

# Investment Outlook

An exclusive quarterly report from TD Waterhouse® Private Investment Counsel Inc.<sup>1</sup>

Summer 2008

## In this issue

New socially responsible investing portfolio now available

..... 3

Your retirement may be longer than you realize

..... 4

## Profitable investing in commodities within your portfolio

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

**E**nergy and agricultural commodity prices have risen strongly in recent months. What's going on, why, and how can you profit?

### Oil prices surge

Since January 1, 2008, a barrel of crude oil has risen in price from under \$95 to over \$130 to date. During this period, the supply of oil has been adequate to meet demand as there have been no significant supply disruptions. While demand has stayed firm, the slowing global economy has led the International Energy Agency (IEA) to modestly lower its 2008 estimate of global oil consumption. We have also seen U.S. gasoline consumption decrease from 2007 levels as gasoline approached the psychological barrier of \$4 U.S. per gallon. Why then has the price of crude risen so much?

Over the past half-dozen years, growth in demand has exceeded growth in supply. This accounts for most of the increase in price over that period. In addition, a political risk premium has been embedded in the price on account of fears of supply disruptions in the Middle East. More recently, the role of investors in crude oil ("non-physical demand") as opposed to users of oil ("physical demand") has been targeted as a reason for the recent surge in crude prices.

### The price of oil climbs in 2008



The price of West Texas Intermediate (WTI) Crude Oil doubled over the past year.

Source: Bloomberg

### Investing in energy

To take advantage of strong prospects for the energy sector, the Canadian component of client portfolios has large oil and gas holdings. Importantly, energy investments are focused on those companies that represent excellent value, and whose shares generally reflect oil prices of well below \$100, meaning they are not dependent on current high prices to remain profitable. **Suncor, Imperial Oil,**

*Continued on Page 2*



## Profitable investing in commodities within your portfolio

*Continued from Page 1*

**TransCanada Corporation**, and **Petro-Canada** are a few investments meeting these criteria.

Natural gas is another important energy resource and **Encana**, one of North America's top gas producers, is a prominent holding within many client portfolios.

Investors with income trusts within their portfolios have benefited from holdings in **Canadian Oil Sands**, **Arc**, **Bonavista**, and **Vermilion**. All are characterized by long-life reserves, good management, and track records of replenishing reserves at reasonable cost.

### Agricultural commodities

Like oil, commodities such as wheat, corn, rice, and soybeans have appreciated sharply in price over the past year. On the supply side, drought-induced poor harvests of wheat in Australia and the diversion of corn to ethanol production have diminished crops available for consumption. Meanwhile, demand has been rising, due in part to greater consumption of meat in China and India, which requires more grain for feed.

As with crude oil, the run-up in the price of agricultural commodities has been driven, in part, by a sharp increase in investor demand as commodity funds increased their

assets dramatically.

Your portfolio typically holds one of several investments that have benefited from rising agricultural commodities. Fertilizer stocks such as **Potash Corporation of Saskatchewan** and **Agrium** have been prime beneficiaries, as farmers use more fertilizer when crop prices are high.

Railways such as **CN Rail** and **CP Rail** are indirect beneficiaries of the increasing tonnage and value of commodities they transport and are also prominent holdings.

### Mid-year update

As we are now halfway through 2008, it's an appropriate time to compare how financial markets have fared versus our forecasts.

Looking first at Canada, our stock market began the year on shaky ground, as fears about the global credit crisis mounted. As those concerns have ebbed, the losses early in the year have been recouped and, in line with forecast, the S&P/TSX Composite has a mid-single digit return for the year-to-date, at the time of writing.

Bonds have recorded solid returns to date and appear on track to generate the 4.0% – 4.5% returns

forecast. We expect corporate bonds to outperform government issues in the second half of this year, in keeping with our outlook, and your portfolio is invested accordingly where client mandates permit.

The U.S. stock market suffered losses similar to Canada's early this year and has recovered about half that lost ground so far. To a great extent, the difference in performance has reflected Canada's strong energy sector. A modest decline in the Canadian dollar has helped the situation, boosting the value of American holdings. We expect the U.S. market to gain ground in the year's second half, aided by monetary stimulus and improving economic conditions.

The major story overseas was the one area about which we expressed extreme caution — the decline in emerging markets in general and China in particular. China's Shanghai Composite Index has fallen more than 36% in 2008 to date, with other countries, such as India, suffering substantial losses as well. We have largely avoided direct exposure to these markets.

Overall, we expect most markets to chart a positive course during this year's second half to record solid returns in 2008 as a whole. ■

## Current Private Investment Counsel strategy

### Portfolio weighting

- Modest overweight in equities
- Slight underweight in bonds, with a somewhat shorter term than benchmarks
- Overweight corporate bonds, where mandates permit
- Where applicable, income trust holdings focus on higher-quality issues with stable, sustainable distributions
- Overweight European industrial stocks and underweight financials within international equities

### Percentage return for indices

(For the period March 15, 2008 – June 15, 2008)

DEX Universe Bond Index	-1.4%
S&P/TSX Composite Index	12.2%
S&P 500 Index	10.8%
MSCI EAFE Index*	7.2%

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

# New socially responsible investing portfolio now available

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

One of the emerging trends within the portfolio management field is investing based on social and environmental criteria, above and beyond the usual financial considerations.

## Personal portfolio customization

Private Investment Counsel's portfolio management systems have long allowed us to customize clients' accounts to meet individual ethical considerations.

The most common example has been the exclusion of alcohol and tobacco company stocks from a client's portfolio based on that individual's social criteria. We have also excluded other industries or individual issuers from client accounts based on environmental concerns or specific social issues.

This *a la carte* approach lets clients personalize their investments to match their own code of ethics, and not someone else's.

In most cases, we have selected securities of the best-managed issuers which are generally forward thinking and leaders in addressing social and environmental issues. Nonetheless, a growing number of investors want to be assured that their holdings are not only superior investments in their own right but are selected with an eye to their environmental impact, corporate governance, and social responsibility.

To meet this need, we are pleased to introduce our **North American Socially Responsible Investing (SRI) Portfolio**.

## Socially responsible investing criteria

Our SRI portfolio invests in 30 to 45 large, carefully selected, best-in-class issuers. At least 40% of the securities comprising the portfolio are Canadian issuers, 40% are U.S. issuers, and up

to 20% are International issuers.

Our SRI portfolio utilizes various screening tools available in the market and our proprietary internal analysis to choose issuers that meet our investment criteria and exclude securities that derive a significant portion of their revenue from tobacco, military armaments, gambling, or pornography production. At the same time, we exclude any issuers that are known to violate human rights.

Also stricken from the list of eligible investments are issuers that perform poorly versus their peers on environmental grounds such as resource use, pollution control, regulatory compliance, land use and remediation, and the environmental impact of the product or service.

## Green focus

In addition to ensuring that all investments meet the environmental criteria cited above, approximately 20% of the SRI portfolio consists of stocks that are specifically chosen to benefit from "green" investment themes such as:

**Water.** Is water the new oil? While Canadians generally take abundant, clean drinking water for granted, it actually is a very limited resource. In many parts of the world, a lack of safe water is a major cause of illness, and

the supply and purification of water is a growth industry.

**Alternative energy.** The twin forces of rising oil prices and concerns about carbon emissions make hydroelectric, wind, nuclear, and solar power attractive areas of focus.





**Waste management.** Effective recycling and disposal of waste is an increasingly important function characterized by steady growth and stable, recurring income. The related area of environmental remediation is another growth business presenting investment opportunities.

**Green infrastructure.** Our homes, commercial buildings, industrial plants and equipment, and transportation infrastructure all need upgrading or replacement to meet new environmental standards. The engineering, construction, and management of these facilities all represent money-making businesses.

It was long thought that investments incorporating socially responsible criteria necessitated compromising on investment returns. If this was ever true, it is not today. In short, you can do well while doing good.

*For more information on the new Socially Responsible Investing Portfolio, contact your Private Investment Counsel Portfolio Manager. ■*

## Snapshot — North American Socially Responsible Investing (SRI) Portfolio

			
<b>PORTFOLIO COMPOSITION</b>	<b>GEOGRAPHIC ALLOCATION</b>	<b>GREEN INVESTMENTS</b>	<b>EXCLUSIONARY CRITERIA</b>
<ul style="list-style-type: none"> <li>■ 30 – 45 holdings</li> <li>■ Large, best-in-class companies</li> </ul>	<ul style="list-style-type: none"> <li>■ 40%+ of portfolio Canadian</li> <li>■ 40%+ American</li> <li>■ 0% – 20% International</li> </ul>	<ul style="list-style-type: none"> <li>■ 20% of portfolio green industry selections</li> </ul>	<ul style="list-style-type: none"> <li>■ Tobacco, gambling, military armaments, human rights violations, pornography</li> </ul>

# Your retirement may be longer than you realize

Canadians are living longer, healthier lives. The life expectancy for Canadians has increased appreciably during the last century and in 2005 stood at 83 years for women and 78 years for men.<sup>2</sup> This positive trend has many important implications for your life, your career, and your retirement.

## Healthier, more active lives

Consider some other startling yet impressive figures. There are more than one million Canadians 80 years of age and older. In 2001, more than 430,000 Canadians were 85 or older — more than twice as many as in 1981, and more than 20 times as many as in 1921.<sup>3</sup>

The fact that we are living longer lives in better health means we are much more active during traditional retirement years than we have been in the past. Some of us are choosing to continue working, engage in volunteer activities, travel, and pursue continuing education. Indeed, our options are seemingly limitless.

## The new retirement

In light of these retirement aspirations, Canadians are deviating from the typical combination of a 40-year career and retirement at 65. Retirement is increasingly viewed as a transitory phase beginning around 55, thereby blurring the lines between full-time work and active retirement. In fact, some of us may eventually spend as much time in retirement as we spent working.

The combined trends of longer lives

and earlier transitions from work means that your time spent in retirement may be longer than you realize.

## Your portfolio

What does a potentially longer life mean for your investments? It underscores the need for an investment strategy that will finance the many years of your active retirement.

Not too long ago, portfolios of those nearing retirement were conservatively oriented, emphasizing less volatile, interest-producing investments such as bonds. Bonds are still considered a valuable wealth preservation vehicle yet are no longer seen as sufficient to solely fund a retirement portfolio.

To seek the capital growth required to fund a longer, active retirement, investors are encouraged to consider diversification with high-quality equity investments.

## Grow wealth, minimize taxes

The role of investments with the potential to contribute to portfolio growth has become increasingly important as more Canadians partake in longer, active retirement. High-quality equities have the potential to build greater wealth over time, produce potential returns that may exceed inflation, and lessen the chances you'll outlive your savings.

Of course, equities require a higher risk tolerance compared to bonds. Although equities may contribute to the growth of your portfolio, they also may be more volatile and could result in

a capital loss. Portfolio diversification with other asset classes — including fixed income and cash — will assist in balancing that risk. The right mix of assets, as always, is determined by your goals and risk tolerance.

Tax considerations are also critical to maximizing your retirement wealth. The more wealth you require for retirement, the more you'll need to boost your investments outside of your Retirement Savings Plan (RSP). Strategic allocation of your assets inside and outside your RSP can help reduce taxes and provide more after-tax wealth to finance your retirement. For example, growth-oriented investments, such as equities, receive the most favourable tax treatment and may be particularly well-suited for your non-registered accounts.

*Contact your Private Investment Counsel Portfolio Manager to ensure your portfolio is on track to meet your long and active retirement needs and goals. ■*

### INVESTOR NOTICE

## 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.

The information in this newsletter is current as at June 16, 2008.

The statements contained herein are based on material believed to be reliable, but are not guaranteed to be accurate or complete. Articles do not provide individual financial, legal, tax or investment advice and are for information purposes only. Graphs and charts are used for illustrative purposes only and do not reflect future values or future performance of any fund or portfolio. Investments should be evaluated relative to each individual's investment objectives and risk tolerance. TD Waterhouse Private Investment Counsel Inc., The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

TD Waterhouse Private Investment Counsel Inc. and The Toronto-Dominion Bank and/or its officers, directors, subsidiaries or representatives may hold some of the securities mentioned herein and may from time to time purchase and/or sell some on the stock market or otherwise.

<sup>1</sup> TD Waterhouse Private Investment Counsel Inc. is a subsidiary of The Toronto-Dominion Bank.

<sup>2</sup> Human Resources and Social Development Canada. Online at <http://www4.hrsdc.gc.ca/indicator.jsp?lang=en&indicatorid=3>.

<sup>3</sup> Canada's Aging Population, Health Canada, 2002.

All trademarks are the property of their respective owners.

\* Trade-mark of The Toronto-Dominion Bank, used under license.

© 2008 TD Waterhouse Private Investment Counsel Inc. All rights reserved.



**Waterhouse**

Wealth of Experience