Wise Capital Management Inc.

Discretionary managers providing excess returns

Suite 1305–2200 Yonge Street, Toronto, ON M4S 2C6

Tel: (416) 483-1900 Fax: (416) 483-1930 info@wisecapitalmanagement.com

December 23, 2009

PART 2 ON YOUR RETIREMENT PLANNING

Retirement planning is not about next year. There is no long term gain in market timing. Individual families need to behave like the large pension funds to properly set their return and risk objectives. The pension funds can afford to study their investments, and spend large sums to do so. The principles are available for families to consider, for anyone with serious objectives or expectations.

The broad unanimity is that inflation will come back soon, based on the huge US budget deficits. Using an average of 4% inflation, the historic average since WWII as a starting point, investors cannot stay in cash or T-bills at zero rates—the current cost of hiding money under the mattress costs $40,000 per million per year.

What about the impact of inflation on bonds? Here is an excerpt from our table of after-inflation, after-tax returns based on a current long maturity Government of Canada portfolio. We have assumed people hold the bonds to maturity, to make up for the volatility of bond principal:

After 10 years:	–22% purchasing power
After 20 years:	–40%

Only equities keep up with inflation, and grow the principal over time. In addition, taxes on equities are half of what they are for income and for interest:

After 5 years	+23% purchasing power
After 10 years	+51%
After 20 years	+95%

But you do need a long-term time-frame to invest in the equity market. In any single year, a diversified equity portfolio grows two-thirds of the time. Over a 5 year period, 88% of the time you get positive returns. If your investment timeframe is 10 years, you historically would have received growth 97% of the time. Even in the few negative 10-year timeframes, there was only a relatively small loss in current purchasing power. So timeframe diminishes risk.

Of course, a top manager adds to returns. But beware of anyone who leads you to believe that a fluke high performance year will be oft repeated; or that you can time in and out of the market as no one ever has successfully over a long period. Be realistic.

We have customized the above models for individual clients, as the amount of money they have in taxable and nontaxable accounts will shift the numbers over several years. Proper retirement planning should be combined with common sense and serious questions about the future. If need be, rebalancing to a new mix can be done in an efficient manner.