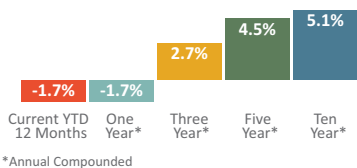
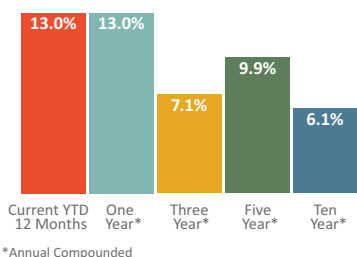


RON ZAMMIT

General Fund      Bond Fund\*

Fixed Income Fund



SHORT-TERM DEPOSITS	0.5%

and corporate debt securities.

## THERE IS A LOT OF TALK ABOUT BONDS

disciplined, balanced approach as they jump out of bonds and dive into equities.

Bonds have had a great 30-year run. During this period, interest rates fell from their lofty heights *Your Money Matters* this drop generated significant capital gains, which resulted in excellent returns both for investors

### WHAT DOES THIS MEAN FOR YOU?

invested in the Fixed Income Fund, returns could be below desired results for the next little while.

### THEN WHY REMAIN IN BONDS?

well-constructed portfolio. While every asset class goes through ups and downs, unless the situation is thought to be permanent, the expectation that an asset class could post a low or even a negative return is not reason enough to abandon the class altogether. Rather, it is an indication that the asset class should be managed.

### WHAT IS AFBS DOING TO MANAGE THIS SITUATION? AFBS remains committed to bonds.

- **Reducing** the time to maturity of our average bonds. This means that when interest rates go
- **Introducing**
- **Adding** the General Fund. Diversification into

want

(Continued on next page)

(Continued from front page)

source of funds for retirement, and their needs. We would ultimately

conditions that result from rising

our objective to capitalize as much as possible on the opportunities

conditions.

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for a casino, but was betting his own money; it sharpened his mental reflexes. Soon after, he started his own bond trading firm, Pacific Investment Management Co., known simply by its

the world lost money last year, for the first time since 1994. Gross has an amazing track record, but

based on an assumption that the American economy

## negative return.

*Bloomberg News*

said Gross was meditating during a yoga session in 2005 and started to worry about a housing findings, he steered clear of bonds invested in subprime mortgages.

The Bond King is still super rich. Gross is worth an estimated US\$2.2 billion, and is number 258 *Forbes*

the seven most powerful financiers in the world, but unlike many others in the .001%, he thinks he should be paying more taxes. The title of his newsletter on the subject was Scrooge McDucks,

“You rode it. And now it’s time to kick out and share some of your good fortune by paying higher taxes or reforming them to favour economic growth and labour, as opposed to corporate profits

Bonds aren’t Gross’s only obsession; he’s also a stamp collector, only one of three people to collect every stamp issued by the United States in the 19th century. In 2005, he paid US\$3 million for a misprinted stamp from 1918 that shows a biplane flying upside down. He then traded it for an 1888 Benjamin Franklin stamp, completing his 19th century collection.

negative return in the bond market last year.

Nurturing your health. Building yo



FRED LANGAN

You've just starred in a new commercial, the first one you've shot in 3-D. The residuals are pouring in so why not spring \$2,000 for a 55" TV so you can watch it in 3-D? On the other hand, you've been reading the business pages and the predictions are that the price will be \$1,900 next month, and maybe \$1,850 the month after. Being a rational economic being, you decide to wait.

That's deflation. People put off buying because prices keep falling; no one wants to be the sucker

happened in Canada and the United States during the Great Depression, which was kicked off by the stock market crash of 1929. It is why many economists fear deflation — falling prices — more than they do the rising prices of inflation.

economy) by 30%. Runaway deflation of this sort can be much more damaging than runaway inflation, because it creates a vicious spiral that it hard to escape," said an explainer on the *The Economist*

Another downside to deflation is that it hits people who are in debt. Say you have a \$200,000 mortgage at 3.2%. The monthly payment is \$967. In a period of deflation your income would fall, making it more difficult to pay the loan. Even though interest rates stay low, the debt becomes more of a crushing burden the longer deflation persists.

Deflation is almost an unknown phenomenon in the advanced economies of Canada, the U.S., and Europe. Ever since the mid-1930s most prices have gone up, with an exception being

the Battle of Waterloo, 1815, and the start of the First World War in 1914.

All of sudden the word deflation is popping up not just in theoretical terms, but in articles worrying that the Euro zone countries are heading for inflation, and in speeches by the new Governor of the Bank of Canada, Stephen Poloz. Since inflation is below 1%, in his first interview

This comes at a time when rates in the bond market are rising, in particular in the United States,

Just the thought of the word deflation has the financial world on edge. Some prices such as airfares are rising, and those are not part of so-called 'core' inflation. It all makes predicting

off buying

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