

Investment Outlook

An exclusive quarterly report from TD Waterhouse® Private Client Services

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In this issue

Peace of mind for the 'sandwich generation'

..... 3

How TD Bank Financial Group reduced its carbon footprint

..... 3

Enhanced investment solutions to meet your objectives

..... 4

Financing the boomers' retirement

BY ROBERT J. GORMAN, CFA, CHIEF PORTFOLIO STRATEGIST, TD WATERHOUSE

In the mid-nineties, a popular author put forward the thesis that as the wave of boomers edged toward retirement, they would naturally become more conservative and shift funds from equities to fixed-income instruments such as bonds. The result, it was suggested, would be relentless selling pressure on stocks around the world, which would have adverse consequences for share prices.

Lengthening retirement

As we grow older, there is a natural tendency to seek lower-risk investments as our time available to replenish capital diminishes. In investment parlance, the investment horizon shortens and we become more concerned about income from our investments and protection against loss. However, there is scant evidence that equities have been under any selling pressure from this source.

While the thesis mentioned above leans heavily on one element of demographics — the aging boomers — it ignores another demographic trend, that of increasing life expectancy. The chart “Golden years on the rise,” on Page 2, depicts a trend that is wonderful in human terms but sobering from a financial perspective.

Longer lifespans

The average number of years a male can expect to live after retirement has risen sharply over the past 40 years or so. A glance at the Canadian data supports the point, with post-retirement years stretching from around 13 years to almost 20 years. Put another way,



Investors increasingly value the certainty of dividends to complement more erratic capital gains.

the post-retirement period has increased by about 54%, suggesting that a proportionate increase in savings is needed to fund longer retirements. Reverting to investment parlance once again, retirees' investment horizon is lengthening and they either need to increase contributions to their retirement savings or seek higher potential returns so that their money won't run out before they do.

Continued on Page 2



Financing the boomers' retirement

Continued from Page 1

The prospect of outliving your savings

For the majority of investors, pure fixed-income portfolios may not be adequate to fund these longer retirements. This reflects the fact that money market and bond returns have fallen well short of equity returns over most extended periods. Generally, over time Treasury Bills have a real rate of return, after inflation, of 1% to 2%, bonds of 3% to 4% and equities of 6% to 7%.

While the differences might seem modest at first blush, they are dramatic over time. In fact, these numbers understate the differentials for many investors. That's because the Dividend Tax Credit for Canadian dividends and the deferral of capital gains taxes until

stocks are sold make equity returns even more attractive on an after-tax basis.

So the idea that investors will shift, en masse, to the lower returns and more onerous tax treatment of pure fixed-income investments just when they need to fund longer retirements does not seem a likely prospect. Nonetheless, there remains the very real issue for retirees of generating equity-like returns while controlling risk and producing income.

Reconciling the need for returns and income

Rather than witness a shift from stocks to bonds, as suggested in the thesis described at the outset, we believe the real trend lies in investors seeking out equities in which a major part of the

total return comes from income and only a portion from potential capital appreciation. A bird in the hand is worth two in the bush and investors increasingly value the certainty of dividends to complement more erratic capital gains.

The popularity of income trusts illustrates this appeal. Income trusts are a type of equity in which the bulk of earnings are returned to unitholders primarily in the form of regular cash distributions, with capital gains representing a relatively small portion of total return. Changing tax legislation has meant many income trusts may soon revert to corporate status.

Stocks that have featured a relatively high dividend yield have the

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Are you transitioning into retirement, already enjoying your golden years or just starting your planning? Whatever your life stage, the newly re-launched **tdretirement.com** will help guide you through everything you need to think about — from health and lifestyle to career and finances — with helpful articles, calculators, videos and more. Take a tour today!



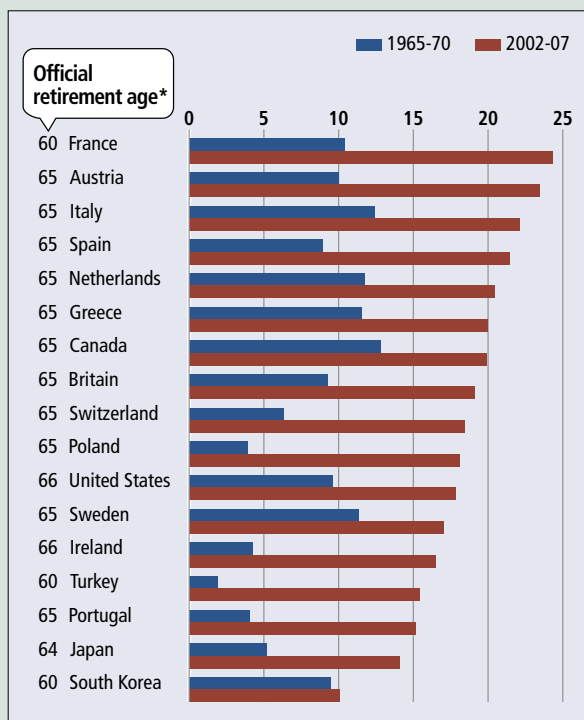
ability to provide the income retirees need plus the prospect of some capital appreciation as the underlying business grows. That growth is typically reflected in regular dividend increases, which augment the income stream and act as a hedge against inflation, in sharp contrast to bond coupons, which generally remain unchanged. In addition, the share prices of companies exhibiting the relatively consistent sales and earnings growth that give rise to high and rising dividends tend to be less volatile than equities as a whole.

A few caveats are in order. First, the reduced volatility of dividend-paying stocks does not translate into investments without risk. As the credit crisis illustrated, all equities can face a decline in price, even if only temporarily, in times of financial turmoil. Second, fixed income plays a role in many portfolios, dampening portfolio risk and providing income.

In sum, it is not the proportion but the type of equity investment that is changing as investors take stock of their needs for income, growth and reduced risk. ■

Golden years on the rise

Life expectancy for men after retirement has risen dramatically in the past 40 years.



Sources: OECD; *The Economist* *Latest

Peace of mind for the 'sandwich generation'

You're caught balancing between driving your daughter back to her university residence, picking up your son from his part-time job and stopping off at the bank to pay bills for your aging father. Sound familiar?

In 2007, approximately 2.7 million Canadians provided unpaid care to people over the age of 65 — an increase of 25% from 2002.¹ More and more adults are finding themselves caught in the so-called "sandwich generation" — caring for their aging parents while also providing for their own children, who may be still living at home well into their twenties, perhaps as they complete their education and land their first job.

It's no surprise that this can leave many feeling anxious.

A comprehensive service

To help ease the strain for the sandwich generation, TD Waterhouse Private Trust, through The Canada Trust Company, offers a Financial Care and Management service for those who no longer wish to handle the day-to-day management of their own finances or the finances of a

family member, such as a parent.

Financial Care and Management provides a wide breadth of options for a variety of clients, from those who simply need day-to-day management of finances for an elderly family member,



Financial Care and Management services provide a wide breadth of options for a variety of clients.

to those who want the full range of financial and investment services for themselves or others, as they travel or focus on other priorities.

With the growing demographic trend of adult Canadians being responsible for more family members for a longer period of time, this service is a great value to many clients, as it will provide

convenience and help ensure peace of mind. In addition, should the need ever arise, our Private Trust professionals can put you in touch with elder-care and other related health-service professionals.

A dedicated manager for your finances

Beyond planning and managing ongoing income and cash flow arrangements, Financial Care and Management offers tax preparation advice and management of investment needs. In addition to Guaranteed Investment Certificates and provincial and federal government bonds, investment alternatives now include certain capital growth vehicles.

With Financial Care and Management, your finances are taken care of by an experienced, dedicated manager you can trust and call on whenever needed. This comprehensive service is designed to free up your time and give you the convenience and peace of mind that come from knowing your financial affairs are being managed for you.

Your Portfolio Manager can help you assess if Financial Care and Management is right for your needs. ■

How TD Bank Financial Group reduced its carbon footprint

TD Bank Financial Group (TDBFG) recently became the first carbon-neutral bank in Canada. This is an especially significant milestone this year, as TDBFG celebrates the 20th anniversary of the TD Friends of the Environment Foundation® (TD FEF).

Here's how TDBFG did it:

- ▶ **BETTER ENERGY EFFICIENCY.** Many projects were completed — retrofitting lighting in buildings, upgrading data centres, optimizing heating/cooling systems and introducing a new fleet of fuel-efficient vehicles.
- ▶ **MORE RENEWABLE ENERGY.** Electricity for an entire network of 2,600 Green Machine® Automated Bank Machines, as well as for operations in B.C., Alberta, Saskatchewan, Nova Scotia and P.E.I., comes from renewable energy.
- ▶ **USED CARBON OFFSETS TO NEUTRALIZE OTHER EMISSIONS.** This included contributing to the Greening Canada Fund and helping Habitat for Humanity Canada build energy-efficient homes.

Reducing your own footprint is possible — here are some ways:

- ▶ Try TD FEF's online One-Minute Carbon Calculator (www.tdfef.com).
- ▶ Take advantage of *ecoENERGY*™ Retrofit grants for your home.
- ▶ Consider sustainable investing and mortgage products, such as the **TD Global Sustainability Fund**² and the **TD Canada Trust Green Mortgage**.

Enhanced investment solutions to meet your objectives

BY DAVE KELLY, GROUP HEAD, PRIVATE INVESTMENT COUNSEL

As part of our ongoing commitment to keep you informed about your investments with us, we have recently completed a full review of our offerings. The objective, as always, is to provide you with the investment solutions you need to reach your goals.

To this end, we are committed to providing you with a robust suite of investment options, access to leading money managers and expert guidance at each step of your financial path.



Our enhanced solutions will allow our Portfolio Managers to build customized investment portfolios.

Our strategic review process involved actively listening to what is important to you, along with our own research and analysis. A number of themes emerged from this process:

- A growing need for tax-efficient income solutions.
- The growing importance of capital protection and risk management to our clients.
- Access to investment solutions that perform well at different points of the market cycle.
- The need to manage currency risk when investing in U.S. equity markets.
- More focus on positive, total returns in any investment climate.

These themes have been instrumental in guiding our strategic review. Below is a summary of some of the enhancements:

TAX-EFFICIENT INCOME SOLUTIONS

- A Canadian dividend fund focused on seeking to provide tax-efficient income.
- New U.S.-dollar government and corporate fixed-income investments are being investigated to add to our fixed-income offerings.

CAPITAL PROTECTION, RISK MANAGEMENT AND TOTAL RETURN

- Target return funds that aim to deliver positive returns over full market cycles.

- A Canadian equity fund with a value-oriented approach.

SOLUTIONS FOR DIFFERENT POINTS OF THE MARKET CYCLE

- A U.S. mid-cap equity mandate.
- Blue chip, value and growth styles for Canadian and U.S. equity markets.
- An international fund for EAFE and Emerging Markets.

ACCESS TO U.S. MARKETS WITHOUT CURRENCY RISK

- Currency-neutral pooled funds featuring U.S. blue chip, U.S. value and U.S. growth mandates.

These enhanced solutions will allow our Portfolio Managers to build customized investment portfolios tailored to the unique needs of our clients.

Your Portfolio Manager will be happy to discuss how these enhanced solutions can help you reach your investment goals.

We are continually looking for ways to add value and look forward to sharing additional enhancements with you throughout the year.

Most of all, we recognize that it is a privilege to work with you and your family and look forward to continuing to help you achieve your financial goals. ■

The information in this newsletter is current as at March 15, 2010, and does not necessarily reflect subsequent market events and conditions.

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A preliminary simplified prospectus relating to certain of the funds discussed in this newsletter have been filed with the relevant securities authorities. You cannot buy units of the funds until receipts for the simplified prospectus have been issued. In addition, the information in respect of the funds is subject to change without notice.

Fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated.

¹ Source: Statistics Canada.

² TD Global Sustainability Fund is managed by TD Asset Management Inc., a wholly owned subsidiary of The Toronto-Dominion Bank.

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Waterhouse

Wealth of Experience