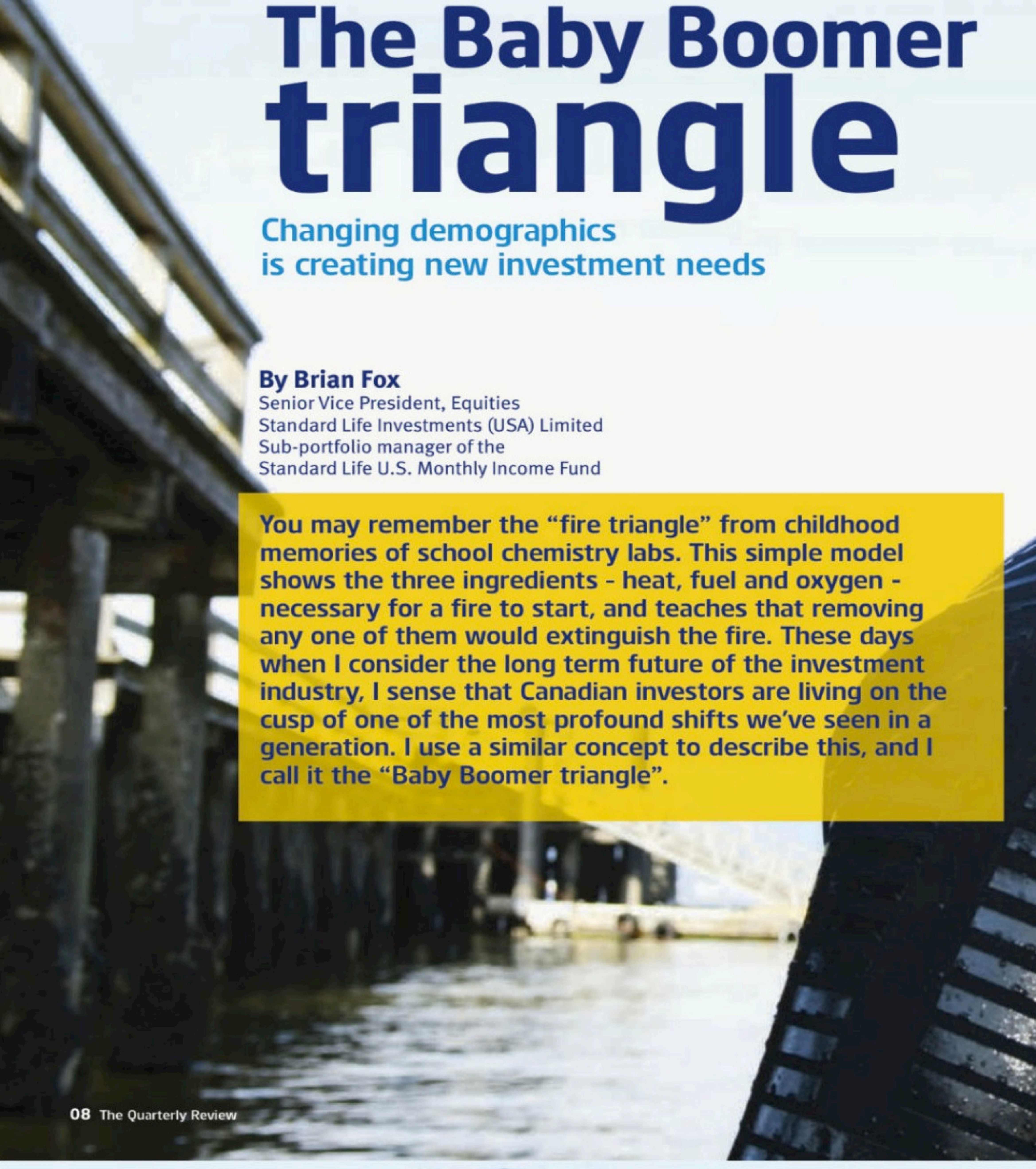

The Baby Boomer triangle

Changing demographics is creating new investment needs

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You may remember the "fire triangle" from childhood memories of school chemistry labs. This simple model shows the three ingredients - heat, fuel and oxygen - necessary for a fire to start, and teaches that removing any one of them would extinguish the fire. These days when I consider the long term future of the investment industry, I sense that Canadian investors are living on the cusp of one of the most profound shifts we've seen in a generation. I use a similar concept to describe this, and I call it the "Baby Boomer triangle".

A trio of challenges

Canada's "Baby Boomer triangle", has three distinct themes. Firstly, Canada is witnessing a huge increase in the size of the retirement age population. It's predicted that by 2021, nearly 1 in 5 Canadians will be over 65. This changing demographic is largely due to the fact that we are living longer. According to Statistics Canada, males born between 2007 and 2009 can expect to live 79 years, which is a full 20 years longer than if they had been born in the 1920's.

As the baby boomers start to retire en masse, the demand for income securities will multiply. An attractive income stream will remain an essential component of their portfolio, and with all of these extra years in retirement, this cannot come at the expense of capital appreciation.

The second theme in the triangle of challenges is that bond yields in recent times have been the lowest they've been in over 50 years. With current long term Canadian bond yields so low, this market is not seen as providing a lot of potential value. This has led to investors looking more seriously at corporate, foreign and high yield bonds.

But here we run into the final problem which makes up the "Baby Boomer triangle" – the Canadian market place is concentrated in three sectors. Financials make up over a third of the S&P/TSX Composite, with energy and material stocks accounting for an extra 37%. Is it possible to find proper diversification if three quarters of your equity investments are limited to just three sectors?

The quest for yield is coming. Investors on the hunt for income are no longer willing to forego capital appreciation upside. Being post-crisis investors, they also continue to have an aversion to volatility. In the coming years, we anticipate that more and more clients will be looking for the kind of retirement solutions which seek to generate capital appreciation alongside delivering income, and at the same time they're looking for something which can deliver reduced volatility – in short, they want to have their cake and eat it too.

An unprecedented shift

Faced with this trio of problems, the Canadian investment industry is set to undergo a shift as retirees seek to find yield and capital appreciation in the same place. So what can you recommend for these clients? Many advisors who would be reaching straight for the "income" funds are finding that these might not provide enough yield, and that there is little opportunity for capital appreciation.

The Standard Life U.S. Monthly Income Fund takes a flexible and balanced approach for investors who are looking outside of Canada to find income. The fund seeks to provide investors with an ongoing income stream while still aiming for capital appreciation. The portfolio managers aim to achieve this by investing in the most attractive risk adjusted securities within both fixed income and equity markets. Simply put, while we're aiming to generate income and stability from fixed income products, we also seek to generate capital growth by investing in equities. Most importantly, the fund is able to tilt its ratio of fixed income and equities to make sure that it is seeking out the best opportunities. Managed from Standard Life Investments' Boston office we have access to the integrated expertise across our U.S. equity and U.S. credit teams. This provides a holistic view and affords us the opportunity to select the best way to participate in the success of a business, whether it is by purchasing their bonds or their stock.

Our world is changing. Our population is aging and as investors, clients demand more than ever before. As demographics evolve, this in turn will lead to a shift in what your clients demand from their investments. In these days of historically low interest rates, coupled with a highly concentrated Canadian equity market, the traditional go-to Canadian fixed income funds can no longer be the mainstay of retirement portfolios. The baby boomers represented the powerhouse for a generation of social, technological and political change, and now they're doing the same for investments.

In order to quench the problems of the "Baby Boomer triangle", it could be time to look for a fund which offers a flexible and balanced approach to asset allocation for income seekers.