



THE BOTTOM LINE

the latest trends, ideas, and news from the financial industry

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October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February. – Mark Twain

Economic Update

The Canadian economy has reached yet another inflection point along its recovery, that of moderation. This follows one of the oddest economic recoveries in Canadian history in which the domestic economy acted as the primary engine of growth. The Canadian recovery was led by robust domestic demand, particularly in consumer spending and in the housing market, which fuelled enough growth in both employment and real output to offset the drops that occurred during the recession. No other G8 nation can make that claim!

However, achieving such outsized gains in the early months of the recovery was the result of heavy dependence on debt-fuelled private consumption which led to Canadian household debt levels reaching their highest level on record. As a result, some experts expect a cooling in consumer spending in the coming months as households attempt to pay off this new debt. This, in addition to a downturn in the housing market, (mostly due to the introduction of the much maligned HST), the waning impact of prior fiscal and monetary stimulus efforts, and a downgrade to U.S. economic growth prospects has led many to lower their forecast for growth in the Canadian economy for the balance of the year. Revised projections now call for average real GDP growth of just 1.5%-2.0%, down from 2.0%-3.0% in earlier forecasts.

In all, we expect the slowdown in consumer spending to lead to a continued contraction in the housing market throughout the remainder of 2010 and most of 2011. And with a decline in sales it may be reasonable to see prices come off a bit as well.

Stock markets the world over shrugged off any bad news and recovered most of, if

not all, the losses incurred in the 2nd quarter. To wit, the S&P TSX was up a robust, however, relatively modest, 9.8%, while in New York the Dow was up 11.4%, and Britain's bellwether index was up almost 13% in the quarter. Heady numbers indeed!

The question, as always, is what can we expect going forward? Our view is more of the same. One quarter up, one quarter down. With the persistently low interest rate environment, we feel that strong companies with a strong dividend yield and quality financials can offer yield and long-term capital gain potential. In a market that moves within a relatively defined trading range, portfolios that have exposure to either dividend funds or stocks that pay dividends are in a position to ride out anemic markets better than those with exposure to growth stocks or purely fixed-income vehicles. Call us if you would like to chat about your portfolio in this regard.

GIC INTEREST RATES 2010 (%) **

	Jul	Aug	Sep
1 YR	1.85	1.85	1.66
3 YR	2.85	2.75	2.5
5 YR	3.4	3.3	3.0

ANNUALIZED RATES OF RETURN TO AUGUST 31, 2010 (%) ***

CDN\$	1 YR	3 YR	5 YR
TSX	12.7	-1.5	5.1
S&P 500	4.9	8.7	-0.9
TSX DEX	7.6	7.4	5.2
*EAFE	-4.8	-10.1	-0.7

* Europe, Australia, & Far East Index

** Source: GICInvest.net

*** Morningstar

Auto Features Paying Dividends in the U.S.

The enactment of the *Pension Protection Act* of 2006 in the United States has been hailed as a success. U.S. DC plan members who utilized automatic features such as rebalancing and automatic contribution increased during the recent market downturns realized average account balance increases of 26 percentage points more than those who didn't, according to Mercer.

The findings are based on an analysis of Mercer's database of 1.2 million DC plan participants, excluding any participants who took a withdrawal or loan from their account during this time period. Contribution statistics refer to participants who made individual contribution decisions versus those who participated in auto-increase programs. Interestingly, the study also found that participants who made a fund change during the same period did slightly worse than those who did not.

Other US studies show a significant reduction in "at risk" employees, defined as those who will have insufficient income to cover basic retirement costs, for three age groups. While this EBRI study shows those closest to retirement are still at the greatest risk of running short of funds, the notable improvement through all age groups has been attributed almost exclusively to auto-enrolment and auto-increase features in DC plans.

Age Groups	2010	2003
Early Baby Boomers (now aged 56-62)	47.2%	59.2%
Late Baby Boomers (now aged 46-55)	43.7%	54.7%
Generation X-ers (now aged 36-45)	44.5%	57.4%

With all the conversation in Canada around the inadequacy of the Canadian retirement system, it seems to me a couple of very simple legislative changes might go a long way in easing the problem. Perhaps it's time for those in charge to take some action rather than simply discuss the issue.

Source: *EBRI Issue Brief #344, July 2010*

Home Ownership, Travel, & Early Retirement Rank Highest on Canadians' List of Priorities

Four out of five Canadians agree that being financially secure is important to their tomorrow, but not to the detriment of leading a balanced life and pursuing personal passions.

"The *'Tomorrow, Today'* survey by HSBC clearly indicates that Canadians are prioritizing social relationships, experiences such as travel, and their desire to contribute to society -- the very factors that are often associated with increased happiness," says Dr. Elizabeth Dunn, an associate professor of psychology at UBC who has extensively studied happiness and its relationship to financial well-being.

"This is notable because people often misunderstand what will make them happy....In the survey, Canadians overwhelmingly indicated a desire to spend more time with their families (87%); having high-quality social relationships with friends and family is a significant predictor of happiness." Dunn continues, "Interestingly when asked to rank aspects of their tomorrow in order of importance, Canadians ranked travel nearly as high as owning a home, a more traditional aspiration."

While Canadians have a clear, insightful view of their aspirations, the data reveals a contrasting uncertainty with how and when they will achieve those goals. Results show only one in four respondents have much confidence in achieving their ideal in five years; confidence grows as the date eases.

Evidently we want it all, trips travel and a handsome retirement income however we are struggling with how to pay for it all! Much like the U.S. government!

Source: *Investment Executive, Sep 15, 2010*

Save the Date!

Our annual client seminar is to be held on Tuesday, January 25th 2011, at the Hilton Hotel in Metrotown. We are also happy to confirm that there is no Canucks game that night!

This year's topic will be "Debunking Money Myths" and your *Roadmapforsuccess* team will be presenting an overview of misconceptions people have about money, investing, debt management, mortgages, and registered products. A more formal invitation is forthcoming - but note the date just the same!

If you like our service, please let others know. The greatest measure of our success is the referrals we receive from our clients.

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