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Inside Investments

Bonds deserve more credit

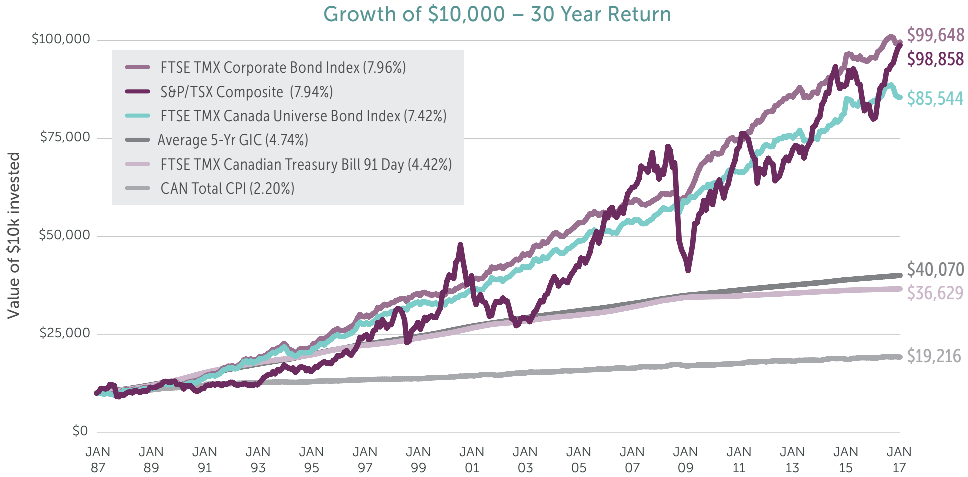
Q1 2017

Stocks bark for attention. Bonds not so much. Perhaps that's why bonds don't get the recognition they deserve. But over the past 30 years, bonds – especially corporate bonds – have rewarded investors well in the three key areas: growth, income, and capital protection. The following proof points shine some light on this unheralded asset class, because the outlook for bonds, in particular corporate bonds, remains favourable. Despite "talk" of rising rates, there are many factors in favour of corporate bonds, such as the strong underlying corporate earnings, improving balance sheets and solid cash flow.

Why Bonds? – *For Growth*

Stocks have always been considered the big growth producers, but over the last 30 years (a typical retirement savings period), bonds are the undisputed asset class leaders, taking the top spot for growth. Although we are showing indices, if you subtract higher equity mutual fund management fees, the performance gap between stocks and bonds increases. Also, if you look at how you got there, bonds provided a less bumpy ride than its equity cousin!

Growth of $10,000 – 30 Year Return



Source: PC Data Analytics, reflecting the FTSE TMX Canada Bond Indices & Morningstar Direct (S&P/TSX Composite TR) January 31, 1987 to January 31, 2017.

Corporate bonds reign supreme

Asset Class		10 Year	20 Year	30 Year	Risk[1] 30 Year
Canadian Corporate Bonds	FTSE TMX Canada Corporate Bond Index	5.44%	6.27%	7.96%	4.67%
Canadian Bonds	FTSE TMX Canada Universe Bond Index	4.78%	5.81%	7.42%	4.91%
Canadian Equities	S&P/TSX Composite TR	4.69%	7.19%	7.94%	14.57%
Guaranteed Investment Certificate	Average 5-Yr GIC	2.00%	2.94%	4.74%	0.82%

[1] Risk is defined as the monthly standard deviations of returns. Source: Morningstar Direct and PC Bond Analytics. As of January 31, 2017.

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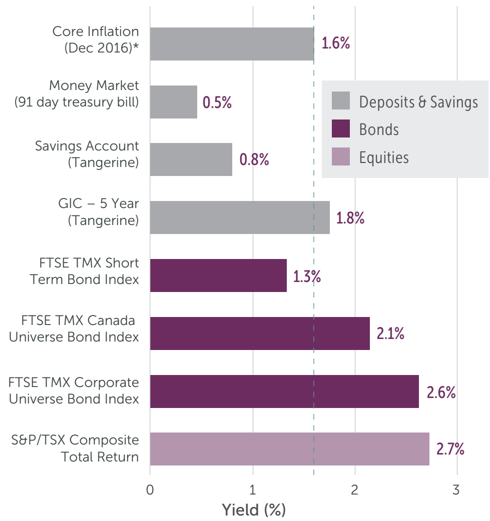
Why Bonds? – *For Income*

When the three income-producing categories – deposits and savings, bonds and equities – are placed side-by-side, corporate bonds come out on top, as one of the highest yielding asset classes. More importantly, a number of the asset classes yield close to or less than the level of inflation. These other categories are generating negative returns, when calculated in real terms. When you look at the bigger picture, inflation at 3% will erode 60% of today's purchasing power in 30 years time.

Source: PC Bond Analytics, ING, Bank of Canada, Bloomberg. Average running yields as at January 31, 2017.

* Percentage change over 1 year (unadjusted).

The Yield Drought

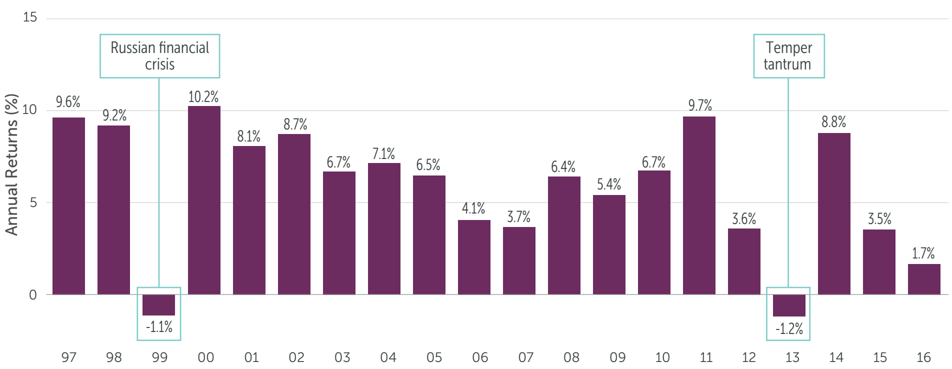


Why Bonds? – *For Capital Preservation*

There are losses, and there are losses – over the last 20 years, on a calendar year basis, the bond market has only posted negative returns twice. The worst year was 2013 – when the Canadian bond market lost only 1.2%. By comparison, equities have posted negative returns six times over the same period. The worst performance year was 2008, when the Canadian equity market fell by over 33%!

Numbers aside, the real danger for investors faced with such equity volatility is that they may abandon their investment plans, missing out on subsequent upside bounces. Bond investors wouldn't have been faced with such a decision.

Canadian Bonds – Returns and Rate Rises



Source: PC Data Analytics, reflecting the FTSE TMX Canada Universe Bond Index

For more information please visit imaxxwealth.com

Foresters Asset Management's approach to bond investing

- Managed by Greg Ross and team, with over 60 years of collective investment experience.
- The majority of portfolio assets in the imaxx Canadian Bond Fund are invested in the Canadian corporate bond market, with in-depth research, enabling the team to identify companies and corporate bonds that offer the greatest potential for higher coupon and returns.
- The team does not try to anticipate interest rates, but instead, employs a duration neutral strategy.
- Bonds rated below investment grade (BBB-) are not considered.
- The portfolio is 100% Canadian dollar.

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