

Financial Focus

Monthly Opinion by Cesar Lauper, CFP, AMP, Lead Manager, Sipan Capital Inc.
ISSUE 11 2010



In This Issue

- The Importance of Diversification P.1
- Canada and the world P.2
- What you need to know P.3
- Investor Words of Wisdom P.4

The Importance of Diversification

Diversification reduces the risk of loss as well as the volatility of a portfolio; however, it also dilutes your returns. Finding the balance of diversification for optimum return is the art of a good financial planner. Forward looking investment decisions would benefit from limited diversification and a focused approach. Over time, no asset class has dominated returns and since the variables that govern asset class returns over the short term are vast, diversification will help in risk mitigation. The longer your investment time horizon, the more diversification will reduce returns. A portfolio should be constructed in tranches to meet required returns, matching required returns to the investment horizon should maximize results. Therefore; the component of your portfolio that is intended to be invested for a longer time period should be more focused on investments most likely to benefit from the developing economic trends with limited diversification to enhance returns. Diversification can be achieved through asset class, geography, sectors, capitalization, style, philosophy, etc... Diversification assists in reducing portfolio risk by reducing the impact of un-systematic risk for which investors are not rewarded. Investors expect gains for taking market risk. Diversification averages the returns of the assets within the portfolio, as a consequence it weakens and lessens the potential highs and lows. Diversification affords the investor the greatest protection against business and financial risk and volatility, however it also limits returns. Diversify with a forward looking approach and just enough to optimize portfolio returns.



What you need to know:

Canada has been a great place to invest in for various reasons, not the least of which has been its currency and energy. What now?

A great deal of monetary easing has flooded the markets, emerging economies have continued their robust growth trends and this has benefited Canada and Canadian investments greatly. The currency has appreciated against the U.S. In general our economy has benefited by the stimulus, however manufacturing has suffered and will continue to suffer for some time while we re-shape, renew and re-emerge. As the completion of the economic stimulus nears and growth begins to decelerate the markets will signal their confidence in the leaders of our great country and we will be left with the question, where will the our markets be a year from now?. Where and how should we invest?. Canada had about 1.8% of the Global GDP in 2009! Representing the 10th, largest economy in the world. Great performance by a country with barely one half of a percent of the world population. However past performance is no guarantee of future returns. Here are my thoughts. As signaled by the Fed Chairman Ben Bernake, the Fed will do whatever is necessary to ensure the recovery and Flaherty

practically echoing, I would side with the thought that a significant amount of money will continue to be printed by the U.S. in order to prevent deflation, causing asset prices to increase, particularly metals, gold and silver, along with high quality real property as well as stocks of companies with solid balance sheets and in a position to take over disadvantaged competitors. Many Corporations in America are in good financial health and ready to take over their competitors, corporations now have access to cheap money, as exemplified by Microsoft and Walmart, M&A activity is starting to show strength. Emerging economies continue to show that they can deal with de-buckling from the greatest economy in the world and that integrated and internal emerging consumerism is alive and growing. Owning a diversified portfolio of the world could prove to be the best investment idea over the next decade. It is all part of a good diversification strategy, I would favor North American and European large CAP dividend payers, emerging market equity and debt, and small and mid caps for growth.

CPP BASICS:

1. The maximum pensionable earnings under the Canada Pension Plan (CPP) for 2010 are \$47,200.
2. The basic exemption amount for 2010 remains \$3,500. Individuals who earn less than that amount do not need to contribute to the CPP.
3. The employee and employer contribution rates for 2010 remain unchanged at 4.95%, and the self-employed contribution rate remain unchanged at 9.9%.
4. The maximum employer and employee contribution to the plan for 2010 is \$2,163.15, and the maximum self-employed contribution is \$4,326.30
5. Consider starting your CPP benefits early, the new rules that affect this decision is expected to be implemented in 2011 and phased in until 2016.
6. Some of the changes include, changes to the pension adjustments for early and late beneficiaries, remove the work cessation test, mandate plan participation for working beneficiaries under the age of 65 and increases to the general low earnings drop-out

Contact us for an update on CPP beneficiary changes. You should always consider taking your benefits early, we can help you compare the benefits.



What You Need To Know

Currencies have been the subject of much debate over the last couple of years but not as hot an issue as in the last few weeks. The G-20 met in Gyeongju, South Korea on October 21st—23rd, at this meeting the world leaders appear to have taken an important step to tackling the global imbalance as the Group of 20 member nations agreed to stop a currency devaluation race and amend the governance structure of the International Monetary Fund. Several countries however have engaged in some form of competitive devaluation. Earlier in the month The House of Representatives made it clear that “fundamental exchange-rate misalignment” is a punishable subsidy under American trade law. During the next meeting scheduled for November 11th, in Seoul, it is expected that the same powerhouse will vote on Basel III. The implications of both these decisions will be impactful on all investment portfolios. Should human nature prevail

and protectionist measures maintained then these decisions will mean nothing but good political management. Fighting deflationary pressures and wanting to continue to stimulate the economies of the world through more quantitative easing will have repercussions on the developing world. This could exacerbate measures of “currency misalignment” to support exports as evidenced by Brazil, Thailand and South Korea. Canada hasn’t yet started, too nice? Meanwhile banks continue to sit on a growing pile of assets due to the incentives evident in such low interest rate environment. Basel III could have a positive turn for money velocity as our banks begin to loosen lending standards. All in all it appears that diversification in hard assets and corporations with solid balance sheets could prove to be the winning strategy in a world of financial and currency uncertainty.

EYE ON IT

Current Industry Trends

Product manufacturers continue to innovate and capitalize on consumer sentiment. Risk avoidance continues to be the characteristic of choice for consumers looking to generate growth. GMW plans have grown exponentially and continue in high demand

What about Inflation?:

CPI:	1.9%
Core CPI:	1.5%
Education:	3.8%
Energy:	5.6%
Electricity Prices:	7.7%
Passenger vehicles:	5%
Shelter:	2.5%
Clothing:	-2.2%
Restaurant food:	12%
Food prices:	2.1%
Mortgage insurance:	-12%
Mortgage Interest:	-3.3%
Transportation:	3.1%
Health and personal care:	2.1%
My household Inflation:	5%?
Yours?:	?

Inflation measures the reduced purchasing power of a currency. General inflation is a gauge of how quickly the nation is losing the purchasing power of its currency. You should focus on your personal inflation rate. The markets are signalling an expectation of inflation as for the first time, the U.S. Treasury sold bonds with a negative yield. Endeavour to maintain purchasing power through a well thought out tax efficient investment strategy.



Words of Wisdom

“A serious investor is not likely to believe that the day to day or even month to month fluctuations of the stock market make him richer or poorer”

Benjamin Graham - American Economist and professional investor

Sipan Capital Inc

Security, Independence, Prosperity, Advice, Now

The information contained herein is solely the opinion of the writer, Cesar Lauper, and it is a compilation of thoughts and conclusions derived from information, studies, charts, statistics, economic outlooks and others believed to be reliable at the time of writing, but neither Cesar Lauper, Sipan Capital Inc., or any of its affiliates guarantee its accuracy or completeness. This material was prepared for information purposes only and is not intended to convey investment, legal or tax advice. The material and/or its contents may not be reproduced without the express written consent of Cesar Lauper. This opinion may contain forward-looking statements about the economy, strategies or prospects and are not a guarantee of future events. The statements involve inherent risks and uncertainties, both about general economic factors, so it is possible that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution you not to place undue reliance on these statements as a number of important factors could cause actual events or results to differ materially from those expressed or implied in any forward-looking statement made in relation to investments. These factors include, but are not limited to , general economic, political and market factors in Canada, the United States and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological changes, changes in laws and regulations, judicial or regulatory judgements, legal proceedings and catastrophic events. The above list of important factors that may affect future results is not exhaustive. Before making any investment decisions, we encourage you to consider these and other factors carefully. All opinions contained in forward-looking statements are subject to change without notice and are provided in good faith and without legal responsibility.

Financial Focus
ISSUE 11 2010

SIPAN CAPITAL INC

2870 Portland Dr
Oakville, Ontario, L6H 5W8

905-829-0959 ph
905-829-1337 fax

www.sipancapital.com