging Markets pressing on, Canada will continue to benefit from their growth and our "petro dollar" will remain strong. Europe still has financial question marks, while the US appears to be on track for a ***"normal recovery" from a financial crisis*** (not a government induced recession – that is, according to TD Chief Economist Craig Alexander).

You may still see future headlines giving mixed signals: "Bull run has begun" vs "Beware of a bubble". We believe negative views of the market are more related to currency risks (a lingering story from the financial crisis) and not so much about the viability of future economies. The consensus of what we're hearing is that 2011 will be similar to 2010, with modest progress for most of the year, but still above average returns.

Talk of a ***bubble in Bonds seems to be overstated***. While interest rates are set to rise in 2011, Bond fund managers are not expecting these increases to be substantial. We do expect an unwinding of last year's Bond buying spree (which was an understandable flight to quality), and this will result in subdued returns to start the year. However, we also expect to see the beginning of higher distributions within Bond funds. After all, a slow but steady rise in lending rates will translate into better long-term bond coupons, which are an important ingredient to a retiree's investment portfolio. Please note, Bond distributions are often listed as purchases (and added to your ACB) so read your statement carefully to understand what your total bond fund returns are. As we do not subscribe to market timing, a short-term lull in Bond returns will not deter us from proper diversification and closely aligning your portfolio with your personalized exit strategy.

Review meetings this year will likely involve more rebalancing of holdings than in the past 24 months. Again, ***these are not market timing moves***, but rather adjustments to bring your account back in line with your stated risk tolerance. As most funds moved in unison the past few years, few rebalancing opportunities were found. This year we expect the return of regular rebalancing as part of our solid diversified portfolio strategy.

If you would like to discuss your portfolio prior to your next review meeting, please give us a call.

In Summary:

- *S&P/TSX up 14.4%, S&P 500 up 6.2% (in Cdn$)*
- *2011 looks to be a positive year for Markets*
- *Focus on long term… review and rebalance*
- For more 2010 #'s, read our "Market Monthly" on the "articles" tab of our web site.

New Opportunities:

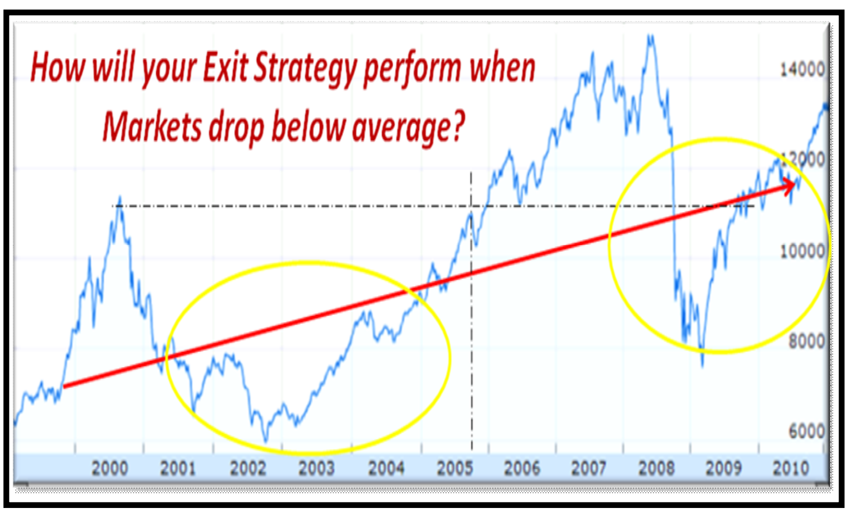
Tax Free Savings Accounts (TFSA) are now into their 3rd year of availability. While sheltering short-term savings (emergency funds) has been the norm thus far, clients are now beginning to ***see the long-term opportunities*** for which these vehicles were originally designed. Now with $15,000 accumulated room per client ($30,000 per couple), it is easier to see how these accounts can grow and how the tax savings can really multiply. We see tax free savings as an important piece of everyone's portfolio! A TFSA will provide valuable liquidity for large purchases, repairs or trips, while not impacting your income tax rate. This will ensure your savings are not eroded further by excessive income tax or that dreaded OAS clawback.

Even if you've already retired, there are opportunities to build your TFSA, possibly with an RRSP meltdown strategy. It is important for everyone to have a TFSA carefully integrated into their overall financial plans. ***Financial planning is what we specialize in***, so you can be assured this important opportunity will be covered during your next financial plan review.

Changes to CPP payment options are another planning opportunity that has surfaced recently. As mentioned in past Legacy Letters, these changes are being phased in starting this year. For example, if you claim CPP in 2011 but continue to work, you will now be required to continue paying CPP premiums. In return you will receive an increased CPP payout each year based on your additional premiums paid the previous year.

The bonus for deferring your pension beyond age 65 will also start increasing this year and reach 8.4% by 2014. However, reductions for early pension payouts won't start increasing until 2012 and will reach 7.2%/year by 2017.

The question ***"when is it best to take your CPP pension?"*** is now strongly contingent on your personal financial plan and not on some simple rule of thumb. If you're puzzled by this decision, please give us a call as we will be happy to assist you in determining what option will work best for you and your family.



Our Exit Strategy:

While it's impossible to predict future Market returns, we are quite comfortable predicting that ***volatility will continue and most likely increase*** over the decade ahead. Therefore, a critical piece of your financial plan is knowing how and when to withdraw funds during retirement. We call this step our Exit Strategy.

Some of the questions we address in this stage of our Succession Planning process are: How will different assets perform in a downturn? Will you be forced to sell suppressed assets to cover your income needs? What flexibility do you have in your retirement budget (needs vs wants)? We begin asking these questions when we first meet clients, but the important elements of this plan are ***implemented 5 to 10 years PRIOR to retirement***. The process is then repeated each year to ensure your retirement plans stay on track. The result is a proven strategy that avoids the pitfalls of market timing while balancing your long-term AND short-term retirement income needs.

Retirement is the most expensive bill you will ever face. It is also the most stressful financial decision you'll make. Now is the time to ensure you have a reliable plan for retirement which is personalized to your needs. Our Exit Strategy will deliver all this and more.

If you know anyone who is thinking about retirement and would appreciate our quality service and value added advice, please have them give us a call. We're always happy to assist your family/friends and while we can't promise miracles, we can promise to live up to your expectations, and hopefully exceed them from time to time. ☺

The information in this letter is general in nature. Best efforts have been made to provide accurate data. Past performance is no guarantee of future returns. Consult your Financial Advisor before making changes to your investment plan.

Our Passion…

We believe there is no greater purpose in life than to leave things better than you found them. If everyone did this, day in and day out, what a wonderful Legacy that would be. A person's Legacy can take many different forms – spending quality time with your family; building a business you can be proud of; or helping a neighbour in need. At Legacy Partners of London, we believe everyone has the potential to achieve their greater purpose and we work closely with our clients to help them Create and Conserve their Legacy.