ISSUE 20 | DECEMBER 2012

Taking Stock with Steele

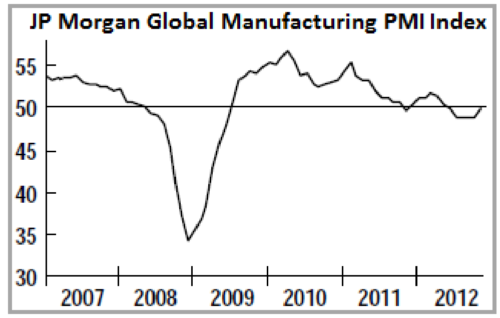
Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations. We believe Knowledge Pays and we want our knowledge to help pay for you.

ECONOMIC TIDBITS *AN INVENTORY OF NOTABLE DATA AND INFO*

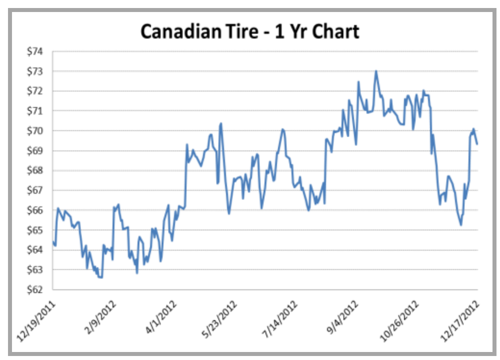
- Equity markets have rallied since our last newsletter. Investor worry vis-à-vis the U.S. "Fiscal Cliff" appears to have subsided and the consensus view is that policymakers will compromise and do what's best for the economy today and in the future.
- Economic data out of China and Germany has been better than expected lately providing some evidence of a potential global economic rebound, and more importantly, a potential Eurozone economic rebound. Manufacturing activity is trending upwards, hitting a five month high in November, as measured by the JP Morgan Global Manufacturing PMI. Currently at 49.7, should this indicator breach 50 (the inflection point between manufacturing sector expansion/contraction), it would provide a vote of confidence for the global economy as well as equity and commodity markets. *See Fig. 1 for chart of the JP Morgan Global Manufacturing PMI.*
- The U.S. Federal Reserve opted to continue with loose monetary policy in its December meeting by replacing Operation Twist with a fresh bond buying program for the same amount ($45B/month). This action should further help soothe investor concerns about the U.S. Fiscal Cliff should policymakers fail to reach a timely agreement.

Fig. 1



Data Source: JP Morgan, Markit

Fig. 2



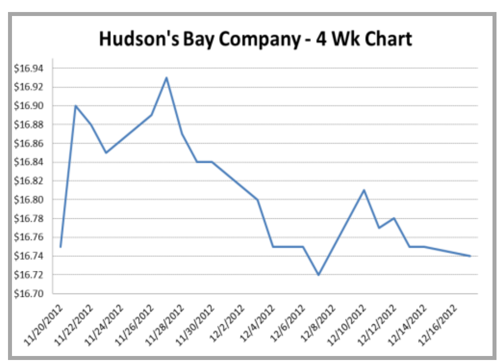
Data Source: Market-Q

LE JIT A "JUST-IN-TIME" RUNDOWN OF OUR CURRENT INVESTMENT THEME

Loblaw REIT Spin-off Highlights Value for Other Retailers

- The proposed Loblaw REIT spin-off allows for better tax efficiency of distributions and proper valuation of the grocery and REIT assets
- There are other retailers that appear undervalued based on earnings and may benefit from a REIT spin-off as well
- **Canadian Tire (CTC.A)** and **Hudson's Bay Company (HBC)** are two investment ideas related to this theme:
  - Canadian Tire operates the Canadian Tire, PartSource, Forzani Group (Sport Chek, Nevada Bob's) and Mark's Work Warehouse retail chains. *See Fig. 2 for 1-year chart.*
  - Hudson's Bay Company operates the Home Outfitters, The Bay, Zellers and Lord & Taylor retail chains. *See Fig. 3 for 4-week chart.*

Fig. 3



Data Source: Market-Q

RIDING THE CURVE *A CATALOGUE OF OUR MONTHLY FIXED INCOME FAVOURITES*

BMO Monthly Income ETF (ZMI)

- This ETF consists of a basket of high yield ETFs and has a yield of 4.7% (at $15.90)
- Has exposure to corporate & emerging market bonds as well as high yielding equities
- The ETF is internally diversified with an asset allocation of 50% bonds, 50% equity
- This ETF is ideal for registered accounts that require a steady stream of income

Dundee Corp Preferred A (DC.PR.A) Retractable on June 30th, 2016

- Dundee Corp is a diversified asset management company with a significant portion of its assets invested in Bank of Nova Scotia common and preferred shares
- At $25.27, the issue has a yield-to-retraction of 4.61%; the shares are rated Pfd-3

RETIREMENT PLANNING PAY DOWN MORTGAGE OR CONTRIBUTE TO RRSP?

At some point in their life, most investors will be forced to choose between paying down their mortgage or contributing to their RRSP. With the threat of rising rates causing homeowners to fret over potentially higher mortgage payments, we believe this question is more relevant than ever before.

Which Option is Best? A rule of thumb is if you believe you can achieve a portfolio return that is 1% greater than your mortgage rate, it is best to contribute to your RRSP. Otherwise it is best to pay down your mortgage.

Let's run through this scenario for a **45-year old**, **retiring at age 65** and assuming:

- *Annual cash flow available for mortgage pay down or RRSP contribution:* ***$5,000***
- *Savings generated in the mortgage pay down scenario are invested in RRSPs*
- *RRSP contribution room is infinite in any given year at the marginal tax bracket*
- *Tax refunds are invested separately and returns are taxed at the marginal tax rate below*

Retirement Age: ***65***	*Marginal Tax Bracket:* ***43.41%***	*Return on Assets:* ***5%***
Mortgage Rate: ***4%***	*Mortgage Principal:* ***$400,000***	*Amortization Period:* ***20 yrs***

Using these assumptions, the RRSP contribution option provides the investor with an **extra $14,700 in RRSP assets and $6,400 less in non-RRSP assets** at retirement.

Increasing the **rate of return to 7%**, the RRSP contribution option provides the investor with **an extra $52,400 in RRSP assets and the same amount of non-RRSP assets**.

With mortgage rates at 3-4%, assuming a long-term mortgage rate of 4-5% and a portfolio return of 5-6%+ is not unrealistic, making the RRSP contribution option the most logical. That said, debt tolerance varies from person to person and choosing the RRSP contribution option can be difficult for some. Making RRSP contributions and using the tax refund to pay down your mortgage allows you to satisfy both objectives.

JEANNINE'S TIP O' THE MONTH *ENHANCING YOUR SWM EXPERIENCE*

The TFSA Contribution Limit has increased to $5,500 in 2013 from $5,000 currently. Be sure to top-up your TFSAs up to the $5,500 limit to maximize tax savings!

Current Rates & Data

Govt of Canada	
90 day	0.98%
1 year	1.08%
2 year	1.14%
5 year	1.39%
10 year	1.82%
30 year	2.40%

U.S. Treasury	
90 day	0.03%
1 year	0.12%
2 year	0.23%
5 year	0.70%
10 year	1.72%
30 year	2.88%

Canada Prime Rate
3.00%

U.S. Prime Rate
3.25%

Canada CPI Y-o-Y (Oct)
1.20%

U.S. CPI Y-o-Y (Oct)
2.20%

Exchange Rates	
CAD/USD	1.016
USD/EUR	1.316
JPY/USD	83.71

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