ClienTel

The central message of ClienTel is that I value my clients. I'm as close as your telephone, and available and delighted to serve you.

David Chalmers BA, FLMI, CLU, CFP, RFP, CHFC

Welcome to another edition of *Clientel*. In this issue, I shall discuss:

- A "thank-you" to my clients and my staff
- A brief economic commentary
- Long-term financial projections
- An update on my model portfolio/fee-based initiative
- The soaring Loonie
- Congratulations, Jeanette

Thank You

At the end of September, I returned from my second annual one-month European vacation. I'd like to thank my clients for facilitating my ability to plan my schedule, thus allowing me to take some time "away from the office." While I frequently monitored my e-mail and checked up on things from Internet cafes in various Eastern European countries, I was very grateful for the comment in many client e-mails that "this can wait until you get back." I'd also like to thank my support team for their ongoing diligence.

My wife Barb and I visited Austria, Slovenia, Slovakia, Hungary, the Czech Republic and Bulgaria. Many clients gave us travel tips (thank you very much). Last year we visited Greece, and over the years have traveled to many parts of Europe. If any clients (or friends or family) are planning to visit Europe, you are welcome to contact Barb and I to see if we can provide any helpful information.

Although I plan to work in my practice for many years to come, I'm now in my mid-50's and hope to take some time along the way for traveling and hobbies. Like many people, I struggle to find the optimum balance between focusing on business and taking time for myself and my family.

A Brief Economic Statement

Each summer I send an "Andex Chart" to clients with a covering letter in which I wax philosophic about the world economy and the outlook for investments. (You can review my publications by visiting Rogers Group Financial's Website at www.rogersgroup.com).

I made a number of predictions in my July 2004 economic letter and in my February 2004 edition of *Clientel*. These predictions included:

- Stock markets (which had risen dramatically from October 2002 to February 2004) would level off.

- Interest rates in Canada would start to rise slowly.

- The price of oil would rise, and we would see gasoline prices eventually move toward European levels. (I also said that more Canadians (including me) would drive small cars in the future.)

Many trends that I had predicted are unfolding (which doesn't mean that I'm psychic, but rather that I am observant). The main overall economic prediction that I made (which I believe will be evident for a number of years) is that it will be harder in the future to obtain attractive investment returns at an appropriate risk level.

As I believe that future long-term investment returns will be lower than those achieved in the past (or at the very least, the "spread" between investment returns and inflation might be lower), I am re-visiting the subject of long-term financial projections in this newsletter. I want to assist my clients with strategies that will enable them to live with lower returns.

We should also take an investment approach that is conservative and diversified and one where portfolio expenses are controlled. (Thus, I am reviewing my "model portfolio/fee-based model" in this newsletter).

Long-term Financial Projections

I have prepared long-term financial projections for many clients. Taking into account an inventory of the client's investments, capacity to save (or level of spending), pension entitlements, etc., I prepare a long-term projection detailing year-to-year potential financial outcomes, based on reasonable expectations of future investment returns, inflation and tax rates. I note that these projections, in which a wide range of assumptions are made, cannot be accurate. They can, however, provide helpful information for developing investment, cash flow and taxation strategies.

These projections show a reasonable expectation of the client's future income (adjusting for inflation). Future capital and a potential estate position is projected (along with taxes arising at death in order to project a net estate position).

If you would like me to prepare a projection like this for you, please let me know. If I have already prepared a projection and you would like it to be updated or redone with more conservative (or aggressive) assumptions, please let me know.

There is no charge for the preparation or updating of these projections. It is part of the service that I (and my staff) provide.

Investment Planning … the "Model Portfolio/ Fee-Based" Approach

Many clients have now adopted the model portfolio approach. (This is outlined in my February 2004 issue of *Clientel*.)

The essence of this approach is that we start by defining that portion of one's investment assets that should be invested at an extremely low risk level. Thus, we allocate an appropriate amount to "fixed income" investments (guaranteed investment certificates or government bonds). In many cases, this allocation will be 50% or more for my clients (a great number of whom are retired or about to retire) .

Also, an appropriate amount is set aside in cash to meet contingencies or to provide liquidity for income payments. (This money is generally placed in a money market fund or a high-yield bank account).

The residue is placed in equity investments in a structured portfolio that may include a diversified group of "best of class" managed invest-

ment funds, index securities (also known as exchange-traded funds or "ETFs") and alternative strategy or "hedge" funds. The percentage allocation of these funds is customized for each client's specific circumstances.

While some of the financial products that form this portfolio approach have compensation for me embedded in their management fees, a number do not. Thus, a financial advisory fee is added to each portfolio. I have priced the fee structure so as to contain the total costs my clients pay for their portfolio management and financial advice. In most cases, the overall costs my clients are paying are considerably less than many of the alternative approaches in the marketplace. For example, a client with a fixed income allocation of 60% could expect an overall cost (inclusive of my financial advisory fee) of approximately 1.00% – 1.25% per year. (In many of the managed accounts or "wealth management accounts" offered by various financial institutions or advisory firms, these costs are in the range of 2.50% per year of more.)

In addition to having an appropriate amount of "very safe" investments, I have positioned portfolios to be diversified and tax-efficient, and to use investment managers whose investment strategies should have a very good chance of success in our uncertain economic and investment climate.

In short, I want to offer clients a long-term strategic financial plan where we can look at reasonable expectations of outcomes through the use of computerized projections. The plan should be implemented with a carefully planned, conservative, tax-efficient and diversified investment portfolio. All of this is to be done at a very efficient cost (which will be critical to long-term investment success).

I have introduced the model portfolio approach to many clients, most of whom have proceeded with it. I shall continue with the introduction of this approach to clients as we meet. (As this is a lengthy process, it will be a few more months before I have met with all clients for whom I believe the new approach will be beneficial.)

The Soaring Loonie

As I finalize the wording of this newsletter, the Canadian dollar is trading at just under 85 cents U.S. Some economists are now predicting a 90-cent Loonie. I'm even starting to hear predictions of parity between the two currencies, or the Loonie trading above the U.S. dollar.

Of course, the "Loonie" isn't soaring at all; rather, the "Eagle" is diving. It's hard to know whether "the Eagle has landed" (there's a bit of 1969 trivia). Given the combination of a huge budget deficit in the U.S. coupled with a trade deficit, it is quite conceivable that we will see further declines in the U.S. dollar relative to other world currencies.

(A drop in the U.S. dollar combined with current trade practices will help to solve the U.S. trade deficit concern (and shrink or eliminate Canada's trade surplus). The political policies of the U.S. are likely to lead to future inflation and rising interest rates. Eventually, increased U.S. interest rates will stabilize the U.S. dollar).

An increase in the value of our dollar relative to the U.S. dollar is great if you're a "Snowbird," or you vacation or shop in the U.S. If, however, you are a Canadian investor holding U.S. assets, then your wealth (expressed in Canadian dollars) diminishes as our Loonie rises.

Here's an example: If you purchased 1000 shares of a U.S. company at $25 U.S. (for a total of $25,000 U.S.) when our dollar was at 70 cents U.S., your cost would have been $35,714 Canadian (ignoring brokerage charges to keep the example simple.)

A few months later, the stock has neither gained nor lost, and you sell for $25,000 U.S. You now convert your money back to Canadian dollars trading at 85 cents U.S., and receive $29,412 Canadian. As such, you have lost 17.7% of

your money, even though the stock you bought simply went sideways.

Clients who hold mutual funds that have significant U.S. holdings are seeing the effect of this. In many cases the funds have made money, yet they are down in value when results are expressed in Canadian dollars. (When I review an investment manager's performance, I take currency exchange rates into account.)

Ironically, there was a huge lobby in Canada a few years ago to allow higher "foreign content" in RRSPs and RRIFs so that we could protect ourselves from the diving Loonie and participate in a rising U.S. stock market. The foreign content limit was increased from 20% to 30% and Canadian mutual fund companies found an ingenious way of delivering unlimited foreign content through "clone mutual funds."

While nobody knows the ultimate outcome of currency fluctuations, I have generally taken the position that we will spend most of our retirement dollars in Canada so the bulk of our investment assets should be Canadian. We should not completely eliminate foreign holdings from our portfolios, as there are many international investment opportunities that, despite currency risk, may be worth pursuing.

Congratulations Jeanette

Turning my attention away from mundane subjects such as currency fluctuations, economics and portfolio construction, and focusing on what's really important … congratulations to my assistant Jeanette (née Mackie) on her recent marriage to Ben Dirksen. Jeanette's new husband is a firefighter. Congratulations again, Jeanette and Ben, and the very best wishes for the future!

Clientel

Thank you for reading this edition of *Clientel*. Please don't hesitate to contact me (or any member of my support team) if we can provide any additional information. As always, the central message of this newsletter is that our clients are important to us and we are as close as the phone.

Sincerely,

ROGERS GROUP FINANCIAL

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David N. Chalmers is a Financial Advisor with Rogers Group Financial. The views expressed are those of the author and not necessarily those of Rogers Group Financial, which makes no representations as to their completeness or accuracy.

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