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Legacy Partners of London Inc.

Legacy Letter

Financial Planning for People with a Purpose !

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This Issue: 2011 year in review – Reform, Repair & Rebirth

The year 2011 began with hopes of a slow, but steady continuation of the USA recovery. Mother Nature (Japanõs earthquake) and Europe (debt issues) quickly derailed those hopes and markets settled back to the levels of October, 2010. Some will say 2011 was the year of negatives, however, we believe a better summary is the year of positive Reform and Repair that will soon lead to an economic Rebirth.

Reform…

In January, an ñArab Springò began in Tunisia (at the Northern tip of Africa) and quickly spread to Egypt and Yemen. Similar calls for reform triggered uprising in Syria and Libya while Morocco and Jordan embraced change peacefully. Reform was also the theme of marches in Israel, Chile and India. And who can forget the ñOccupy movementò that even paid a visit to London Ontario. The goal of each protest may have been different, but we believe their messages were similaré action must be taken to improve the lives of people all around the world. Regardless of your viewpoint on these issues, these folks should be commended for their bravery. They are standing up for others, even in the face of great danger, with a mindset of leaving things better than they found them.

Repair…

Thereõs no doubting that many aspects of the global economy were in need of repair last year. The USA made further strides to rehabilitate its financial system and even returned to their position of choice for global investors seeking safe investments. Their banking system is better capitalized and housing is no long a systemic threat. Progress was slowed by stalemates on Capitol Hill and by, dare we say, politicians worried more about their own jobs than the future of their constituents.

Canadian governance began to move forward with the return of a majority government (however the news of Jack Laytonõs death was heartbreaking). Regardless of your party preference, the country has high hopes that the dysfunctional aspects of past minority governments will be replaced by reasonable long term planning. ñ*Deleveraging*ò continued as the central piece of the repair work undertaken in 2011. Like a family overextended on credit cards, spending must be curtailed until debts are under control and budgets are balanced.

Europe worked hard to repair debt problems but more needs to be done. Progress will be slowed as remaining steps are also tied to political reform and thereby not guaranteed to be seamless. Countries like Greece are under increasing pressure as they face the realities of paying their taxes and rightsizing public services jobs. A recession in Europe is a high probability, but its impact on the rest of the globe should be muted.

In Asia, Japan worked to repair infrastructure damaged in the March 11th Tsunami which affected production around the world. China curtailed its inflation by 2% but it still sitting at over 9% (wow). With interest rates at 6.5% and room to increase their money supply, China is positioned to grow even moreé when they so choose.

Looking ahead…

Corporate earnings were solid in 2011 and stock prices are appropriate for todayõs valuation (low multiples). Still, most companies are focused on shoring up their balance sheets (deleveraging). Short term, consumer spending will be modest and corporate inventories will need to be replenished but it could be a year or so before the next phase of expansion and hiring hits any significant numbers. Therefore, the next Bull Market could still be a few years out.

Each of us builds our own Legacy one day at a time, through the people we love, the work we do, and involvement in our community.

We believe markets have priced in a near worst case scenario for 2012. There could still be a negative global event surface, but the odds favour a positive yet modest surprise for the markets. It appears the markets have learned from the late 2010 run up which was based only on optimism about the worst being behind us. They now appear to be waiting on solid evidence of a firm footing to build on. Money managers seeking quality over flash in the pan success will benefit from increased dividends from blue chip companies with solid balance sheets.

Bonds should continue to dodge their long predicted demise from spiking interest rates. With a slow economic recovery, interest rates will rise moderately and bond funds will be able to manage in that environment. While we wonõt likely see a repeat of 2011õs 7% returns, bonds funds should still provide the moderate returns and low volatility for which they are coveted. Bond funds will continue to form a key component of our exit strategy.

To go out on a limb with a prediction, I would imagine a number of new investment products will soon be launched. There isnõt much excitement associated with õslow and steadyö so I suspect sales organizations will be looking to spice things up with new products and slogans with which they hope to grab your attention.

At ***Legacy Partners of London***, we will continue to follow sound investment strategiesé even if they are a bit boring. We believe our proven exit strategy, tailored to your needs, is a better approach than pushing a new ñone size fits allò product. We will continue to focus on communication as the key for getting to know our clients and for keeping them informed. In 2012, you will see an increased effort on this front which we think youõll appreciate. (See next article)

Rebirth...

As reforms and repairs continue, the global economy is close to a rebirth. Optimism is on the horizon. Emerging economies are becoming well established (B.R.I.C.) and are positioned to replace the maturing economic engines of Europe and America. New emerging markets will soon surface to replace the current ones and the cycle of the global economy will again renew itself. The world as we know it is changingé just as it always has and always will.

Scarcity of energy and materials will again drive up inflation but in turn will ñfuelò invention. This may not be the next ñindustrial revolutionò but it certainly will be something exciting to be a part of! The Canadian ñpetroò dollar will rise and hurt manufacturing exports. On the bright side, higher transportation costs will repatriate manufacturing and farming that is currently being outsourced and provide new opportunities along the Hwy 401 corridor.

We wish you and your family all the best for 2012. May you find peace and fulfillment as you follow your greater purpose in life!

Table 1
Summary of major market developments

Market Returns*	Dec.	Q4 2011	YTD
S&P/TSX Composite	-2.0%	2.8%	-11.1%
S&P500	0.9%	11.2%	0.0%
- in Canadian dollars	*0.6%*	*8.7%*	*2.2%*
MSCI EAFE	0.4%	3.6%	-14.8%
- in Canadian dollars	*-1.2%*	*0.6%*	*-12.9%*
MSCI Emerging Markets	-0.1%	4.5%	-14.9%
DEX Bond Universe**	1.7%	2.1%	9.7%
BBB Corporate Index**	1.6%	2.2%	8.7%

*local currency (unless specified); price only
**total return, Canadian bonds

Other price levels/change

	Level	Dec.	YTD
U.S. dollar per Canadian dollar	$0.9839	0.2%	-2.2%
Oil (West Texas)*	$99.03	-1.4%	8.4%
Gold*	$1,575	-9.8%	11.1%
Reuters/Jefferies CRB Index*	$305.30	-2.7%	-8.3%

*U.S. dollars

* Table 1 Source: GLC Market Matters Monthly Investment Commentary Jan 2012.

The information in this letter is general in nature. You should 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 personõs Legacy can take many different formsé 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.