



INVESTING

# THE FINANCIER

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- ▶ p. 2 U.S. Treasuries: The Near and Long Term Impact of Their Downgrade
- ▶ p. 3 Educational Webcasts on Personal Finance
- ▶ p. 3 Book an Appointment for a Chance to Win One of Four \$25,000 Prizes!
- ▶ p. 3 Information Sessions: Reserve Your Seat Today!
- ▶ p. 3 *The Financier* Quiz
- ▶ p. 4 A New Tax-Effective Solution in the National Bank Managed Portfolios Family
- ▶ p. 4 Just \$5 Can Make a Big Difference
- ▶ p. 5 National Bank Managed Portfolio Commentary
- ▶ p. 6 Give the Gift of Education with an RESP



## Assess Your Finances with Confidence!



**Jean-Stéphane Parent**  
Vice-President, Marketing and Communication,  
Wealth Management

With the summer long over, back to school brings a host of responsibilities for families. Learning becomes front and centre for students. But what about their parents? Education shouldn't stop in the classroom: you have to do your homework, just as children do. And when it comes to assessing your finances, this adage couldn't be any truer!

But how exactly do you become an active participant in your finances rather than a passive bystander? The English author Samuel Johnson once wrote: "Knowledge is of two kinds. We know a subject ourselves, or we know where we can find information on it."

With National Bank's guidance, enhancing your financial quotient has never been easier! In this edition of *The Financier*, you will discover various tools to help: from our educational webcasts on [www.clearfacts.ca](http://www.clearfacts.ca), our educative website on personal finances, to information sessions about fulfilling future goals or retirement plans, we're confident you will find them useful!

If you're at or nearing retirement, we also urge you to discover our Managed Portfolios-Retirement option. As the newest investment solution in our Managed Portfolios family, this option is specifically tailored for investors looking for a stable, tax-effective distribution at retirement.

At the end of the day however, there's nothing better than working with a financial advisor. Their experience and wealth of resources will help when you need it most. After all, knowledge is power – you just have to know where to look!



**Bank in North America**

for its financial strength Bloomberg Markets magazine, June 2011

## U.S. Treasuries: The Near and Long Term Impact of Their Downgrade

Investors have been captivated by the events that led to a major credit rating agency's decision to downgrade the creditworthiness of bonds issued by the U.S. government, better known as U.S. Treasuries.

On August 8, 2011, Standard & Poor's (S&P) stunned global financial markets by lowering U.S. Treasuries' credit rating from AAA to AA+, thereby handing the U.S. its first downgrade in 70 years. This set the stage for one of the least expected outcomes in financial markets: a rally in the U.S. Treasury market! As we will see later, many strong countervailing forces affected the outcome but the market's view was clearly expressed.

The downgrade was justified by U.S. politicians' inability to agree on policies that would address the country's secular deficit issues.

### The Verdict Is In

S&P telegraphed the likely outcome of its recent ratings review when it placed U.S. government-issued debt on watch with a negative outlook in April. The least one can say is that its decision to downgrade Treasury bonds was bungled. According to S&P, the U.S.'s ability or willingness to pay for its debt was not at issue. The downgrade was rather justified by U.S. politicians' inability to agree on policies that would address the country's secular deficit issues. It admitted: "Our lowering of the rating was prompted by our view on the rising public debt burden and our perception of greater policymaking uncertainty. We view the U.S. federal government's other economic, external, and monetary credit attributes, which form the basis of the sovereign rating, as broadly unchanged."<sup>1</sup>

### Unintended Consequences

Already rattled by the circus surrounding the fight over the debt ceiling, investors outside the U.S. reacted to the

announcement by re-pricing risk. Equity markets sold off through the following week, marking one of the most turbulent weeks in recent market history.

Bearing this in mind, it's important to highlight what happened to bonds in the U.S.: they appreciated! U.S. Treasuries remained the ultimate store of safety as investors flocked to them in search of harbour amidst the storm. Faced with such evidence – and taking into account that two other major rating agencies not only confirmed U.S. Treasuries' AAA equivalent level but stated they had no intention of downgrading the bonds – one cannot ignore the possibility that some of the hysteria surrounding the downgrade could have resulted from the media fanning the flames of overly aggressive U.S. politicking.



The U.S. remains the world's largest economy. And due to its great military power, the U.S. dollar will continue as its reserve currency for years to come. Equity investors acted in a "textbook" manner by lowering valuations when faced with slower expected growth and higher perceived risk of financial crisis. In turn, their fixed income counterparts went against conventional wisdom by paying up for recently downgraded bonds. As a sign of how turbulent financial markets are at present, it may be that both groups have done just the right thing!

**This comment comes from Natcan Investment Management, the principal manager for National Bank Securities Mutual Funds\*. Natcan, a subsidiary of National Bank of Canada, is an institutional portfolio management firm that specializes in pension fund, endowment fund, pooled fund and private wealth portfolio management.**

**N A T C A N**  
INVESTMENT MANAGEMENT

\* National Bank Securities Mutual Funds (the "Funds") are offered by National Bank Securities Inc., a wholly owned subsidiary of National Bank of Canada. Commissions, trailing commissions, management fees and expenses all may be associated with investments in the Funds. Please read the prospectus of the Funds before investing. The Funds' securities are not insured by the Canada Deposit Insurance Corporation or by any other government deposit insurer. For money market funds, there can be no assurances that a fund will be able to maintain its net asset value per security at a constant amount or that the full amount of the investment in a fund will be returned. The Funds are not guaranteed, their values change frequently and past performance may not be repeated.

1. STANDARD & POOR'S. <http://understandingratings.com>. *Global Credit Portal, RatingsDirect*, August 5, 2011, p.3.

## Educational Webcasts on Personal Finance

Looking for information about how to go about managing your money or planning for retirement? Look no further! This October, National Bank launches seven new educational webcasts on its personal finance portal: [clearfacts.ca](http://clearfacts.ca). Each 2-minute webcast profiles a wealth management expert, who will get you up to speed on planning essentials – whether it's savings and investing or estate planning. Featured topics include:

- ▶ Couples and money: fragile, handle with care!
- ▶ An RRSP or TFSA: which is best?
- ▶ Take control of your retirement planning
- ▶ Do you know the basic rules of investing?
- ▶ The added value of an advisor
- ▶ Should you save or pay off your debts first?
- ▶ How do I choose an executor for my estate?

Visit [www.clearfacts.ca/investments](http://www.clearfacts.ca/investments) today. Don't forget to turn up the volume!

## Book an Appointment for a Chance to Win One of Four \$25,000 Prizes!

National Bank is giving away four \$25,000 prizes, as part of its *Save Big. Win Big.* Contest! New and existing clients are invited to enter for a chance to win. Visit [www.nbc.ca/congrats](http://www.nbc.ca/congrats) to book an appointment with one of our advisors or visit your local branch.

The contest closes December 31, 2011 so hurry up before it's too late. Save big to win big with National Bank!



## Information Sessions: Reserve Your Seat Today!

For the fifth year running, National Bank is hosting information sessions about fulfilling long-term goals or retirement plans. The sessions are animated by a multi-disciplinary panel of speakers, which includes investment, insurance and estate planning specialists. They will be held until mid-November only so be sure to reserve your seat today! Consult your local branch for more information.



### The Financier Quiz

1. There are several advantages to the new Managed Portfolios-Retirement option. Which one of the following characteristics does not belong?
  - a. Provide a monthly fixed distribution
  - b. Allow to take advantage of certain tax benefits
  - c. Are tailored to the needs of a Prudent investor profile
  - d. Benefit from the potential growth of markets
2. National Bank's educational webcasts are meant to help investors better understand various wealth management strategies. Which of the following topics are covered in the webcast format?
  - a. Couples and money: fragile, handle with care!
  - b. How do I choose an executor for my estate?
  - c. An RRSP or TFSA: which is best?
  - d. All of the above
3. What tax deferral plan is designed to help finance post-secondary studies?
 

a. TFSA	c. CESG
b. RRSP	d. RESP

## A New Tax-effective Solution in the National Bank Managed Portfolios family

Are you looking to receive a monthly distribution to help you maintain your standard of living during retirement or carry out a life project? National Bank's complete range of Managed Portfolios now includes a new Retirement option feature, which will certainly appeal to you if you are looking for greater ease in your transition to retirement.

The option is designed to provide tax-effective and regular distributions while you continue to benefit from professional asset management. In particular, the Managed Portfolios-Retirement option allow you to withdraw distributions on a regular basis and take advantage of certain tax benefits related to fund distribution.

The Managed Portfolios-Retirement option offer several advantages:

- ▶ **Simplicity:** The Managed Portfolios-Retirement option allow you to easily move from one portfolio to the other because you do not need to sell your positions. You simply shift from the "accumulation" mode to the "withdrawal" mode, and there is no tax impact for the same investor profile. Even if your investor profile changes, the immediate tax impact will be limited.

- ▶ **Tax benefits:** To generate income streams with better tax treatment than interest income in a non-registered fund, particular attention was paid to the weightings given to each asset class. Aside from net income derived from dividends and capital gains, your monthly distributions may include a repayment of initial capital, which is not taxable but reduces the cost of the investment.

- ▶ **Stability:** The fixed monthly distributions<sup>2</sup> offered by the Managed Portfolios-Retirement option represent a steady stream of monthly income, making your budget planning easier and providing you with an alternative to systematic withdrawal plans.

If you are in the process of disbursement or looking for extra monthly income, and you have a minimum of \$100,000 to invest, the Managed Portfolios-Retirement option may be a good fit for you.



To get better acquainted with this innovative income solution, we invite you to view our Managed Portfolios-Retirement option webcasts. Launched this October, the webcasts feature detailed product overviews along with practical case studies about how to integrate the income solution into your retirement strategy. To learn more, visit [www.nbmanagedportfolios.ca](http://www.nbmanagedportfolios.ca).

2. The distribution amount is said to be fixed for each National Bank Securities Mutual Fund comprised in the Managed Portfolios (R series) as it does not vary from one distribution to the next. However, it is not guaranteed and may vary according to market conditions. The total amount of the distribution is weighted according to each of the funds constituting the Managed Portfolios and may vary due to rebalancing and tactical deviation. The distribution targets for National Bank Securities Mutual Funds (R Series) are reviewed annually in January.

National Bank Securities Mutual Funds (the "Funds") and National Bank Managed Portfolios (the "Portfolios") are offered by National Bank Securities Inc., a wholly owned subsidiary of National Bank of Canada. Commissions, trailing commissions, management fees and expenses all may be associated with investment in the Funds and the use of an asset allocation service (such as the Portfolios). Please read the prospectus of the Funds included in the Portfolios before investing. The Funds' securities are not insured by the Canada Deposit Insurance Corporation or by any other government deposit insurer. For money market funds, there can be no assurances that a fund will be able to maintain its net asset value per security at a constant amount or that the full amount of the investment in a fund will be returned. The Funds are not guaranteed, their values change frequently and past performance may not be repeated.

Investors will enter into a discretionary management agreement with National Bank Trust Inc. (for all activity in Quebec, Prince Edward Island, Saskatchewan and New Brunswick) or Natcan Trust Company (for all activity in all other Canadian provinces and territories), which gives the Portfolio Manager the authority to select, add or remove National Bank Securities Mutual Funds forming part of the Portfolios.

There are no fees or expenses related to investing in the Portfolios except for the fees and expenses related to investing in the funds that make up the Portfolios. All distributions made by a fund included in the Portfolios will be automatically reinvested for you.

## Just \$5 Can Make a Big Difference

Chocolate lovers are in for a treat with our 7th fundraising campaign for the Breakfast Clubs of Canada and the *Clubs des petits déjeuners du Québec*, as National Bank will be offering you fine chocolates from Theobroma Chocolat, manufacturers of organic, fair-trade products. These fine chocolates come in a beautiful and reusable gift box, making them the perfect stocking stuffers for the holidays!

From November 28 to December 31, you can pick up your box of chocolates at a National Bank branch for just \$5. The entire amount will be donated to the breakfast clubs. Each box contains nine delicious chocolates. Thanks to your donations, the breakfast clubs will be able to maintain their existing services and extend their outreach to even more children. Last year, National Bank raised \$520,000 for the *Clubs des petits déjeuners du Québec* and the Breakfast Clubs of Canada.



# National Bank Managed Portfolio Commentary

Debt-related problems plagued stock markets, dragging them sharply downward in the third quarter. South of the border, President Obama and the Republican-controlled Congress locked horns over the question of raising the U.S.'s debt ceiling. Republicans demanded deep spending cuts before consenting to a deficit increase.

This standoff created a great deal of uncertainty, leading investors to pull out of the stock market. Sovereign debt problems in Europe also had a harmful impact on markets, with investors fearing that Italy may also be on the road to major financial difficulties, with Rome being forced to announce austerity measures in order to reassure bondholders.

Equities have been slightly overweighted in the coming quarter, as the risk of a recession is somewhat lower in North America. Canadian and U.S. stocks will therefore be favoured over their international counterparts. High-yield bonds will remain overweighted in the fixed-income segment, as their decline over the past three months has made their prices attractive.

## Returns (%) as at August 31, 2011

	3 months	6 months	1 year	3 years	5 years	10 years
Stable Income	0.27%	1.51%	3.98%	4.98%	4.06%	4.24%
Income	-1.55%	-0.32%	5.36%	5.33%	4.20%	4.49%
Income & Growth	-2.82%	-1.80%	6.93%	5.00%	3.78%	4.74%
Balanced	-5.07%	-4.78%	6.59%	3.41%	3.10%	4.40%
Growth	-7.44%	-7.54%	6.00%	2.06%	2.22%	4.33%
Equity <sup>3</sup>	-9.30%	-9.56%	6.02%	0.77%	1.41%	4.21%

## Asset allocation as at September 16, 2011

Asset Mix	Allocation (%)			
	Tactical as at 09/16/11	Tactical as at 06/17/11	Target	
<b>Stable Income</b>				
	Cash & Short-Term	36.00	35.00	35.00
	Fixed Income	64.00	65.00	65.00
	Canadian Equities	0.0	0.0	0.00
	Global Equities	0.0	0.0	0.00
<b>Income</b>				
	Cash & Short-Term	16.00	15.25	15.00
	Fixed Income	64.00	64.75	65.00
	Canadian Equities	11.25	11.25	12.00
	Global Equities	8.75	8.75	8.00
<b>Income &amp; Growth</b>				
	Cash & Short-Term	0.00	0.00	0.00
	Fixed Income	64.00	64.75	65.00
	Canadian Equities	21.00	19.25	20.00
	Global Equities	15.00	16.00	15.00
<b>Balanced</b>				
	Cash & Short-Term	0.00	0.00	0.00
	Fixed Income	45.00	44.00	45.00
	Canadian Equities	26.75	26.75	27.00
	Global Equities	28.25	29.25	28.00
<b>Growth</b>				
	Cash & Short-Term	0.00	0.00	0.00
	Fixed Income	24.00	24.50	25.00
	Canadian Equities	35.50	34.25	35.00
	Global Equities	40.50	41.25	40.00
<b>Equity<sup>3</sup></b>				
	Cash & Short-Term	0.00	0.00	0.00
	Fixed Income	9.50	9.75	10.00
	Canadian Equities	41.00	39.25	40.00
	Global Equities	49.50	51.00	50.00

Feel free to contact your advisor with any questions you might have about our Managed Portfolios.

3. Formerly "Maximum Growth" Portfolio.

National Bank Managed Portfolios (the "Portfolios") are offered by National Bank Securities Inc., a wholly owned subsidiary of National Bank of Canada. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investment and the use of an asset allocation service (such as the Portfolios). Please read the prospectus of the funds included in the Portfolios before investing. The funds' securities are not insured by the Canada Deposit Insurance Corporation or by any other government deposit insurer. For money market funds, there can be no assurances that a fund will be able to maintain its net asset value per security at a constant amount or that the full amount of the investment in a fund will be returned. The Funds are not guaranteed, their values change frequently and past performance may not be repeated.

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## Give the Gift of Education with an RESP

Will your children or grandchildren have the financial means to pursue post-secondary studies? Designed to help finance post-secondary studies, Registered Education Savings Plans (RESPs) are tax deferral plans that allow you to give the gift of education to your loved ones. In fact, with an RESP, you can save up to \$50,000 tax-free towards your children's, or grandchildren's, post-secondary studies. RESPs offer three types of tax benefits:

- ▶ Federal and provincial grants are added to the plan
- ▶ Income generated is not taxable as long as it is kept in the plan
- ▶ Investment income splitting is realized because when funds are withdrawn, they are taxed in the hands of the student, who presumably will be taxed at a lower rate than the subscriber.

Did you know that various government grants also make the RESP very attractive? For example, the Canada Education Savings Grant (CESG) offers incentives of up to \$500 annually for each beneficiary for a lifetime limit of \$7,200. Other available grants include those offered by the Canada Learning Bond (CLB), the Quebec Education Savings Incentive (QESI) and the Alberta Centennial Education Savings (ACES) Plan.



## DID YOU KNOW?



### Private Wealth 1859: You've Earned It

National Bank's Private Wealth 1859 is exclusively dedicated to providing unparalleled service to affluent Canadians with at least \$1 million to invest. It caters to individuals and families who wish to free themselves from the burden of managing their wealth on a daily basis by entrusting this task to professionals. To learn more, visit [www.privatewealth1859.ca](http://www.privatewealth1859.ca).



For more information on National Bank's investment solutions, please visit our website at [www.nbc.ca](http://www.nbc.ca) or contact your advisor or one of our representatives:

#### TelNat Customer Service

1-888-4-TELNAT (1-888-483-5628) or 514-394-5555, [telnat@nbc.ca](mailto:telnat@nbc.ca)  
6:00 a.m. – midnight (Eastern time), seven days a week

#### National Bank Securities Advisory Service

1-888-270-3941 or 514-871-2082, [securities@nbc.ca](mailto:securities@nbc.ca)  
8:00 a.m. – 8:00 p.m. (Eastern time), Monday to Friday

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