



Volume 19, Number 1

January, 2013

Single Issue: \$15

WHAT'S NEW

♦ **New Mutual Fund and ETF Database available** – Our new comprehensive database, powered by Fundata Canada, allows investors to screen the entire universe of mutual funds and ETFs using a variety of criteria to drill down and find the funds that are right for them. Once they identify funds of interest, they can view detailed profiles that include the standard holdings and performance data. Additionally, each profile highlights a number of the key risk/reward metrics that we consider when analyzing funds and ETFs, and our proprietary fund ratings that help to identify the best fund ideas. All the data is updated monthly so you will never find an outdated fund profile.

As well, the new database contains detailed commentaries on many of the most popular funds. This combination of qualitative and quantitative analysis is a unique and invaluable tool for any serious mutual fund or ETF investor.

The new database is available as a stand-alone, unlimited use subscription for the low annual fee of \$59.95, which is 40% off our new annual subscription rate. Alternatively, a subscription can be combined with your existing Mutual Fund/ETFs Update, Internet Wealth Builder, or Income Investor subscription for even bigger savings.

For more information, or to subscribe, please call Customer Service toll-free at 1-888-287-8229, or online you can visit www.buildingwealth.ca/Bookstore/index.cfm and click on the Buyers Guide to Mutual Funds link.

Continued on page 6...

U.S. FISCAL CLIFF AVERTED

By Dave Paterson, CFA

Last minute deal on tax cuts saves billions

In the final quarter of 2012, the dominant headline overhanging the markets was the U.S. Fiscal Cliff. This so called cliff would have resulted in a significant increase in taxes for many American families and a sharp reduction in government spending, if an agreement were not reached. According to some estimates, the combined impact would reduce U.S. GDP by as much as 5%. Such a move would have proved disastrous to the fragile economic recovery, not only in the U.S., but also around the world.

Fortunately, we won't have the opportunity to see how big an impact these tax increases and spending cuts would have had because a deal was approved in the House of Representatives on New Year's Day. Passing by a 257-167 margin, the deal will see income taxes will rise for those individuals who earn more than \$400,000 and for families with combined incomes of more than \$450,000.

Not surprisingly, the tax rate on dividends will be increasing from its current 15% level. What is somewhat surprising is that the new tax rate will be 20% rather than the 42% that many had feared. This will help to provide some level of support for U.S. based dividend-paying stocks. Estate taxes will increase from 35% to 40% and the 2% temporary cut in the combined payroll tax for Social Security and Medicare was allowed to expire.

The biggest drawback to this deal is that it did not fully address the \$1.2 billion in spending cuts that were expected to occur over the next decade. Instead, it merely delayed them. On January 2, it was announced that the U.S. had hit its debt ceiling and it must be raised within the next two months, otherwise it could default on its obligations.

We remain cautiously optimistic that a deal will be reached, but the road is not expected to be a smooth one. It will likely be two months of heated debate and partisan posturing, creating major uncertainty and periods of very high volatility.

Despite the short-term uncertainty, this is a positive for the markets. It will allow investors to once again focus on the economic and market fundamentals rather than the noise. Considering recent numbers, it certainly appears that the fundamentals are improving, which will help provide support for equities going forward.

2013 – A LOOK AHEAD

By Dave Paterson, CFA

Expect more of the same – continued uncertainty, modest growth and equities over fixed income

Now that the holiday decorations have been put away for another year and my first New Year's resolution has been broken, it's time to look ahead at the investment environment for 2013. Not surprisingly, we expect that 2013 will look an awful lot like 2012 with headline risk being the main drivers of market volatility and return.

While much of the fiscal cliff has been averted in the U.S., there are still questions surrounding the robustness of their economic recovery. In Europe, the debt crisis is still a long way from being fixed, and the region remains mired in a crippling recession. Signs of life are showing in the emerging markets, but much of it will be dependent on China and how quickly they can turn things around.

Let's take a look at some of the major asset classes and break down their prospects for 2013.

Fixed Income

In the U.S., Federal Reserve Chairman Ben Bernanke has committed to buying up to \$85 billion in bonds each month, and has stated that interest rates will be on hold until unemployment falls below 6.5%. Looking at current projections, that isn't likely to happen until at least 2015.

In Canada, we have managed to weather the economic storm thus far, but some cracks in the armor are beginning to show, most notably in the housing market. While a full scale collapse like we saw in the U.S. isn't expected, a modest slowdown is, which will have a trickledown effect on the entire economy. With this risk looming large, and the threat of inflation in the near term a non factor, interest rates in Canada aren't expected to move higher this year or possibly next.

With interest rates on hold and very little room to move lower, the best estimate of the expected return of fixed income is its yield to maturity less fees. On December 31, the Bank of Canada reported that the Government of Canada 10 year bond was yielding 1.80% while the two year was yielding 1.14%. Corporate bonds offer a better yield, with the DEX All Corporate Bond Index yielding approximately 2.85%. Back out fees and the outlook for fixed income for 2013 is flat to slightly positive.

That is not to say that you should sell your fixed income holdings. While they are not expected to contribute meaningfully to your portfolio's total return this year, they will still be a great shock absorber and help lessen the overall impact of the volatility of your equity holdings.

Canadian Equities

As mentioned above, the housing market is a big risk to the Canadian economy. A marked slowdown in the housing market will result in lower levels of consumer spending and slower economic growth. We are also very much affected by the price of commodities and the growth levels in both the U.S. and Chinese economies. If one or more of these slows dramatically, our markets and economy will feel it.

There is also some worry that Canadians may be in the early stages of a debt reduction process. While it may be great for the individuals, its short-term affect on the economy is not as favorable. For 2013, BMO Economics is forecasting that Canadian GDP growth will come in at 1.8%, down from the forecasted 2.0% for 2012.

There remains significant headline risk in the global economy that will have the potential to result in periods of very high levels of volatility.

Despite the above, it is not all doom and gloom. Corporate profitability has remained strong and is expected to have another good year in 2013. While official forecasts may be a touch optimistic, it is not unreasonable to expect that corporate profitability growth will be in the 5% to 7% range. If we use corporate profitability as an estimate of share price growth, then it is not unreasonable to expect Canadian equities to return mid to high single digits in 2013. Should we see a marked turnaround in the U.S., China or commodity prices, there is potential for even greater returns.

With modest growth expected, we continue to favour actively managed funds that focus on well-run, high quality, dividend-paying companies. In a low growth environment the dividends will provide some level of return and help protect against volatility. Given the potential for a slower economy, we also favour large caps over small caps for the year.

Continued on page 3...

Look Ahead - continued from page 2...

U.S. Equities

With a deal in place to avert the fiscal cliff, the focus for the U.S. becomes maintaining the fragile economic recovery. To help with this, the Federal Reserve has stated that it will continue to inject massive amounts of liquidity into the economy. In doing so, it hopes that economic growth will rebound, creating jobs and bringing down the stubbornly high unemployment rate, which is currently sitting at 7.8%. While the number of jobless continues to be a problem, recent numbers show improvement is being made.

Another positive sign is that after years in the doldrums, the housing market is on the rebound. Given the tremendous multiplier effect that housing has on the overall economy, this can only be a good thing. BMO Economics is expecting that GDP growth for the year will be 2.4%.

While the economy is on the rebound, equity markets may be in for a bumpy ride. While the New Year's Day agreement dealt with the fiscal cliff, it did not address the debt level. On January 2nd, U.S. Treasury Secretary Timothy Geithner announced that the country had hit its debt ceiling, which gives Congress about two months to reach a deal, or face the consequences including defaulting on its interest payments and not meeting other financial obligations. There is little doubt that this will be a hard fought battle that will create significant uncertainty and volatility for the equity markets.

Despite this potential volatility, we expect that markets will post modest gains this year. With an improving economy, low inflation and decent corporate earnings growth, it is not unreasonable to expect returns in the mid to high single digits.

European Equities

Europe is in a very challenging position at the moment. On one hand, many Eurozone countries need to get their crippling debt under control and must make dramatic spending cuts to do that. On the other hand, the necessary austerity measures are stifling any meaningful growth potential. The result is a very dysfunctional economy.

The unfortunate thing is that this is not likely to change any time soon as the stronger northern countries, namely Germany, continue to push for even deeper cuts. This approach does very little to solve the actual problem, and with reduced government spending, there is very little growth to allow the indebted countries to expand their way out of the crisis.

Because of this, we expect more of the same in Europe in the coming year – slow or negative economic growth and periods of extreme volatility. We also expect markets to move based on headlines as much as the market fundamentals. We don't see much in the way of market growth in the region until the crisis is solved. However, for those active, higher risk investors, there may be some interesting shorter term trading opportunities in the region, where you could invest when market valuations become attractive and sell when the markets rally to close the valuation gap. This is definitely not a strategy for everyone, but for those with good timing, profits can be made.

Emerging Markets

After a few years of disappointment, it appears that the emerging markets may be poised for a turnaround. China has been struggling in the past year or so, but early signs seem to indicate that the country is on the rebound. While this may be the case, we don't expect that economic growth will recover to the levels we saw before the slowdown. Many economists are predicting more modest growth in the 7% to 9% range. As China improves, we should also start to see some support for commodity prices.

From a valuation perspective, many emerging market equities appear to be attractively valued compared to their developed market brethren. The biggest risk to the region will be the overall strength of the global economy. Since many emerging countries are exporters, if more developed markets continue to slow, export demand will slow and negatively impact emerging countries.

We do remain cautiously optimistic on the emerging markets, but we also expect that they can exhibit periods of high volatility. Because of this, we would suggest that those with more conservative investment approaches avoid the region in the short term.

Bottom Line: We are cautiously optimistic for 2013. We are expecting modest gains from North American and emerging market equities as modest economic growth continues. We expect Europe to be volatile with continued risks to the downside. For fixed income, with interest rates likely on hold, we expect low single digit returns. We continue to favour equities over fixed income. Within the equities, we slightly favour the U.S. over Canada and large caps over small caps. We will continue to focus on funds that invest in high quality, well-managed companies that generate strong free cash flows. For fixed income investments, we favour low cost, actively managed funds that have greater exposure to corporate bonds which are expected to provide higher returns to investors in the coming year.

2013 PREVIEW - OUR BEST FUND IDEAS

By Dave Paterson, CFA

North American equities expected to outpace global equity and fixed income.

Looking ahead, we are cautiously optimistic for the New Year. We expect that we will see modest economic growth in North America and the emerging markets, and we believe that inflation will remain well contained. The U.S. Federal Reserve has also pledged to keep interest rates on hold for the year.

Under this scenario, we are expecting low single digit returns for bonds, while we are forecasting mid to high single digit returns for North American and emerging market equities. For Europe, until meaningful progress is made in fixing their debt problem and pulling the region out of recession, we don't expect much in the way of meaningful returns. We also expect that all regions will be prone to periods of very high volatility as there is much headline risk remaining in the global markets.

With that as our backdrop, we are highlighting some of our best Mutual Fund and ETF ideas for the coming year. They include:

PH&N Total Return Bond Fund (PHN 340) – This is a great, low cost way to access an actively managed bond portfolio. It is quite similar to the PH&N Bond Fund, except it can use a few non-traditional strategies including high yield bonds, mortgages and derivative strategies. It holds about 50% of its assets in corporate bonds while provincials make up about one-third of the fund. It offers an MER of 0.60%, which is one of the lowest options out there.

iShares DEX Universe Bond Index Fund (TSX: XBB) – For investors looking for diversified fixed income exposure at a low cost, this is, in our opinion, the best option out there. It replicates the performance of the DEX Universe Bond Index and has a rock bottom MER of 0.33%. The drawback to this ETF is that it only has about 30% exposure to corporate bonds, which increases its interest rate sensitivity compared with the mutual fund listed above.

IA Clarington Canadian Conservative Equity Fund (CCM 1300) – Like the name suggests, this conservatively managed fund looks for a concentrated portfolio of high quality dividend paying stocks that have quality management, strong earnings and cash flows. The fund will hold up well in flat and volatile markets, but will likely lag in a big market rally.

RBC North American Value Fund (RBF 554) – Unlike the IA Clarington offering above, this fund can invest up to 49% of

its assets outside of Canada. It is well diversified and has consistently outpaced both the broader market and most of its peer group, and done so with less volatility.

Mawer Canadian Equity Fund (MAW 106) – Managed using a growth at a reasonable price approach this large cap focused Canadian equity fund has been one of the better performers in the category for years. While it is a touch more volatile than the other two funds listed, it is still less volatile than the S&P/TSX Composite Index and the category average.

Beutel Goodman American Equity Fund (BTG 774) – Over the years, this concentrated value focused portfolio has done a decent job of protecting investors' capital. For example, in 2008 when the S&P 500 dropped by more than 23%, this fund was down only 10%. Now it won't shoot the lights out in up markets, but its disciplined management style, relatively low volatility and low MER make this a great, solid choice for investors looking for U.S. equity exposure.

Trimark U.S. Companies Fund (AIM 1743) – While the Beutel Goodman American Equity Fund is a great conservative choice, this fund offers investors U.S. equity exposure with a bit more pop. It is more volatile and tends to outperform in up markets while underperforming in down markets. The process that is used is the traditional Trimark approach, but with a bit more of a growth filter on it. The result is a good fund for those with a higher appetite for risk.

iShares S&P 500 Index Fund C\$ Hedged ETF (TSX: XSP) – For those looking for basic, no frills, cheap exposure to U.S. equities, you'll be hard pressed to find a better choice than this ETF. It is designed to replicate the performance of the S&P 500 while at the same time hedging out the currency exposure. All of this for the rock bottom MER of 0.25%.

Mackenzie Ivy Foreign Equity Fund (MFC 081) – A hallmark of the Ivy style is capital preservation, and this fund sets the gold standard. It is one of the least volatile global equity funds around and it performs very well in flat and down markets. Given that we continue to expect markets, particularly global markets, to be volatile, we continue to like this stable offering for those investors looking for conservative global equity exposure.

GENERATING CASH FLOW IN A LOW YIELD ENVIRONMENT

By Dave Paterson, CFA

T-Series Funds allow investors to generate cash flow without sacrificing quality

With interest rates expected to remain at or near the current levels, many investors looking to generate income for their portfolios are once again in a very difficult position. Traditional safe haven investments such as GICs and other fixed income products are offering very little in the way of yield. This means that investors will have to take on additional risk to generate the income they need.

Fortunately, there are many options available that will allow investors to build a very high quality portfolio that has the potential to spin off decent cash flow without sacrificing investment quality. One of the ways to do this is to use what are known as T-Series Funds.

T-Series funds are an interesting animal in that they pay out regular monthly distributions that are generally treated as return of capital for tax purposes. What this does is provide cash flow now, while pushing the tax liability down the road. This happens because return of capital distributions are not taxed immediately, but instead reduce the adjusted cost base (ACB) of the funds. When the investor sells the fund, the adjusted cost base would be considerably lower than had they not received the distributions, meaning they are paying capital gains tax on a much greater amount.

The distributions that T-Series funds pay typically will be in the 5% to 8% range, however most of the funds tend to offer the 8% payouts. Some companies such as CI and Dynamic will even allow investors to set the payout they wish by specifying a set percentage or dollar amount. Many companies offer these funds, covering a wide range of asset classes, which allows considerable flexibility when building an overall portfolio that can be used to generate cash flow. In other words, investors don't have to sacrifice investment quality or take on significant risk to generate a decent cash flow.

There are some drawbacks to these funds. The first is that while there are a number of options available, the majority of the funds available are equity and balanced funds. There are very few pure fixed income options available in the T-Series. Another drawback is that if the distribution payout is lower than the fund's return, there will be erosion in the invested capital base. An 8% return is pretty optimistic for most

investments, so some capital erosion is likely. A third drawback is that the distributions are typically reset on an annual basis. If there is a significant drop in the market in a year, the dollar value of the distribution is likely to be reduced. For example, if the price of a fund is \$100 with an 8% payout, the annual distribution payout will be \$8.00. However, if markets fall by 20% and the price is now \$80, the distributions will likely be reset with to an annual payout of \$6.40. In both cases though, the yield remains 8%.

A final drawback is that it is possible for the ACB of the fund to be reduced to \$0 over time. Once this occurs, the distributions will be treated as capital gains for tax purposes.

As mentioned above, there are a wide range of T-Series funds that are available to investors. In fact, many of the funds that are on our Recommended List of Funds are available in T-Series. As a helpful guide, the following chart highlights our recommended funds that are available in T-Series, including fund codes for the front-end versions. The number after the T refers to that expected annualized yield. For example, a T-5 fund will typically have an annualized yield that is in the 5% range, while T-8 funds will have a yield in the 8% range.

Continued on page 6...

BUILDING WEALTH Mutual Funds / ETFs Update

Editor and Publisher: David Paterson

Circulation Director: Kim Pape-Green

Customer Service: Katya Schmied, Terri Hooper

© 2013 by Gordon Pape Enterprises Ltd. and D.A. Paterson & Associates Inc. All rights reserved. Reproduction in whole or in part without written permission is prohibited. All recommendations are based on information that is believed to be reliable. However, results are not guaranteed and the publishers and distributors of Mutual Funds / ETFs Update assume no liability whatsoever for any material losses that may occur. Readers are advised to consult a professional financial advisor before making any investment decisions. Contributors to the MFU and/or their companies or members of their families may hold and trade positions in securities mentioned in this newsletter. No compensation for recommending particular securities or financial advisors is solicited or accepted.

Cash Flow - continued from page 5...

Recommended Funds available in T-Series			
FUND	T-5 Fund Code	T-6 Fund Code	T-8 Fund Code
Canadian Equity Funds			
Fidelity Canadian Large Cap	FID 473		FID 474
IA Clarington Canadian Conservative Equity	CCM 4300		
Canadian Small Cap Funds			
BMO Guardian Enterprise Fund (Classic)	GGF 3067		
Balanced Funds			
Mac Cundill Cdn Balanced		MFC 2448	MFC 1225
AGF Monthly High Income			AGF 912
Fidelity Canadian Balanced	FID 3246		FID 3246
Income Funds			
CI Signature High Income	CIG 152T5		CIG 652T8
Fidelity Dividend	FID 1235		FID 235
Signature Income & Growth	CIG 131T5		CIG 631T8
U.S. Equity Funds			
IA Clarington Sarbit US Equity		CCM 3601	
Dynamic Power American Growth			DYN 1004
Dynamic American Value			DYN 1006
International/Global/North American Funds			
Mutual Global Discovery			TML 3059
Dynamic Power Global Growth			DYN 1218
CI Black Creek Global Leaders	CIG 174T5		CIG 31348

Source: Fundata

Bottom Line: T-Series funds can be a good way to generate regular, tax deferred cash flow from an investment portfolio. There are enough options available today that a strong, high yielding portfolio can be created without sacrificing on the investment quality. While they are not for everybody and do have some drawbacks, for investors looking to build a well diversified portfolio, T-Series funds are definitely worthy of consideration.

What's New - continued from page 1...

RBC Direct Investing Drops No Load Firms – Finding dealers that offer no load funds to investors became a little more difficult last September. It was brought to our attention that RBC Direct Investing no longer offers funds managed by Mawer Investment Management, Steadyhand and Leith Wheeler. While this is an unfortunate turn of events for investors, knowing the economics of the distribution side of the business as we do, we understand it. RBC DI does not charge any trading commissions on buy, sell or switch orders. The funds dropped pay no form of compensation to dealers. To make up for this, RBC was charging up to \$45 in transaction commissions on some funds and charging a 1% early redemption fee. Understandably, these fees confused and likely angered many investors. To help eliminate this, they opted to simplify things and only offer funds that pay a trailer fee. There are still a number of no load products that are offered through RBC DI including RBC, PH&N and Beutel Goodman. Investors wishing to access the dropped funds can still buy them directly from the company.

USING FUND DISTRIBUTIONS TO CREATE CASH FLOW

By Dave Paterson, CFA

Identifying high quality funds that offer decent income

With most GICs paying less than 2% interest and many fixed income investments expected to return low single digits for the coming year, income seeking investors need to look elsewhere to find any form of meaningful cash flow from their investments. Finding a high quality fund that pays out a decent cash flow without significantly eroding invested capital can be a very daunting task these days.

There are a number of options available such as T-Series funds that we discuss elsewhere in this edition, and the more traditional distributions that many funds and ETFs pay out on a regular basis. These distributions can provide investors with a way to generate ongoing income. Unfortunately, not all distributions are created equally.

There is a perception with some that the distributions paid by mutual funds are similar to the dividends paid by stocks. While they do look very similar, in reality they are quite different. With a stock dividend, the company is paying investors a share of the company's after tax profits. However, with a mutual fund distribution the fund is doing one of two things: passing a tax liability to investors or giving investors their money back. In fact, it is possible to receive a fairly high distribution and see the fund have a very poor year.

Looking at it another way, the fact that a stock pays a dividend can be quite helpful when assessing the quality of that company. After all, it must be doing reasonably well because if it is to pay a dividend it must generate the cash flow and income from which to pay those dividends. With a mutual fund, distributions are the transfer of a tax liability or a refund of

invested capital, so they provide no insight into the actual quality of the fund.

In other words, one cannot base an investment decision solely on the income that a fund may generate. Instead we must put each fund through the same intensive review process that all funds are subjected to before making an investment.

In doing this, we have come up with a list of what we consider to be five of the better income producing funds that investors may want to consider for the coming year. In reviewing the funds, certain minimum criteria had to be met. First, the fund had to have at least a five-year track record and its distribution yield had to be greater than 4%. Next, we put the results through our proprietary valuation model and looked to identify the funds which not only offered an attractive yield, but also the ability to not only sustain the distribution going forward, but to also provide some potential for capital gains. By using these criteria, some of the funds that pay significant distributions have been eliminated, as we believe that they will result in significant erosion of capital over the long term.

RBC Canadian Equity Income Fund (RBF 591) – Managed by the team of Jennifer McClelland and Brahm Spilfogel, this dividend and income equity fund is one of our favourites largely due to its strong risk adjusted return profile. Investing in a well-diversified portfolio of high yielding dividend paying equities and REITs, performance has been very strong, averaging 14% for the five years ending November 30.

Continued on page 8...

Fund	Fund Code	Risk Level	Yield at Dec. 31	Monthly Distribution	Returns at November 30, 2012				
					1 Yr.	3 Yr.	5 Yr.	10 Yr.	MER
RBC Canadian Equity Income	RBF 591	Medium High	4.6%	\$0.0900	6.5%	15.0%	14.0%	N/A	2.09%
Sentry Canadian Income Fund	NCE 717	Medium	5.6%	\$0.0775	10.6%	13.2%	7.6%	13.6%	2.70%
CI Signature High Income Fund	CIG 686	Medium Low	6.0%	\$0.0700	11.5%	11.1%	6.4%	9.9%	1.60%
Bissett Canadian High Dividend	TML 205	Medium High	5.3%	\$0.0550	10.1%	14.0%	7.6%	10.9%	2.48%
BMO GDN Monthly High Income II	GGF 619	Medium High	5.3%	\$0.0600	8.9%	14.5%	7.0%	11.9%	2.39%

Source: Fundata

Distributions - continued from page 7...

During the same period, the S&P/TSX Composite Index averaged only 0.7%. Equally impressive has been the downside protection of this fund, falling 19% in 2008 while the broader market fell by 33%. As impressive as this performance has been, we don't believe it is repeatable and expect more modest returns going forward. It pays a monthly distribution of \$0.09 per unit, which at current prices works out to a yield of approximately 4.6%. Looking ahead, we believe that this level of distribution will not result in significant capital erosion, and even with a more modest return profile, we expect that it will continue to perform well compared with its peer group.

Sentry Canadian Income Fund (NCE 717) – For investors looking for a decent yield and the potential for capital gains, it doesn't get a whole lot better than this fund. Managed by Michael Simpson and Aubrey Hearn, it pays a monthly distribution of \$0.0775 per unit, which works out to an annualized yield of about 5.6%. To achieve this, the fund invests in high yielding Canadian and U.S. equities, with some exposure to trusts and REITs. Recently the managers have been increasing their exposure to the U.S. Performance has been strong with the fund finishing in the top quartile in every year since inception, except for 2006 when it landed in the bottom quartile. It is our view that this fund will continue to provide a decent yield to investors and has the potential to deliver modest capital growth going forward.

CI Signature High Income Fund (CIG 686) – Managed by Eric Bushell and his Signature Team, the fund has the objective of generating a high level of income and long-term capital growth. Looking at the fund's long-term numbers, it has excelled at both, producing respectable returns, modest volatility and a decent yield. It pays investors a monthly distribution of \$0.07 per unit, which works out to an annualized yield of approximately 6.0% at current prices. It holds about half of its assets in corporate and high yield bonds with the

balance in high yielding equities including equities, trusts and REITs. We don't expect that the performance will keep up with the more equity focused offerings on our list, but neither will the volatility. This is mainly due to the higher exposure to fixed income investments in the fund. We also like the fact that the MER is a very reasonable 1.60%. Going forward, we expect modest returns and believe that the distribution is sustainable without significant capital erosion.

Bissett Canadian High Dividend Fund (TML 205) – With its focus on small and mid cap dividend paying stocks and REITs, it is not surprising that it is the most volatile fund on our list. It is managed using Bissett's disciplined team approach that is based on a bottom up, growth at a reasonable price philosophy that looks for companies that have a history of sustainable growth and the ability to be able to repeat that growth in the future. Performance, particularly longer-term numbers have been strong. It pays a monthly distribution of \$0.055 per unit, but it can vary on quarter end months. At current prices, the yield is 5.3%. In reviewing our expectations for the fund, we believe that this level of distribution is sustainable without significant capital erosion going forward. However, given the funds higher volatility, we would suggest that only those with the tolerance for the higher volatility consider it for their portfolios.

BMO Guardian Monthly High Income II (GGF 619) – The fund has the objective of generating a high level of monthly distributions while keeping volatility modest by investing in a portfolio of primarily trusts and high yielding equities. It has a great management team at the helm, headed up by John Priestman who has been one of the most respected managers in the space. Performance has been strong and volatility has been in line with its peer group. It pays a monthly distribution of \$0.06 per unit, which works out to a yield of approximately 5.3%. We believe that this fund will be able to continue to pay its distributions and generate some capital gains for investors over the long term.

YOUR FUND QUESTIONS

Q – What is your opinion of the Fidelity Canadian Disciplined Equity Fund?

A – This is a fund that is designed to replicate the sector weightings of the S&P/TSX Composite Index, yet at the same time allows the managers to use active stock selection to add additional return for investors. While the fund will match the sector weighting of the index, it will look much different on a stock by stock basis.

While we really like the theory of this fund, it has not delivered

in its execution. With the managers tied to the sector weights of the index, and a 2.28% MER, it is very tough for them to add significant value to the index over the long term.

We expect that it will continue to deliver returns that are right in the ballpark of the index, plus or minus a percentage point or two. However, with volatility that is higher than the index, an investor may be better off going with a more conservatively managed active fund, or with a lower cost index fund or ETF for the same basic exposure.