A&Q Update

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Investor Fatigue: Are you feeling it?

2011 has been another trying year for investors. Market indices have pulled back substantially year to date. What the global economy is experiencing is really a hangover from the financial crisis which hit in September 2008. World leaders now find themselves grappling with huge levels of government debt, particularly in Europe and the United States.

Media coverage on the economic story has been extensive. The intention of this article is not to provide explanation or analysis on this situation, but rather to look at recent market turmoil from an investor perspective.

First of all, here is an important observation: if it feels like markets are more erratic than they used to be, it is no illusion. Markets are experiencing big up and down movements more frequently than they used to. Here is some data to support this: From June 2003 to June 2007 there were 6 trading days (of a possible 1007 days) where the S&P500 Index in the US fluctuated by 2% or more (either up or down). By comparison, from June 2007 to June 2011 the same index had 166 days (of a possible 1009 trading days) with 2% or greater fluctuation. This is a huge increase in volatility. (Source: Bloomberg—provided by Invesco.)

So why are markets getting increasingly erratic in their movement? There are a

number of factors contributing to this. The increased use of computer trading has had an impact. Many trading systems automatically generate a sell or buy order based on market shifts; this has the impact of increasing the size of the shift either up or down. Another factor is the increasing use of derivatives by money managers, hedge funds and speculative traders. Derivatives are somewhat complicated financial instruments that provide a less conventional way to participate in capital markets. They too have the impact of increasing the size of market swings.

Globalization is another element that comes into play. World communication has never been faster, and swift and erratic reaction to world events has become increasingly common.

The increased volatility and media attention, as well as the fact that we're three years into this difficult market environment is where the investor fatigue comes in. Now more than ever, investors must take a long term view. Most people require a growth component to their investment savings, if for no other reason than to keep up with inflation. This has not changed. What has changed, is that the market gyrations and the 'spectator sport' atmosphere created by information media have made it considerably more difficult to keep things in perspective.

We take heart in the fact that the common sense approach has helped to lessen the impact of market volatility over the last year. Boring stuff like asset allocation and diversification have been beneficial. However, we also recognize that the world's economic challenges will not be solved quickly and that the heightened level of volatility is likely here to stay. Sorry, but here comes the old cliché: we also believe that investor patience will be rewarded.

Holiday Office Hours

December 26th & 27th	closed
December 28th—30th	9am—2pm
January 2nd	closed

Ontario Photo Card Now Available for Non–Drivers

Earlier this year the government of Ontario introduced a new form of photo identification. Here is the description provided on the provincial website: "An Ontario photo card is government-issued photo identification that allows non-drivers aged 16 years and over to access government, financial or business services that require proof of identity, such as cashing a cheque, opening a new bank account, obtaining a credit card, boarding a domestic flight, returning merchandise to a store, obtaining hotel accommodations and renting a home video."

With the increasing call for identification as a result of money laundering legislation, the introduction of an equivalent to the driver's licence for non-drivers is a welcome enhancement. Here are a few of the specifics:

- You cannot have both a driver's licence and the new photo card. Application for one will result in the cancellation of the other.
- There is a $35 fee at the time of application.
- The card remains valid for a period of 5 years.
- The photo card is purple and looks very similar to a driver's licence. It includes the card holder's name, photo, signature, address, gender and date of birth. The card has a clipped top-right corner that helps differentiate it from other cards in a holder's wallet, as well as raised lettering on the ON Canada, card number and date of birth.
- There is an Ontario Photo Card office at:
  1151 Victoria Street N., Unit 5
  Kitchener N3B 3C5
- You must provide identification documents that prove your legal name, date of birth and signature in order to receive an Ontario Photo Card.
- For a complete list of acceptable identity documents and to download the application form please visit:

www.mto.gov.on.ca/english/dandv/driver/photo-card.shtml#menu-photo-card

Or give our office a call; we would be happy to help!

Year End Reminders

√ **Registered Education Savings Plan (RESP)** contribution deadline is December 30, 2011. This is particularly important if the beneficiary turned 17 years of age during 2011 (with this being the last year that they can receive CESG grant).

√ **Charitable Contributions** deadline for the 2011 tax year is December 31st. Remember that annual cumulative donation amounts over $200 receive a tax credit of 40%. Family contributions can be grouped in order to maximize the amount over $200.

√ 2011 tax year **Registered Retirement Savings Plan (RRSP)** contribution deadline is February 29, 2012.

√ **Tax Free Savings Account** contribution room increases by $5,000 for Canadians over the age of 18 as of January 1, 2012. Also, after January 1st, investors can re-contribute amounts withdrawn from their TFSA in 2011.

√ For **non-registered investment accounts**, check your year end fund company statements for capital gains or losses triggered by redemptions or switches made during the calendar year. The 'T' slips issued by the fund companies do not reflect the tax consequences of investor activity; they reflect only the details of fund distributions paid out in cash or reinvested in the fund. We are happy to provide additional details upon request for any gains or losses triggered during the year.

Statement Delivery: Changes and Options

Since 2006 clients have been receiving annual statements by mail from Armstrong & Quaile Associates Inc. head office. Starting with the 4th quarter of 2011, these statements will be sent quarterly rather than annually. This is a regulatory requirement.

Up until now, Account Review documents have been mailed by the branch on a quarterly basis. Except where specific requests are in place, these quarterly statements will cease (in order to avoid duplication).

Clients also have the option of receiving their statement via electronic means. An e-mail is sent notifying the investor that the new statement is now available. A link is provided in the e-mail which takes the client to the Armstrong & Quaile Associates website (www.a-q.com/clients). The client enters using their log-in id and password. Once inside the secure client access area, the new statement can be viewed and/or printed from the pdf file in the 'Documents' area.

To sign up for electronic document delivery, clients must complete an Electronic Delivery Agreement. This agreement specifies the client e-mail address that will be used for this communication.

Clients that have already been set-up for on-line access to their Armstrong & Quaile account information can use their existing log-in and password to access these documents, but the Electronic Delivery Agreement must be competed prior to receiving their documents electronically. Having a strong password is important. We can provide more detailed information on password safety when we set you up for the program.

For further information, please contact Cindy Ratelle by phone (519-576-5766 Ext. 224) or by e-mail (cindyr@a-q.com).

Please note that this program only applies to the delivery of Armstrong & Quaile documents. In order to receive documentation electronically from the various mutual fund companies and intermediaries (ex. MRS), each must be contacted individually. We would be happy to provide assistance with this.

Advisor Compensation

As you may have noticed, the financial media loves to hate financial advisors. Many criticisms are leveled in the direction of those providing financial advice, with a particular emphasis on the potential for conflict of interest. Much of this is indeed warranted; some participants in the financial services industry do act in their own best interests at the expense of the client. Unfortunately, the media's tendency to tar the entire industry with the same brush is a disservice to many conscientious financial professionals.

A lack of disclosure surrounding advisor compensation is one issue that is frequently brought up by financial journalists. They say that while this information is always available in the 'fine print', it is often not discussed explicitly. We agree that advisor compensation should be dealt with openly. We make a point of discussing the method by which we are compensated and welcome any client questions regarding this.

Included in this discussion is a full outlining of any fees that will result in portfolio changes we are recommending. In the most cases, no transactional fees are borne by the client.

The bulk of our compensation comes in the form of the service fees which make up a portion of mutual fund management expense ratios. As part of our investment fund analysis we look at MERs to ensure they are competitive. The MER percentage charged to each fund is readily available, and fund performance numbers are reported after the deduction of the MER. Unreasonably high MERs will certainly have a negative impact on fund performance, and this is an important consideration.

The next question then becomes, is the compensation too high for the service provided? This question ultimately must be answered by the client; but we are very aware that we must provide value in order to justify our compensation. The consultative approach we take in our client meetings goes far beyond investment recommendations. The big picture financial planning services we provide benefit clients in a variety of ways, most importantly by providing a solid framework for financial decision making. While investment performance is important, making good financial decisions in a broader sense has the greatest impact on the degree of success you achieve in reaching your financial goals.

Secondary to this, but still very important, is dealing with the specifics of investment planning. Creating an investment plan that is appropriate for the needs of the client and providing direction as to the monitoring of the investments is another area where we provide value. A few of the important considerations here are: the appropriateness of the investment vehicle for the investment time horizon, the risk level of the investment, and the tax efficiency of the investment.

Once again, if you have any questions concerning compensation please do not hesitate to ask!

Armstrong & Quaile

A S S O C I A T E S   I N C .

"Providing Sound Financial Direction"

John Armstrong holds the C*ERTIFIED* F*INANCIAL* P*LANNER* ® *designation. Financial planning and financial planning education are his key areas of interest and expertise.*

Achieving balance in our lives is critical; a balance between work and family, a balance between living for today and planning for the future. Because we all have competing goals, striving for balance influences many decisions in our day-to-day lives. One thing is certain, the juggling act we do requires a long-term view. Sometimes we need to take a step back to put things into perspective.

It may sound cliché, but having a plan in place goes a long way in helping to achieve both our long and short-term goals. Simply put, planning assistance is the service we provide. We are committed to helping you find that long-term view for the good of today and tomorrow.

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Just for Fun! - Company Mergers to Look for in 2012

Mergers and acquisitions are common in the business world and can provide money managers with some excellent opportunities if they get in at the right time. Here are few to watch for in the coming year:

1. Hale Business Systems, Mary Kay Cosmetics, Fuller Brush, and W.R. Grace Co. will merge and become: *Hale, Mary, Fuller, Grace*.
2. Polygram Records, Warner Brothers, and Zesta Crackers will join forces to become: *Poly Warner Cracker*.
3. 3M will merge with Goodyear and become: *MMM Good.*
4. Zippo Manufacturing, Audi Motors, Dofasco, and Dakota will merge and become: *ZipAudiDoDa.*
5. FedEx is expected to join its competitor, UPS to become: *FedUP*.
6. Fairchild Electronics and Honeywell Computers will become: *Fairwell Honeychild.*

Thanks to Audrey Sauder from our office for this humourous tidbit.

We hope that this season finds you in the company of the people you care about most and that the New Year holds only the best for you and your family.

May the quiet peace and beauty of this season fill your home.

Merry Christmas!

John **Rich** **Sharon** **Cindy** **Joe**