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BANWELL FINANCIAL INC.
Integrity Competence Service

October Client Communication

As of September 26th the S&P/TSX was down 5% and the S&P 500 was down 2.3% ***from recent highs***. We do not view this as a market correction as geopolitical risks in Russia/Ukraine, Middle East, US on high alert (ISIS), inevitably create market volatility.

Previous newsletters have commented on our belief that we are overdue for a market correction and this would be considered normal and would be a healthy development in an advancing market. A market correction can be defined as a decline in market prices of at least 10%.

We are almost six years into the current bull market and the last time we experienced a 10% correction was approximately three years ago. The present bull market we are in would be considered one of the strongest *bull runs* in the past 50 years (up ~200% over ~ 2000 days).

* * *

During times of extreme noise in the media it is wise to avoid the myopic thinking of the latest guru on CNBC, and focus on the longer term picture of owning a prudently managed portfolio that seeks to avoid risk, while generating consistent and reliable returns.

It is not just about returns, but seeking superior risk adjusted returns.

Returns for our investment category mandates.

	2013	2014 (ytd.*)
Paid To Wait (income/yield) Strategies	8.5%	7%
Canadian Equities	16	11.5
Global Equities	30	5
Alternative Strategies (hedged, private equity)	14.5	5.9

****Year to date (ytd) to August 31/14***

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Hypothetical Portfolio Illustration

Most people initially start to invest with the longer term intention that at a certain point in time, their investment will be converted to income to support a chosen lifestyle.

Common questions when converting to the income phase (as opposed to accumulation) are: how much can I take as income from my investments, how long will this last, and/or what is a prudent rate of withdrawal so I do not go in the direction (at least initially) of drawing down my invested capital? *It is safe to say that no one wants to run out of money!*

We offer the following…

A $100,000 investment portfolio with 50% invested in Canadian equities, and the other half invested into an income/yield strategy. Initial investment date is January of 2000 with a 5% annual withdrawal starting immediately.

With an initial investment of $100,000 in 2000, most importantly that over the 14 year illustration to August 2014, $107,978 was withdrawn as income, and the ending portfolio value was $174,485.

As the 5% annual withdrawal is based on market values, the lowest annual payout based on 5% is $4,766, and the highest annual 5% payout is $8,618.

As a sidebar to this illustration 2000 to 2014 had numerous negative events which make investors nervous, advisors cautious: three negative years (2000,2001,2002) the 2008 credit crisis and the appreciation of the CAN$ dampening global returns.

This illustration is produced through Morningstar using two funds from CI Investments.

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Please call our office if you wish to receive the entire illustration or a customized illustration based on your own investments.

Our global income/yield portfolios target an approximate 6-7% net return to the investor and we would suggest a prudent rate of withdrawal is in the 4-5% range to avoid the risk of depleting invested capital.

Active Portfolio Management At Work

Although investment portfolios may be passively held, behind the scenes money managers may be actively adding new positions or eliminating existing positions.

We Quote Bluewater Investment Management as an example…

Several new names were added to the portfolio during this quarter.

“PrairieSky Royalty was recently spun out of Encana as one of the largest independently owned portfolios of fee simple mineral lands in Canada. PrairieSky owns 5.2 million acres of land in Alberta and intends to actively market the development of these lands by third parties. The company will not assume a working interest, and hence the revenues come without the corresponding operating costs…as a result, operating margins are astronomically high at approximately 96%.”

“The company intends to use the majority of its free cash flow to pay a monthly dividend to shareholders…”

Conversely…

“During this same quarter two Canadian companies were deleted from the portfolios. Dollarama continues to expand aggressively. While productivity gains have been strong margins are likely to be under pressure. Based on our conservative assumptions the business is fully valued. The stock has been a good performer for the portfolio during our many years of ownership.”

“Intact Financial was sold as the business achieved our fundamental target.”

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Behind the Scenes at BFI

As a registered *independent* dealer with the Ontario Securities Commission BFI conforms to the same rules and regulations as all of the other financial institutions in Canada (similar to TD, CIBC, etc…). This includes client/advisor interaction, monthly and annual financial reporting.

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As always we welcome your comments, questions and or feedback and are here to help in any way we can.

WISHING YOU AN ENJOYABLE AUTUMN SEASON…ALL THE BEST FROM THE ENTIRE TEAM AT BFI.