

Money Wise!

CAQ Financial's Quarterly Newsletter



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Greece is the word. Just when it seemed safe to relax about the global economic recovery, debt fears about one of Europe's smallest economies sent financial markets into a tizzy.

(Not that it seems to take much to set markets into a tizzy. About a month ago an incorrectly-entered trade set off a chain of events that caused automatic trading systems to go into sell mode, prompting a huge decline on the markets.)

Despite Greece being a relatively small country, the real fear was the exposure European banks had to Greece and other "basket case" European economies. (Affectionately dubbed the "PIIGS": Portugal, Ireland, Italy, Greece and Spain.) Throughout late April and May, investors became increasingly concerned that Greece's debt woes might spread throughout other European countries and the global impact of a Euro-led financial crisis.

Fears subsided somewhat after the European Union announced a \$750 billion euro package to stabilize the region and support the shared currency. This is by far the biggest government intervention globally since the steps taken during the banking crisis in the fall of 2008 after the failure of Lehman Brothers. The rescue package, funded by the EU & the International Monetary Fund (IMF), consists of loan guarantees and emergency funds that could be tapped into by countries facing difficulty borrowing on the

open market, due to credit downgrades.

In the medium term, there are very real problems facing the European region but governments have once again taken decisive action. As always your best defense is maintaining a properly-diversified portfolio, one that includes asset classes like bonds or gold. These asset classes tend to behave differently from the stock market and can offer protection, and positive returns, even in difficult markets.

While the issues facing the global economy should not be taken lightly, we too often lose sight of the big picture which is that there are still investment opportunities available if we can get past the headlines. Rather than focusing on the areas of doom and gloom, in this newsletter, I'd like to focus on some of the positive areas of investment opportunities. One of the most important of these is the rise of the consumer in Asia and Emerging Markets and the impact that massive demographic will have as it shifts into a middle class consumption lifestyle.

So yes, maybe the governments of the US and Europe have debt problems and the banking systems of these countries have issues that may last for years to come. And yes the all-important US consumer will not be spending at the pace they once were, financed by real estate gains and spurred on by a sense of

material entitlement.

On the flip side, consider the massive infrastructure spending needs of governments globally (perhaps as much as \$50 trillion in the next 25 years). Consider the shift from regular cell phones to smart phones and the shift to cloud computing. Consider the investment opportunities if/when the world begins to really embrace green technologies. Consider the nearly 3 trillion dollars in foreign cash held by the Asian governments, some of which they are looking to deploy into gold.

While the media focuses on the negative, right now there are huge economic counter-trends at work globally. These should more than mitigate the weakness that the Western banking sector and consumer base might exhibit for some time, until the wind-down of the massive amount of excessive debt that built up over the past decade or more is finally worked out of the system.

The truth is: despite the doom and gloom, there are many investment opportunities at hand. I hope this issue helps highlight some of them and gives a fresh perspective on the investing climate today.

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Opportunities in Investing #1: Asia/Emerging Markets

Asia is home to 3.5 billion people, or one-third of the world's population. Unlike the West, Asia is blessed with a high savings rate; as much as 20% in some countries. As governments begin to provide more social security, some of the massive amounts in domestic savings will be earmarked for spending or long-term investing.

Unlike the West, where an aging population will pose economic challenges in the years ahead, a significant portion of Asia is in the demographic "sweet spot." In India alone over half of the population is under the age of 25. Asia is a huge region that is rapidly urbanizing itself. As living standards and income levels have improved, demand for improved infrastructure and spending

on consumer goods have risen such that Asian growth is now driven by domestic demand. It is no longer solely reliant on exports to the West. So while the US consumer may be retrenching, the new emerging middle class Asian consumer is coming to the table.

While there are still risks, as highlighted by recent events in Korea and Thailand, overall Asia is a compelling place to invest. It has a strong population/demographic story, high growth rates, strong relative currencies and generally inefficient markets that can lead to investment opportunities greater than more developed markets.

Mutual funds provide one of the best ways



to tap into the Asian growth story. One of the most conservatively managed Asian funds available to Canadians is **BMO Guardian Asian Growth and Income**. Alternatively, investing in areas that stand to benefit from Asia's continued demand for resources, such as Canada, is a way to invest in "Asia through the backdoor."

Opportunities in Investing #2: Technology



For the last several years if you had asked the average person on the street whether they felt investing in the US was a good idea, the answer would quite likely have been no. Ask the same question about investing in Apple or Google and you may have received a different answer: thus underscoring the point that there are always stock-specific opportunities available.

Some of the major growth trends in place in the technology sector include the shift from

regular cell phones to smart phones or the shift towards on-line advertising, including the corporate embracing of social media.

Another significant trend at work is the corporate shift to "cloud computing" as a software and service model (where shared resources, software, data storage and IT support are provided via the internet, on demand).

Business spending on technology is expected to be particularly strong in emerging markets. Currently these markets have relied on a cheap labour force for competitiveness. As workers in emerging markets demand higher wages, these centers will begin to lose some of their competitive edge. As a result they will quite likely ramp up their investment in technological efficiencies.

Noah Blackstein of Dynamic Funds feels that there has been an underinvestment in the technology sector following the "tech wreck" in 2000 and states "you have had a 10 or 11 year underinvestment in technology, which is like a 30-year underinvestment in coal or copper".

Ways to tap into the growth potential for technology companies could include investing directly in a technology stock or fund but a more prudent approach might be a globally diversified growth oriented equity fund with a large concentration in the technology industry. The **Dynamic Power Global Growth** fund run by Mr. Blackstein is a good example.

Opportunities in Investing #3: Health Care

By 2020, the number of persons over the age of 65 is expected to rise to 35% of the US population. This certainly underscores the need to get health care costs under control, which is one reason for the massive spending initiative in digitizing health care records. In addition, medical breakthroughs in the biotechnology arena are expected to bring to huge advances in the delivering of medical care. This convergence of scientific progress and demographic need is pointing towards a large growth potential in this industry in the years to come.

Opportunities in Investing #4: Infrastructure

Another investment theme with very good long-term potential is infrastructure. The OECD (Organisation for Economic Co-operation and Development) released a report in 2006 that estimated that global infrastructure spending needs between 2005 and 2030 are in the realm of \$50 trillion (with a T.) The needs are immense: water, roads, telecommunications, rail and power generation and transmission. China alone has 17,000 km of high-speed railways under construction right now and expects to have 50,000 km of track by 2020.

While governments in Asia can finance some of their required infrastructure needs internally, the

ability of debt-laden Western governments to be able to meet the growing need without significant private investment is questionable. This presents enormous opportunities as increasingly infrastructure will need to be privatized.

The American Society of Civil Engineers estimates that the United States alone needs to invest at least \$1.6 trillion over the next five years to maintain and expand its infrastructure.

“We are facing an infrastructure crisis in this country that threatens our status as an economic superpower, and threatens the health and safety of the people we serve,” New York Mayor Michael Bloomberg



told Congress earlier this year.

Pension funds have been increasingly embracing infrastructure investments as they offer long-term investment opportunities (these projects are very long in scope) and a reduced relationship to the stock market than other assets.

Ways to capture this theme are an infrastructure fund, of which there are a few available in Canada, or a more diversified fund that has infrastructure investing as one of its dominant themes, such as **Dynamic Diversified Real Asset**.

Opportunities in Investing #5: Green Technology

Going green is no longer a fringe movement. Today, technology, economics and politics are converging to finally push environmental issues off the sidelines and to the centre of our global consciousness.

Technology: At the same time that fossil fuels become increasingly scarce and expensive, many green technologies are becoming economically viable.

Politics: The US jobless rate is still stubbornly high; embracing new green technologies could create “made in the USA” industry jobs. There is also a political desire to decrease reliance on foreign oil. As much of the oil the US imports comes from politically unstable regions, and in some cases hostile ones, many view this as a matter of national security.

Environmental: we are increasingly

becoming concerned with environmental issues and how they impact our lives and the legacy we will leave for future generations.

Going green is a global priority that should be embraced by governments, corporations, investors and consumers. As this new industry emerges, many investment opportunities will present themselves. At present there are few diversified ways for Canadians to tap into this sector; **Powershares Global Clean Energy** is one of the most direct options.



Opportunities in Investing #6: Gold

While it is true that a large part of the price movement in gold is, at least in the short term, determined by speculators, there are compelling reasons to own it as part of a well-diversified portfolio. Some of the reasons are as follows:

Inflation hedge: Gold has historically provided a good hedge against inflation. **Safe Haven:** Gold is normally viewed as a safe haven in times of financial and political crisis. **Central Bank purchasing of gold:** Governments in Asia and other wealthy developing markets are becoming aggressive buyers of gold. The main reason for this is to diversify their foreign cash holdings (estimated to be \$3 trillion in Asia alone) away from declining foreign currencies. **Supply and Demand:** There has been an underinvestment in gold mine production for years so supply is limited at a time where there is rising consumer demand in countries like India and, more importantly, increased investor demand, both on the part of individual investors, institutions and governments.



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The old and new retirement

More and more Canadians are looking forward to retiring to something, not *from* something and it is part of the job of financial advisors to help picture what the “new” retirement will look like. As well, life can throw us curveballs such as unexpected early retirement due to downsizing or the voluntary choice to leave a career job earlier than planned for lifestyle reasons.

Retirement planning nowadays is about lifestyle transitioning as much as financial issues. The old “retirement” meant working to age 65 in a single career and fully transitioning to the lifestyle we conventionally associate with retirement: kicking your feet back and taking it easy after 40 years plus in the workforce. Lifestyle transition planning was generally not much of an issue.

The new retirement is completely different. People are both retiring earlier (at least from their career job) and living longer. These days, it is conceivable that you could have 25 years or more ahead of you once you leave the workforce. As a result, it is becoming more and more important to build a new life structure that will challenge, motivate and provide a feeling of being useful and a sense of life satisfaction.

In his book, “The Third Wave”, Alvin Touffler covers this idea well: “Individuals need life structure...For many, a job is crucial psychologically over and above the paycheque. By making clear demands on their time and energy, it provides an element of structure around which the rest of their lives can be organized.” In retirement, the “job” that Touffler refers to may or may not be a traditional one. It could entail working part-time or even establishing a

whole new career. The “job” might not be for pay at all; it could mean volunteering, helping with family childcare needs, taking up a new hobby, traveling, or going back to school. Whatever the “job” is for you, it is important to look forward to some sort of meaningful work or activity to provide life structure.

To begin to figure out a new life structure for the future, there are a number of questions that you can think about:

- How will I spend my time?
- What do I really like to do?
- What will keep me motivated?
- Will my finances support my vision of retirement?
- Do I want a second career?
- What about working part-time?
- How will my family be affected?

If you haven’t already, start thinking about what the next phase of your life might look like. Include your partner, or someone you really respect, in your discussion and develop a plan to live life on your terms. Financial constraints will be part of the picture, as how much you have saved will partially dictate how much you will be able to do.

The key is to get your head around the idea of retiring to something, not from something. All too often people who feel they have retired *from* something feel their lives are on hold and end up looking backward. We work, and invest, to create a lifestyle for ourselves both in the working years and the retirement years. Not sitting down and doing a proper lifestyle transition plan, as well as a financial plan, is like taking a journey without a map. If you are interested in exploring these issues, I have some tools that can help.

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