Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2011 NEWSLETTER

Carl Eppstadt, CLU, CHFC, CFP, CHFS
Julie Westall, CIM, CFP
Kristin Eppstadt

Carl's Comments

These are interesting times once again. We survived what a few had declared would be 'the end of the world' in May and yet some people around the world really did lose everything. We must continue to deal with the unexpected and be ready for it. Generally, bad news doesn't hit you between the eyes it instead hits you in the back of the head making it difficult to see it coming. No one predicted the Japanese earthquake and the tsunami that followed or the uprising in the Middle East. The key to successful investing is to have a long-term strategy and not be overly concerned by short-term volatility. This is accomplished by finding managers that manage risk successfully. We are constantly looking for managers that have outperformed the market with below average volatility. Our recent searches have brought us from New York to Santa Monica and places in between. As always, we continue to monitor the performance of all our managers and should they not measure up to our strict performance and volatility standards you can rest assured we will suggest changes.

After a slow start, it looks as though summer is finally here to stay. Let's all get out and enjoy it!

Pay now or Pay Later

Income of many high net worth investors is taxed at the highest marginal tax rate, currently 46% on income and interest. This obviously takes a big bite out of investment returns and this does not account for inflation. Consider a bond or GIC yielding a decent 4%, the after tax return is only 2% and after inflation, it's whittled down to zero.

For equities, the situation is less grim, as only half of the capital gain is taxed. For example, a mutual fund that gained 6% in one year and then was subsequently sold, would net a return of 2.5% after tax and after inflation. (See page 4 for fund returns in excess of 6%).

The key is to defer taxes as long as possible. By doing this, you are essentially receiving an interest free government loan. If you can earn income on this loan, your wealth will be enhanced. The traditional deferral vehicles have been RRSPs which become fully taxable upon withdrawal or after conversion to RRIF or annuity. However, now there is the TFSA, which provides a deferral for the life of the holder (and spouse if named as a successor holder) and withdrawals are never taxable. Used together, both the RRSP and TFSA are great tax deferral options as is the RESP.

You may be inclined to contribute to an RRSP rather than a TFSA because of the tax refund. However, these refunds (or government loans) must be eventually repaid either when you withdraw funds from the plan or upon retirement in a RRIF. Among other factors that will determine which plan is better for you is the tax rate when you contribute versus when you withdraw and the length of time the funds remain in the plan.

(Source: Financial Post, Thurs. Feb 17/11)

Retirement Tips

According to the latest TD Waterhouse Canadians and Retirement Report, most retirees are not confident they have saved enough for retirement. Here are a few of the more helpful pieces of advice they wished someone had told them before retiring: save more money than you think you will need, pay off all debts before you retire, don't leave the workforce too early and finally work with a financial professional. Seventy two percent of respondents suggest that you take care of your health and 67% say you should take time to understand what you want from retirement. These are simple recommendations, but ones that are not always followed. The bottom line is start earlier and save more.

(Source: IE Top tips Canadian retirees wish they knew before they retired, May 31, 2011)

Mortgage Insurance

Generally speaking, banks will offer you the option to purchase mortgage life insurance. In fact, usually you must sign a form if you decline the insurance. In most cases, you are much better off purchasing term life insurance on your own instead of purchasing mortgage life insurance offered by your bank. Here are a few reasons why:

1) Monthly premiums for mortgage life insurance are generally fixed per $1000 of your mortgage (no discount for good health) and the fixed rate is based on the age of the older person insured.
2) Every mortgage payment you make reduces your mortgage which means any payout you receive is reduced. With term insurance, the amount you are insured for remains constant.
3) The premium remains the same even though your residual mortgage and benefit amount decreases.
4) If you die, the bank receives the payment as you cannot assign to another beneficiary.
5) If you refinance or move, you must reapply for the bank's insurance. Premiums will increase with your age and health.
6) When your mortgage is paid off, the insurance ends. There is no option to keep or convert. This can have drastic effects if your health has changed or you become uninsurable.

If you have mortgage insurance or are thinking of purchasing it, give us a call first. You may be very surprised at how competitive term life insurance is over mortgage life insurance! Visit www.term-mart.com to request a quote.

Note: This insurance is not the same as CMHC mortgage insurance which is required if you have less than a 20% down payment.

Electronic Funds Transfer

We are now offering a new and easy method to make purchases with Electronic Funds Transfers (EFT). We can now request a withdrawal directly from your bank account into your investment account. This avoids some of the hassles of writing a cheque and then waiting on Canada Post. There is no extra charge for this service with the exception of what your bank would normally charge you for a withdrawal or cheque.

Pre-Authorized Contributions (PACs) are still the best method however to make regular, monthly or bi-weekly contributions. Contact us if you are interested in learning more on either EFTs or PACs.

Groupons

Group-buying and other deal-of-the-day websites have become extremely popular in a very short time. Ottawa has several of these discount companies, Kahoot, Swarmjam, WagJag and Kijiji to name a few. Groupon Inc.

has become so big that they have filed an initial public offering (IPO) that could value the company at $15 billion plus. The shares are expected to trade under the symbol “GRPN”.

Approximately 49% of us have visited group buying sites and 73% of us make purchases for items we had no intention of buying! Here are some tips for getting your money’s worth:

1) Buy only what you will use.
2) Take the deal if you were planning on buying the product anyways.
3) Read the terms carefully. Some businesses only let you use one coupon at time.
4) Do your homework. Some deals are more expensive than on the actual vendor’s website.

(Source: Globe and Mail Blog May 19/11)

Budget 2011

Rates and Brackets

Federal tax brackets and tax credits are indexed annually, this year the index rate is 1.4%. For federal tax calculation, the basic personal amount is now $10,527 and the top tax bracket is $128,800.

Rate	2010	2011
15%	10,382	10,527
22%	40,970	41,544
26%	81,941	83,088
29%	127,021	128,800

RESPs

The Federal budget proposes to allow subscribers of *individual plans* the same flexibility as *family plans*. This means that grants and income can be transferred and allocated among siblings without tax penalties and triggering the repayment of the Canada Education Savings Grant (CESG) as long as the beneficiaries are siblings and the receiving RESP was established before the beneficiary turned 21.

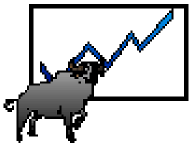
Children’s Arts Tax Credit

The budget also proposes a new tax credit for children’s art programs. This will allow parents to claim 15% on amounts up to $500 in eligible expenses for children under 16 at the beginning of the year. Eligible programs include artistic, cultural, recreational or developmental and must be on-going in nature. This credit is in addition to the fitness tax credit.

Registered Plans Prioritization

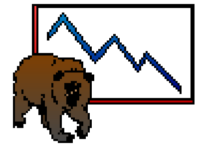
If there is any chance that your child may attend post secondary education, the RESP remains one of the best registered plans available. The government gives you a free 20% in grant money on contributions up to $2500 per year per child. Plus, you can go back one year and receive any unclaimed grants on another $2500 contribution. In addition, due to the child’s basic personal exception and several tax credits (tuition, text book, education amounts) likely none of the money in the plan will ever be taxed! The contributor can later withdraw the principal/ capital from the plan tax free, keeping the income and grant portions for the beneficiary.

There is often a misconception that the funds must be used for books, tuition, housing etc. The fact is that as long as the beneficiary is enrolled in a qualifying program, the money can be used for any purpose.



FUND REPORT

Compounded to May 31, 2011



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %
CANADIAN EQUITY						
BMO Dividend	Y	M	15.11	0.25	2.83	7.07
BMO Growth and Income	Y	M-H	28.68	5.84	5.48	12.18
Dynamic Power Canadian Growth	Y	H	11.66	-8.24	3.35	8.47
Fidelity Canadian Disciplined Equity A	Y	M-H	18.75	-0.61	5.75	7.91
Fidelity Dividend Plus (was Income Trust)	Y	M-H	26.65	11.19	10.05	n/a
Front Street Growth	Y	H	43.11	10.64	11.27	n/a
IA Canadian Conservative Equity	Y	M-H	21.75	3.66	4.67	7.93
Dynamic Small Business	Y	M	23.18	13.14	12.96	13.33
IA Clarington Canadian Small Cap	Y	H	18.58	2.37	2.05	12.66
IA Clarington Dividend Inc-T4	Y	M	12.32	-0.39	1.38	6.57
Sprott Canadian Equity	Y	H	42.80	0.10	8.36	19.47
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	Y	H	19.88	1.03	4.84	6.65
ROI Global Supercycle A	Y	H	33.00	n/a	n/a	n/a
Mackenzie Cundill Value C	Y	M	15.54	0.60	0.58	3.92
Mackenzie Cundill Recovery C	Y	H	25.20	-0.45	5.19	11.30
BALANCED FUNDS						
Acuity Canadian Balanced	Y	M	11.76	1.39	3.11	7.02
Acuity Conservative Asset Allocation	Y	L-M	10.84	3.26	3.10	n/a
IA Clarington Tactical Income	Y	L-M	15.68	n/a	n/a	n/a
Dynamic Value Balanced	Y	M	13.25	4.33	5.82	8.07
Dynamic Power Balanced	Y	M-H	10.72	1.27	6.66	8.52
Fidelity Canadian Asset Allocation A	Y	M	11.04	1.67	5.44	6.03
Fidelity Canadian Balanced	Y	L-M	15.01	3.62	6.66	7.02
Fidelity Income Allocation	Y	M-H	12.78	6.21	6.87	n/a
OTHER FUNDS						
Vertex Fund	Y	H	23.32	10.59	11.03	15.09
Arrow High Yield	Y	H	9.96	12.18	8.33	n/a
Front Street Special Opportunities Canadian	Y	H	33.76	13.27	14.34	n/a
COR U.S Equity Income	Y	H	16.75	-10.37	n/a	n/a
Arrow Focus	Y	H	9.21	-0.17	0.47	n/a
Sprott Opportunities Hedge Fund LP	Y	H	14.98	2.09	7.05	n/a

All Mutual Funds Sold by Prospectus Only & Hedge Funds Sold by Offering Memorandum

* Funds sold by Insurance Companies Source of Data – Globefunds.com