Strategy UPDATE
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Estimating Expected Portfolio Returns

As we come to the end of another year, this is a great time to refocus and check your progress towards creating a Worry Free Retirement Experience™.

Let's state the obvious. There are only two ways to accumulate the money you need to be financially independent -- by how much you save, and by the rate of return that you earn on your savings. Ogden Nash, the poet and humorist, once said "If you don't want to work you have to work to earn enough money so that you won't have to work". That's the saving part. Let's discuss the latter - investment returns - and specifically, what is a realistic return on your investments in today's economic environment.

How often have you been in a group of people at a party, and there was one person in the crowd who claimed she earned 10% "last year" - a period when you know that markets globally went through a very rough patch. At first you think, maybe it was the wine. Could she really have earned 10% last year?

Then it starts to weigh on your mind. Likely you're either envious, in which case you immediately contact your own advisor. Or alternatively, you're skeptical, so you write off the partygoer as a blowhard. But later while reflecting on this, you ask yourself, "what IS a realistic investment return in today's markets". 10%?, 2%?, 5%?, 12%? You know you have a diversified portfolio, but what return is both reasonable and realistic?

How about 3-5%? No way, you say! Brace yourself because it probably IS realistic. Here's why. Let's say you have 50% of your money in stocks and the remaining 50% in bonds. Assume that the 50% equity component averages 7.06% which was the return of the S&P/TSX for the 15 years ending July 31, 2016 (Source: GlobeInvestor.com), or maybe even 8.04% which is the

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20-year figure. Equities would therefore contribute 3.5% to 4% (50% X 7 or 8) to what we term the "weighted" return of your portfolio.

Do the same calculation for the bond component, but let's assume that based on today's interest rates which are historically very low - and in some countries, negative - your professionally managed bonds deliver a 3% return. (Arguably, this could be 2-5%, but let's stay with 3% for our purposes). With 50% of your investment in bonds, they contribute 1.5% to the weighted return of your portfolio. So overall, a realistic or reasonable expected return on the 50/50 diversified portfolio is 5% to 5.5% (3.5% to 4% on equities plus 1.5% on bonds).

Some years that return will be higher, and some years it will be negative. But, our message is that it's important to be realistic in planning for the long term. If your advisor is showing you a plan with an 8% long term portfolio return, he or she isn't doing you any favours! Question it.

Use the simple method above to estimate the expected return on your portfolio. Granted it includes "assumptions", but keep those assumptions conservative, bearing in mind that a person who "retires" at age 65 could still have 1/3 of his/her lifetime ahead.

Costs matter. The cost of actually earning that weighted return cannot be ignored. Consider a portfolio of equities and bonds invested in a 50/50 mix and held in mutual funds and ETFs (Exchange Traded Funds). Let's say that the equity component is an equal mix of Canada, U.S., and International stocks. We'll use historical performance data for the various equity indices going back to the beginning of 1978 until December 2015. And, we'll stick with 3% for bonds. We'll also assume that your advisor charges a competitive 1 to 1.25% per annum for financial planning and investment management for portfolios under $1 million, and that the overall Management Expense Ratio (MER) of the mutual funds and ETFs in the portfolio - the cost of managing the investment that is built into the investment - is 0.52% per annum. (Total cost 1.77% per annum, less than most "balanced" mutual funds, but more than a portfolio of ETFs only).

By running thousands of computer simulations factoring in costs and possible variations in market performance, we can determine that your actual return - net of fees - would be more like 3.25% to 3.50%. So there you have it. You won't be the life of the party if you stand on the coffee table and proclaim, "I got 3.5% last year!", but you might just win the prize as the most realistic investor!

What's New at Polson Bourbonniere

It's that time of year when we reflect on the year to date, and plan for, and look forward to 2017. With this in mind, here's a short update of what's been happening at Polson Bourbonniere Financial Planning Group Inc.

We're very pleased and proud that we recently passed the $400 million mark in assets under advice for our clients. The biggest factor in our success, by far, has been working with interesting people like yourself, the trust that you've put in us over the years, and

your confidence in our services. Our business is growing and going forward, we continue to welcome your referrals. Thank you for any friends and family you may have introduced us to in the past.

Our seven-member planning team here at Polson Bourbonniere – all of whom are CERTIFIED FINANCIAL PLANNER® professionals – has combined financial services industry experience of over 125 years. We are pleased to recognize that this year saw Lydia Bzowej, CFP®, EPC, mark her 20th year with Kirk's team, and 2017 will see the same experience milestone for Ruth Ashton, CFP® on Paul's team. Thank you Lydia and Ruth for your strong and dedicated work on behalf of our clients!

In 2016 we made a few changes to improve your overall client experience. We'd like to introduce a new member of our advisory team, Cory Bruner, CFP®, who will be working with Paul and his team. In additional to Cory's significant planning skills, he will soon be writing his final exam towards the prestigious CFA (Chartered Financial Analyst) designation. Cory previously worked for two of the big banks, and is looking forward to life in a much more entrepreneurial, client focused atmosphere here. Cory is married with 3 young children. Welcome, Cory!

Those of you who have visited us lately may have noticed some changes to the appearance of our office. Upon renewing our lease for five more years, both we and our landlord committed funds to update our premises. We hope that these physical changes will make your visits to us that much more enjoyable. Parking continues to be complimentary, both in the visitors area out front of 7050 or on the surface or covered areas around the three building complex.

Next year will be an exciting one. For Canadians it will be both the centennial of Vimy Ridge (April) and the 150th anniversary of Confederation (July). At Polson Bourbonniere, June 2017 will be the 20th anniversary of Kirk Polson and Paul Bourbonniere getting together to form our company, having a shared vision of building a pre-eminent financial planning firm specializing in retirement income planning and wealth accumulation.

This year we've also seen some excitement in Europe with Brexit, and in the USA with the election of President Trump. As an investor you may have concerns about what impact these events will have on your portfolio. We welcome your questions. On a lesser scale, in Canada, new tax rules will alter the benefits of certain types of life insurance as well as non-registered life annuities purchased after 2016. The rules for so called 'corporate class' mutual funds change as well. Your Polson Bourbonniere advisor has had these changes in mind when meeting with you in 2016.

Several years ago we trademarked the phrase, Choose to be Worry Free™. There have been times in the short term when being "Worry Free" has been tested (2008 – 2009), but we believe that by paying attention to the big picture, focusing on those things we can control, and refusing to get caught up in those things we can't, your financial goals can be achieved.

So, much will be happening in 2017 – even your portfolio reports will improve in order to provide greater transparency about fees and performance – something we embraced as a firm a few years before regulators legislated it. (See details elsewhere in this newsletter). We continue to be optimistic about the future – financially, and otherwise. There is much to be thankful for and hopeful about.

We look forward to sharing the future with you.

Changes to Your HollisWealth Statements

Starting in January 2017, you will see some additional reporting included with your HollisWealth statements. Some of this additional information includes:

Performance Reports

- Market Value Changes in Your Account - provides a chart of total deposits less withdrawals. This section will use an "Inception Date" of January 2013.
- Annual Changes in Your Account – displays the above data in graph form.
- Your Personal Rates of Return – indicates the rate of return over 1, 3, 5 and 10 years, and from January 2013.

Fee Reports

- Operational Fees paid to HollisWealth – shows costs for administrative services, and any fees incurred for fee-based accounts
- Transactional Fees paid to HollisWealth – shows costs for buying or selling of investments
- Other Fees received by HollisWealth – shows any dealer compensation for ongoing advisory services (i.e. Trailing Commission)

RESP

Just a friendly reminder about the upcoming RESP contribution deadline for 2016. The deadline for Registered Education Savings Plan (RESP) contributions is the last day of the year, or December 31st. Using RESPs to save for your children's post-secondary education is made even more efficient by the Canada Education Savings Grant (CESG). The grant matches 20% of every dollar you deposit into your child's RESP to a maximum of $2,500, which would yield a maximum grant of $500 per year until the year of the beneficiary's 17th birthday.

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