



Investment Outlook

Private Investment Counsel

Summer 2011

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The retiree's dilemma

By Robert J. Gorman, CFA, Chief Portfolio Strategist, TD Waterhouse®

Part of my role entails speaking with Canadian investors of all stripes across the country. Many are retired or are approaching retirement, and a high proportion voice a common concern: a need to replace employment income, either now or in the imminent future.

To do so, many of these Canadian investors have dutifully saved, or perhaps sold their businesses. They have accumulated capital, which they need to invest to generate the income they will no longer be earning. Many look first to fixed-income investments because they are familiar and have traditionally provided a combination of safety and reasonable yield. And therein lies the problem.

Sticker shock

For many, today's yields from fixed-income investments, such as GICs and term deposits, result in a bad case of sticker shock. Rates are lower than what had been planned for, and therefore the income produced is falling short.

To make matters worse, the interest on fixed-income investments is taxed as ordinary income at the highest marginal rate, sharply lowering after-tax returns. Finally, neither the value of GICs and term deposits nor the stream of income increases, making these investments very susceptible to the ravages of inflation.

Thinking differently

Clearly, there is a need for many investors to update their approach to generating investment income. Specifically, they need a higher stream of income and better tax treatment to keep more after-tax income; and the income should increase to maintain purchasing power.

In addition, there should be potential for capital appreciation to keep capital intact in real terms, after inflation; and there should be a high degree of safety, as capital cannot be readily replaced in retirement.



Dividend growth stocks can go a long way towards meeting retirees' needs for income and growth.

Finding a solution

A major part of the solution, which meets the criteria outlined above, lies in what we call dividend growth stocks. A classic Canadian example is **Power Corporation of Canada (Power Corporation)**, which controls Investors Group Inc. and Great-West Lifeco Inc.

At the time of writing, Power Corporation's yield is around 4.1%, which is like receiving about 5.3% in interest because of the dividend tax credit. More importantly, because of the stable nature of its underlying businesses, Power Corporation has a history of steady dividend increases, as illustrated in the chart on Page 2. Over the past 16 years, Power Corporation's annual dividend payments have increased from \$0.175* per share to \$1.16, an annually compounded increase of 12.6% — which handily outpaces inflation.

Put another way, that \$0.175 in dividends paid in 1995 represented a yield of 3.1% at the time. Sixteen years later,

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The retiree's dilemma

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the increased dividend of \$1.16 amounts to 20% of the original purchase price. At the same time, as shown in the chart, the share price has steadily appreciated, partially because rising dividends tend to form a rising floor under share prices.

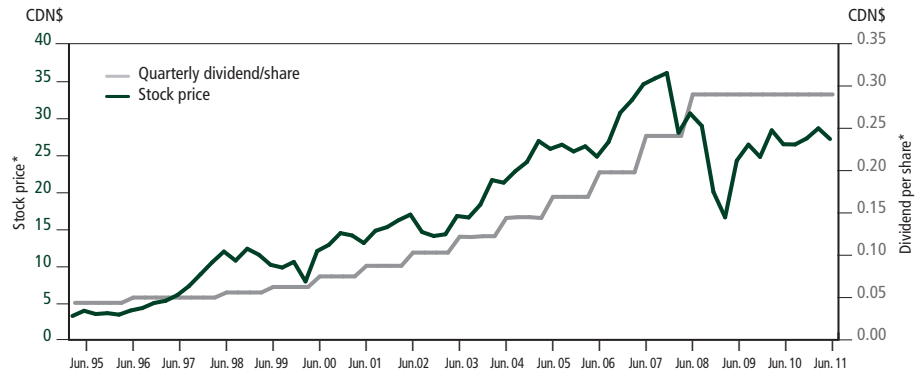
In sum, Power Corporation's stock (and its majority-owned affiliate, **Power Financial**) have offered above-average after-tax income. The company has a history of steadily increasing dividends, and shares have appreciated. For investors, this means that these tax-advantaged stocks have more than offset inflation and have kept their capital intact.

Assessing risk

As for risk, all shares can decline in a market downturn, such as that seen in 2008–2009; however, the high calibre and defensive nature

Power Corporation stock price and dividend performance

An example of how a dividend growth stock can steadily increase dividends while shares appreciate in value — outpacing inflation.



*Prices and dividends adjusted for stock splits
Source: Yahoo! Finance/company website

of these and similar companies have meant they suffer less in a decline, are only temporarily impaired and ultimately recover lost ground.

For a great many investors, a portfolio of dividend growth stocks can go a long way towards meeting the needs for income and growth. ■

*Dividend adjusted for 2 stock splits on a 2:1 basis

Mid-year update — were forecasts on track?

Here's how markets are doing, as compared with our 2011 forecasts:

U.S. equities have retreated. Our 2011 forecast called for the U.S. equity markets to advance for a third successive year and register a low double-digit return. At the time of writing, after a recent pullback, major U.S. indices are relatively flat to date and seem likely to achieve our target in the second half of the year.

Canadian equities have pulled back. We also expected the Canadian stock market to rise for the third year in a row — though not to the same degree as U.S. equities — and generate a high single-digit return. After nearly reaching

our target in the spring, Canadian stocks have retreated in the wake of soft economic data and have posted relatively flat returns to date. Recovery seems probable, most likely in the fourth quarter, and we should achieve our target.

Bonds are slightly ahead. Bond returns were forecast to be modest, in the 1%–3% range, and have been slightly better than anticipated. Softer economic data have meant lower bond yields and some modest capital gains. We expect returns to be in line with objectives for the year.

Europe little changed. Overseas, our focus among major international markets

was northern Europe, for the second successive year, and this seems to be unfolding as anticipated.

China still has a story to tell. Among emerging markets, China was expected to move from the worst performer of 2010 to one of the best in 2011, with a low double-digit return. After a recent pullback, the Shanghai Composite Index is down marginally for the year and, while we expect the market to advance as investors anticipate the end of monetary tightening, the jury is still out at this point.

We will keep you apprised of developments in the coming quarters. ■

Current Private Investment Counsel strategy

Portfolio weighting

- Modest overweight in equities
- Position in gold where appropriate within client portfolios
- Slight underweight in bonds, with a somewhat shorter term than benchmarks
- Overweight corporate bonds, where mandates permit
- Major underweight in European banks within international holdings

Percentage return for indices

(For the period March 15, 2011 – June 15, 2011)

DEX Universe Bond Index	+2.7%
S&P/TSX Composite Index	-3.6%
S&P 500 Index	-0.8%
MSCI EAFE Index*	+5.6%

*Morgan Stanley Capital International Europe, Australasia and Far East Index

Strategies to minimize probate

By Charley Tsai, Vice-President, Wealth Planning Support, TD Waterhouse Canada Inc.

Probate is the formal process of having a deceased person's Will validated by the courts. A Will may require probate prior to transferring legal ownership of real estate or upon request from a financial institution prior to the settlement of a particular asset or account.

Part of the estate planning process

Probate planning is often incorporated as part of the estate planning process, especially in those provinces where probate fees are considered relatively high. Probate may also protect an executor or third parties acting upon the executor's instructions in settling an estate.

Probate fees are typically based on a percentage of the value of the estate that is dealt with under the terms of the Will. These fees can be as high as 1.4% in British Columbia and 1.5% in Ontario. There are no probate fees for notarial Wills in Quebec and the maximum probate fee payable in Alberta is \$400.

Where probate fees may be significant, a number of strategies may be considered to minimize the cost of probate. These include the following:

Gift or donate assets during your lifetime

By gifting or donating assets to your beneficiaries during your lifetime, these assets will not form part of your estate and therefore will not be subject to probate. However, there may be income tax consequences as a result of the disposition that is deemed to occur (at fair market value) when you give or donate assets.

Probate fees are typically based on a percentage of the estate's value.

Use joint accounts

Assets held in joint accounts with right of survivorship can pass to the surviving joint owner(s) upon the death of one joint owner. The asset will generally not form part of the deceased joint owner's estate. However, there are potential risks associated with owning assets in this manner, including potential income and capital gains tax consequences associated with

transferring assets to a joint account and possible claims by creditors of the new joint owner(s). Please note that the concept of joint tenancy is not recognized in the province of Quebec.



Probate planning is often integrated with estate planning, especially in provinces where probate fees are relatively high.

Designate beneficiaries

Holders of registered plans (including locked-in plans such as LIRAs and LIFs) may wish to consider naming beneficiaries on their registered plans. When a named beneficiary (other than the estate) is designated on registered plans, the proceeds can be paid directly to the named beneficiary and not form part of the deceased plan holder's estate. The same principle also applies to life insurance policies.

As the rules in the province of Quebec do not recognize beneficiary designations on registered plans, these assets should be distributed through the deceased's Will.

Transfer assets to a trust

Transferring assets to a trust would remove those assets from your ownership and estate (as they now belong to the trust). Again, there may be income tax considerations as a result of the deemed disposition that arises when you transfer assets to a trust. If you are 65 years of age or older, you may be able to transfer certain assets to a trust without triggering immediate tax consequences by using an alter ego or joint partner trust.

Use multiple Wills

This strategy involves preparing two Wills — a primary Will that provides for the disposition of assets that would require probate (such as bank

and investment accounts and real estate) and a secondary Will that provides for the disposition of assets that may not require probate (such as personal effects and shares of a private company).

The executor can submit the primary Will for probate and include in the calculation of probate the value of assets under that Will, but not include the value of the non-probated (or secondary) Will of the deceased.

It is important to note that multiple Will planning may not be recognized in all jurisdictions, and a legal advisor should be consulted to determine if this strategy is valid in your province.

We can help

The appropriateness of these strategies to minimize probate fees should be considered in light of your overall situation and objectives, keeping in mind the overall impact probate fees may have on your total estate.

Your Portfolio Manager can put you in touch with the appropriate estate planning specialist who can help you better understand the strategies that may suit your particular circumstances and needs. ■

The TD Private Canadian Equity Plus Fund: A quality growth option

TD Waterhouse Private Investment Counsel is committed to providing you with a robust suite of investment options, access to leading money managers and expert guidance to help you reach your financial objectives.

Our newest investment fund

The TD Private Canadian Equity Plus Fund is the newest investment fund in our suite of solutions. It is designed to help enhance the growth portion of your portfolio in a disciplined fashion. It strives to do this by building a diversified portfolio that includes:

- **High-quality growth companies** with strong balance sheets. In an era where debt is a major concern, investors will look to companies with solid cash flow, high-quality earnings and low levels of debt.

- **Dividend-paying equities**, which should add stability to the portfolio and a regular income stream. Dividend-paying companies have historically exhibited lower share-price volatility than non-dividend-paying companies.
- **Resource companies in the materials and energy sectors** — to capitalize on the long-term trend of urbanization in China and other emerging markets. Canadian resource companies can be an effective way to capitalize on emerging growth opportunities. As countries such as China modernize, they will require many of the commodities that Canadian companies produce. This trend is expected to grow more pronounced as the emerging markets middle classes grow.



The TD Private Canadian Equity Plus Fund focuses on high-quality growth companies.

Leverage risk disclosure

Using borrowed money to finance the purchase of securities involves greater risk than a purchase using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same, even if the value of the securities purchased declines.

Makeup of the fund

The fund invests mainly in Canadian equities, but the management team has the option to have up to 20% of the portfolio in U.S. and international equities.

At the beginning of the year, the energy, materials and financial sectors had the highest representation in the fund, which was almost fully invested.

The fund will typically exhibit higher volatility than the market but has the potential for strong performance during stable and rising markets. The fund may also have higher portfolio turnover than other funds, as the managers capitalize on growth opportunities. This may lead to increased capital gains from the fund.

Speak to your Portfolio Manager about the role that the TD Private Canadian Equity Plus Fund can play in the growth portion of your portfolio. ■

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