

Quarterly Insights

March 30, 2012

Economic & Investment Outlook

The Canadian economy slowed in the first three months of 2012, as declines in manufacturing, wholesale activity and consumer spending restrained growth. However the outlook for the remainder of the year appears more positive, as the February composite of leading indicators advanced 0.6%. This was the eighth consecutive monthly increase.

We expect Canadian GDP growth of 2% for the first half of 2012. Our economy appears to be transitioning from what had previously been a consumer and housing-led recovery, to an export-led rebound. This trend should intensify if growth in the U.S. continues to accelerate.

The U.S. economic environment continues to improve as GDP grew by 3% during the fourth quarter of 2011. In the first two months of this year 511,000 jobs were created and the unemployment rate has now declined 0.8% since August. Building permits reached a three-year high in February as the improving job market is bolstering consumer confidence and beginning to support a modest demand for housing.

Greece approved a new austerity package to allow the country to receive another tranche of financing from the Eurozone countries and also completed an "orderly" default of its debt by reducing the amount owing to creditors and restructuring the terms of its remaining liabilities.

The European Central Bank continues to provide liquidity support to the banking sector by extending three-year loans, which now total over €1 trillion. This almost unlimited source of cash has removed the risk of European bank default for the near term.

While the Eurozone countries and banking sector have achieved some short-term stability, none of the measures completed to date solve the underlying debt problems that plague the region. Debt sustainability is a function of the level of debt, a country's growth rate and also the funding cost for the debt. Interest rates need to remain at levels that make debt burdens sustainable even during periods of subdued economic growth.

The fiscally weaker members of the Eurozone (Spain, Italy, Portugal & Ireland) collectively need to borrow €2 trillion over the next two years to cover projected budget deficits and replace maturing debt. However, these countries continue to post deficits above agreed targets and seem unable to lower double digit unemployment rates, making it very difficult to achieve the conditions necessary for debt sustainability.

Crude oil prices remained near three year highs. Inventories are well below five-year average levels and there is little spare capacity across OPEC producers. The additional possibility of an interruption in exports from Iran continues to provide support for crude prices.

Canadian corporate profits during the last quarter of 2011 increased 14% from the previous year and reached their highest levels since the third quarter of 2008. Profits have now reached post-recession peaks, despite the slowdown in our domestic economy.

This increase in corporate cash flows has resulted in 40% of all companies listed in the S&P/TSX Composite Index announcing dividend increases in the last year.

North

America

Promising

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World

Uncertain

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Returns

Global equity markets posted gains to start the year, as valuations improved from depressed levels and have begun to reflect an improving pace of economic growth.

2012 year-to-date returns to March 31st in Canadian dollar terms for world equity markets are:

Country	Index	2012 Q1 Return
Canada	S&P/TSX	3.66%
United States	S&P 500	9.85%
United States	NASDAQ	16.40%
United Kingdom	FTSE 100	4.54%
Japan	Nikkei	8.78%
France	CAC 40	9.27%
Germany	DAX	18.77%
Hong Kong	Hang Seng	9.39%

The Bottom Line

Temporary stability in Eurozone and improving U.S. economic growth has resulted in a sense of optimism returning to financial markets. Improving corporate profits and increasing dividends will continue to support equity valuations.

In this environment, future interest rate increases by central banks will likely not occur until much later in the year or 2013.

Equity returns should surpass fixed income returns, as equities can appreciate due to high corporate profit margins that will continue to produce earnings growth despite the sluggish economy.

We expect another period of broad commodity price appreciation to occur as economic momentum accelerates.

The Role of the Executor

Individuals spend a lifetime accumulating assets and usually plan for the distribution to their heirs through the provisions of a will. An executor (or estate trustee with a will, in Ontario) is responsible for administering the estate of a deceased individual (Testator) and carrying out the terms of a will.

The executor's role generally begins with locating and reviewing the deceased's physical will and ends with distributing assets and closing of the estate accounts. While many duties are common to all estates, the exact number will depend on the nature of the testator's assets (type, location, value) and terms of the will.

Common duties include:

- ~ Identifying, collecting and safeguarding assets
- ~ Obtaining probate, where required
- ~ Preparing an inventory of assets and liabilities
- ~ Ensuring all estate debts are paid and any payments owing are received
- ~ Preparing all required tax returns and accounting

Throughout the process, an executor has a duty to preserve the value of the estate assets until they are distributed. Investment decisions that an executor

makes, or fails to make, can impact an estate's value. Executors are legally accountable to the estate's beneficiaries and can also be held responsible for any losses an estate suffers. In fact, insurance is now available to protect executors from liability risks.

Despite the complexity of the role, executors are usually appointed because the testator trusts them. As a result the vast majority are usually family members or friends.

Administering even a relatively simple estate takes considerable time. The expertise, willingness, availability, independence and objectivity of a potential executor should be important factors when considering an individual for the role.

Executors are entitled to be paid for their work. In the absence of making provisions for compensation in a will, most provinces have tariff scales that are applied to the asset value of an estate.

The responsibilities of an executor should not be taken or accepted lightly. Testators should give thought to their choice of executor by carefully considering the obligations and complexities that the role entails.

The Evolution of Government Pension Plans

In last quarter's Outlook letter we outlined the changes being introduced to Canada Pension Plan (CPP) retirement benefits. These changes become effective between 2011 and 2016 and the impact will differ depending on an individual's age, career earnings history and their desire to work past age 60.

In the 2012 federal budget, the government has now announced a plan to increase the age of eligibility for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) benefits to 67 from 65. These changes will begin in April 2023 and will progress gradually over a six-year period, with full implementation by January 2029.

The plan to increase the age of eligibility for OAS and GIS benefits will not affect anyone who is currently receiving benefits, nor anyone who is 54 years of age or older as of March 31, 2012.

The budget also introduces a new option for individuals who wish to begin taking their OAS benefits beyond age 65. Starting on July 1, 2013, individuals can voluntarily defer OAS payments for up to five years. Anyone who defers receiving payments will receive a larger pension, calculated on an actuarially neutral basis. As a result, individuals will receive the same lifetime OAS pensions whether they choose to receive

it at the earliest age of eligibility or defer it to later years.

Unlike the CPP program, both OAS and GIS are not supported by dedicated contributions and a pool of investments that are used to finance payments. Instead, both programs are funded by general tax revenue. OAS is currently the federal government's largest expenditure program requiring \$38 billion in 2011.

Presently there are four working-age individuals per senior in Canada. By 2030, there will be only two working-age individuals per senior. This is a significant change from the 1970s, when there were seven workers for every one person over the age of 65.

Life expectancy has also increased significantly, rising to 79 for men and 83 for women, from 69 for men and 76 for women in 1970.

As this demographic shift of an aging population that lives longer occurs, the government projects that expenditure required to support OAS will grow to \$108 billion in 2030. Therefore, the proposed changes aim to increase the sustainability of the OAS and GIS programs as the Canadian population ages and the cost of the programs increases.

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Managing Uncertainty, Compounding Returns