



Integrity Competence Service

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2011 will go down as a year where macro events largely emanating over European sovereign debt issues dominated the news and many economic fundamentals fell by the wayside.

Volatility in many markets was high as investor emotion vacillated between corporate profitability exceeding expectations and dire concerns over government debt. We believe that Eurozone issues, and global government debt concerns will not be resolved in the short term, but will linger for many years.

Against this uncertain backdrop we offer the following commentary that we agree with:

*The major pillars that drive stock prices, including the economy, corporate earnings, monetary policy, interest rates, valuations and investor sentiment, all remain in positive territory. Hence, we firmly believe that the current year will be a good one for equity markets-and it actually has the potential to be a great one.*

Gerry Coleman  
Harbour Advisors

Gerry Coleman is the lead manager of Harbour (CI Investments) managing over \$16 billion and has a stellar 35 year track record of consistent and reliable returns.

Further to this commentary, we know for certain that emotion may push markets/prices around in the short term, but when the emotion of the day (fear) lifts, it is corporate earnings that will drive share prices (and corporate bond prices) higher.

## **Corporate Bonds**

As you may know from some of our previous correspondence, we have been bullish on the corporate bond sector for many years. We still believe this asset class represents excellent upside potential with low levels of risk compared to pure equities. Allow us to elaborate....

As of December 31<sup>st</sup>, 2011, the spread on high yield bonds was 678 basis

points (bps) over 10-year U.S. Treasuries. The spread refers to the corporate bond yield above Treasuries. As of this same date, the Merrill Lynch High Yield Index yield was 8.85% and the 10 year U.S. Treasury yield was 1.88%. Historically when the spread is above 600bps (6%) or more, the returns from corporate bonds going forward are impressive.

Strategy / Returns%	HY	S&P 500	HY	S&P 500	HY	S&P 500	HY	S&P 500	HY	S&P 500	HY	S&P 500
1-YR	23.7	26.9	0.0	-24.9	0.9	-18.0	19.6	0.3	5.7	-18.3	?	?
2-YR	23.0	17.0	-0.4	-20.2	9.8	-9.3	15.6	9.3	13.5	-7.4	?	?
3-YR	20.6	16.4	9.0	-8.3	10.5	-0.7	13.8	8.3	12.1	0.5	?	?
4-YR	16.1	13.6	9.9	-4.2	10.4	1.0	11.5	8.4	-	-	?	?
5-YR	16.0	16.0	8.9	-1.0	9.5	2.6	10.9	10.0	-	-	?	?
Date	Aug 31 '90		Oct 31 '00		Jun 29 '01		Jun 28 '02		Aug 29 '08		Sep 30 '11	
HY Spread (bps) **	798		813		804		839		793		834	

\*JPMorgan High Yield Index Global; \*\*High yield spread to worst; Source: JPMorgan, *Credit Strategy Weekly Update*, 9/30/11; Putnam Investments.

You will notice High Yield (HY) Bonds outperformed the S&P 500 over every 2,3,4, and 5 year time periods. *This is a fixed income opportunity that screams at us!!*

**Our recommended corporate bond portfolio is predominantly investment grade and as of December 31<sup>st</sup> has a yield to maturity of 7.27% including cash. We strongly believe this is an excellent opportunity to achieve equity-like returns with far less risk over the next three to five years.**

You may already have significant corporate bond exposure in our diversified yield portfolios such as Sentinel Income/Strategic Income and Signature High Income/Diversified Yield. In addition to corporate bonds, our recommended diversified yield portfolios will also hold dividend paying equities, infrastructure assets, and real estate.

Please call our office if you care to discuss this, or if you would like to receive a summary of our corporate bond portfolio and the details supporting this underutilized asset class.

## Gold and Silver

During a recent conversation with representatives of Spratt Asset Management (SAM), their estimated price target for gold is **\$2,000/ounce** in the next twelve months! Their estimated price target for silver is **\$50/ounce** in the next twelve months!

As you know from previous newsletters, we have recommended a modest allocation to precious metals as a portfolio insurance strategy and additional diversification.

\* \* \*

At the risk of sounding naïvely opportunistic, many portfolios trade at approximately 40-50% discounts to their respective net asset values (NAV). The deep value approach of Cundill is presently trading in the sweet spot of 40 cents on the dollar.

We acknowledge the volatility of last year was difficult but believe certain portfolios (emerging markets, US mid cap as examples) represent opportunistic entry points at this time for patient investors. Monthly investing (**dollar cost averaging**) has worked extremely well for clients over this volatile time period.

\* \* \*

**Annual year-end statements** were mailed out in January and we would be pleased to answer any questions you may have or review with you.

We thank all clients for sending in your email addresses so that we may connect you for online access and quarterly statement delivery starting March 31<sup>st</sup>.

*We do not take your support lightly and continually strive to offer top notch service, communication, and advice that truly will add lasting value. As always, we are here to help in any way we can.*

*From the entire team at BFI, we offer our sincere wishes  
for a healthy & enjoyable 2012!*

## ***Did You Know...***

In 2008, the Government of Canada introduced the **Registered Disability Savings Plan (RDSP)** designed to help disabled persons accumulate funds. Canada Disability Savings Grants (CDSGs) are matching grants that the Government will deposit into a beneficiary's RDSP to help accumulate savings.

Please call our office to receive your information package.

The deadline for **Registered Retirement Savings Plan (RRSP)** contributions to receive a 1<sup>st</sup> 60 Day tax receipt is February 29<sup>th</sup>.

The 2012 annual contribution limit for a RRSP is \$22,970.

In addition to mailing your contribution cheque to us, you are also able to **e-mail** it...please check your bank's website for instructions on how to do this or call our office.

A **Tax Free Savings Account (TFSA)** may hold the same assets as your RRSP account. You do not need to hold this at a bank in a no-interest savings account. Existing bank TFSA accounts may be transferred to us. Corporate bonds anyone??

The 2012 annual contribution limit for a TFSA is \$5,000.

\$2,500 per year may be deposited into a **Registered Educational Savings Plan (RESP)** and Human Resources Canada will add a 20% grant to this. A new plan may be established for existing children and \$2,500 may be deposited for previous years (one year at a time) and still get the matching grant.

***Monthly investing in any of the above types of accounts  
is an excellent method for building wealth!***