Volume 3 Number 3

YourWealth

Views and opinions
for the clients and friends of

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Luukkonen Partners
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Welcome to those clients who joined us this quarter and thank you to those who recommended our services.

Need to Own

If we all took a few minutes to take inventory of our possessions there would be near unanimous agreement on one thing. We all own a lot of "stuff" that we don't really need. Beyond the necessities we have possessions that are nice to have but we certainly could get along with much less. If we were forced to dispose of these somewhat superfluous objects would we fall into a deep emotional depression? Doubtful.

Let's consider for the moment our investments as articles to be acquired, held and potentially disposed of. For well over a decade we have written of the very significant change in the ownership of publicly traded investments. Using equities as an example investors owned about 80% of stocks twenty-five years ago while institutional investors owned the remaining 20%. With the passage of time the numbers have been reversed. We cannot stress strongly enough how the motivations of fund managers determine the composition of their portfolios, their approach to investing and the acquisition and disposition of the majority of equities.

As individual investors we are patient. We assess our own level of risk tolerance. Generally speaking we think of the portfolio's progress in the context of reaching financial goals. If you are a fund manager forget all that. Your quarterly performance relative to the stock exchange index is your main motivator, plain and simple.

Investors hear very little of this performance pressure. They need to understand the impact. It is essential that we consider fund manager behaviour at least as much as we do economic conditions. So where do we go from here?

Our experience has led us to be cautious for several years. Our caution lessened client risk during some very volatile times. Many of you attended our seminars in late 2008 and the spring of 2009. Space does not allow us to detail our analysis of the collapse but our forecast at the time was that investment history would repeat itself. (CONTINUED ON PAGE 4)

Changes to the Canada Pension Plan

Late last year several changes to the Canada Pension Plan were made that will impact future CPP recipients. These new changes will be gradually phased in over five years starting in 2011. These changes will have no impact on you if you are already receiving a CPP retirement pension, disability benefit, survivor benefit or combined benefits, or if you will begin to receive these benefits in 2010. However, contribution requirements for some CPP retirement pensioners who continue to work, and their employers, may be affected by these changes. Some of the key changes are summarized below:

Pension Adjustments for Early and Late CPP Take-up:

•If you decide to collect a CPP pension early (i.e. before age 65) or instead wait until after you are age 65 to take-up your CPP, there are downward or upward adjustments to the calculation of the monthly pension benefit you will receive.

•For early CPP take-up, there will be a reduction in benefits by 7.2% per year or 0.6% per month (currently 6% per year or 0.5% per month) for each month that the pension is taken before age 65 to a maximum reduction of 36%. This increase will be implemented gradually over a five year period beginning in 2012.

•For late CPP take-up, there will be an increase in benefits by 8.4% per year or 0.7% per month (currently 6% per year or 0.5% per month) for each month that the pension is taken after age 65 and up to the age of 70 to a maximum increase of 42%. This increase will be implemented gradually over a three year period beginning in 2011.

Removal of Work Cessation Requirement for Early CPP:

•Before 2012, in order to apply for CPP benefits early, from age 60 to 64, you must either stop working by the end of the month before your CPP retirement pension begins and during the month in which it begins, or your earnings must be less than the current monthly maximum CPP retirement pension benefit in the month before your pension begins and in the month it begins.

•Starting in 2012 the requirement to stop working or significantly reduce your (CONTINUED ON PAGE 4)

Our Fall Seminar Series: An Invitation

This fall we will be hosting a series of educational presentations for clients and friends. Following the same format as our previous series our goal is to provide insight into important wealth management topics. The evening sessions will be held at our downtown Oshawa office located at 17 King Street East.

Each of our hour-long sessions will take place on a Wednesday evening, beginning at 7:00 pm. We ask that you please RSVP to Debbie (by phone at 905-434-6527 or email at deborah.c.mcdonald@rbc.com) for any sessions that you would like to attend. As always, you are encouraged to extend an invitation to friends or family members that you feel would benefit from any of the topics.

October 14 – Retirement Planning

October 21 – Estate Planning

October 28 – Cottage Succession Planning

November 4 – Developing Your Investment Goals & Asset Allocation

November 11 – Health Planning

November 18 – Generating Income From Your Equities Through Options

Special VIP Banking Offer

One of the often over-looked aspects of being a client of RBC Dominion Securities is that the firm is a part of the larger RBC family. We have been able to leverage this relationship to negotiate a special offer for our clients with most of the RBC branches in the Durham Region. The bank has agreed to provide our clients with either an RBC VIP Banking package or an RBC Signature No Limit Banking package free for six months – a savings of up to $180 in banking fees. These two packages are the most comprehensive banking packages offered by the Royal Bank and they can potentially save clients over $1,000 every year on banking charges, especially for those that maintain a US dollar bank account or make use of products like premium credit cards or identity theft protection.

In addition to the potential money savings, an RBC bank account can also simplify things for those of our clients who use either online banking or DS Online. Consolidating accounts with RBC allows you to view all of your accounts, for both banking and RBC Dominion Securities, together on a single web site.

Please contact us to explore this offer.

Client Corner: Oshawa Life as it was in the 1920's and 1930's

The following story is an account of growing up in Oshawa in the late 1920's and 1930's written by our client Marguerite Skuce. As you read this, keep in mind that the rural farm Marguerite describes is now the site of the Home Depot plaza in northeast Oshawa – hardly rural anymore!

As I was brought up on a 200 acre farm there was no shortage of food – everything was grown or raised – from chickens to ducks to geese to beef to pork – so although there were very hard times it was never mentioned in our house. I know Mom and Dad shared much produce from the farm with those less fortunate than us; I remember delivering Christmas dinner to a couple of families on Townline Road.

The street now called Grandview was an unopened road that ran through the middle of our farm from Taunton Road. Taunton Road itself was a narrow gravel road.

Our mother continually cooked – the words "cholesterol" and "diet" were unknown in our house. An Oshawa bakery brought bread to our farm by bicycle while milk and dairy products were delivered by horse and wagon.

Maxwell School was a one-room schoolhouse on the corner of Harmony Road and Taunton. One teacher taught all eight grades and she boarded at the nearest house to the school. The teacher never ever got sick so we never ever got a day off!

As for entertainment: Saturday nights were always great when we were kids. In the summer we usually went to the show at the Mark's Theatre in downtown Oshawa (now the site of the RBC Dominion Securities office!) and usually another couple came along with our parents. After the show there was always a little fruit stand open on Simcoe Street North and my parents would pick up oysters there. We would then all head back home and Mom would make oyster soup.

Entertainment in the winter was different. I can remember weekends when the neighbours and our parents would take turns clearing out an entire big room and they would have dances (square and round) with music provided by whoever played a violin or any other instrument. The ladies brought lunch and a lot of fun was had by all the adults. Playing cards was another recreation enjoyed and our house was always full.

"Designer clothes" in the 1930's were called "Hand me downs."

As we grew to young teenagers – me being the oldest of three – Zion Church was where the teenagers (13-16) gathered. I lived the farthest away but thought nothing of walking to the church, north of Mitchell's Corners, from our farm on Grandview Street two or three times a week. In the winter we would sleigh ride down the hills right on Taunton Road (there was no traffic then). The walk home was the worst – I was the last one because I was the furthest away and was always so cold.

When I was sixteen my dad bought me a car and put me in a ten acre field to learn to drive – what a trusting guy! If there was a word "cool" in those days our dad was it and he was the luckiest man in the world to have found our mother! They both worked so hard but always managed time to have fun. What a great life it's been!

(CONTINUED FROM PAGE 1) In 1974 we witnessed the worst year in the stock market since the Great Depression. The investment mood in December 1974 was as black as black could be. No one believed that 1975 would bring anything but more gloom. So what happened? Seventy-five percent of the index losses of 1974 were recovered in1975. The economic news in 1975? Worse than 1974. Go figure.

The fourteen month decline in markets (using the S&P500 as a barometer) from January 2008 to February 2009 saw a decline of 734 points. The fourteen month recovery ending April of 2010 saw a 553 point recovery – a 75% rebound. Go figure. Our advice was to hang in there. Central banks had to deal with a worldwide credit crisis. Where are we now? We stepped back from the brink and yet we still face economic and financial problems of such great magnitude that no one should think that we have taken the first step out of the woods. Not even close. Our conservatism for many years has caused many to say that we think the glass is always half empty. The only reason this might be true is because we usually drink the first half. We enjoy life to the fullest but we want to make sure your financial assets allow you to live your life to the maximum as well.

Where do we go from here? If history repeats itself significant equity price appreciation is another three to five years away. Then when you least expect it a dramatic upturn may take place that will astonish everyone. In the meantime the eventual fuel for that fire will build up from an improving savings rate and the intergenerational transfer of assets. The major equity buyers will continue to be the performance pressured fund managers. In turn greed will once again trump both common sense and regulatory supervision. Therefore the next few years will see significant short term volatility perhaps with little progress but significant opportunities for active investors. We will provide guidance as best we can. It almost sounds like there is more optimism at Luukkonen Partners. The first little bit. Go figure.

(CPP CONTINUED FROM PAGE 2) earnings to take-up early CPP will no longer apply.

CPP Contributions for Pensioners:

•Currently, if you are retired and receive CPP pension benefits and decide to go back to work, you are not required to restart contributions to CPP on your salary or wages. With the current rules, once you start receiving your CPP pension, you can work as much as you want but you are not required nor will you benefit from any further contributions made to CPP.

•Under the new rules if you are under age 65 and are receiving your CPP monthly pension and continue to work, you and your employer are required to continue to contribute to CPP. If you are between the ages of 65 to 70 collecting a CPP pension and continue to work, the decision to continue to contribute to the CPP is voluntary so you may elect not to make CPP contributions. However, if you opt to participate in the CPP your employer will be required to also contribute. These contributions will result in increased retirement benefits.