Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SUMMER 2012 NEWSLETTER

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Carl's Comments

It would be careless of me not to discuss the euro despite the fact that we are tired of hearing about the Eurozone. Many said that the euro would not work and some twenty years later, it seems they were right. Those who deemed it would fail, were of the opinion that unless you have a political and fiscal union, you cannot have common currency. It is still too early to know if the euro will survive, but one thing is for sure, it's a big mess that is going to take time to clean up. It seems like the costs to abandon the euro is really what's holding the whole thing up. The countries involved are staying with the euro like a married couple who can't stand one another but can't afford to get a divorce.

Markets do not like uncertainty and there has been much uncertainty about the Eurozone and the ability of political and financial authorities to resolve the crisis efficiently. As investors, we should try not to overreact to all the bad news and instead be patient. Investments in Canada remain healthy and our economy is expected to grow by 2.1% in 2012 and 2.4% in 2013.

Source: Desjardins, Economic and Financial Outlook, Volume 17, Summer 2012

Buyer Beware

Not all insurance policies are created equal. This is especially true with permanent, disability and critical illness policies as there are countless different definitions, features, riders and conditions. If you simply look at price alone, which many of us do, you could be putting yourself at a huge disadvantage.

In a disability policy for example, there is a big difference between <u>any</u> occupation and <u>own</u> occupation. "Any" occupation usually means that an insured person will be considered disabled only if they are unable to perform duties of any occupation in which they are qualified. "Own" occupation on the other hand usually means that the insured is considered totally disabled if they cannot perform the duties of their own occupation. Under this definition, benefits may still be paid if they are subsequently employed in another occupation. The cost of the cheaper "any occupation" policy may come back to bite you.

If you want a second opinion or just need piece of mind, we will review your existing policy to determine if the coverage is still needed, if the policy continues to provide good value and if there are any limitations that you should be aware of.

Retiring Civil Servants

For many, a pension may be the largest asset one has and it could easily be cut in half. Upon retirement, your pension as a civil servant is roughly 60% of your final year's income. In the event of your death, your surviving spouse will receive only half or <u>30% of your pre-retirement income</u>. That is a substantial loss of income that would most likely affect the family's standard of living. Because the present value of your pension is such a huge number, it is worth protecting and downloading at least some of this potential loss through insurance.

On the same topic, if you were to marry after retirement, your survivor would not normally be entitled to a pension at all. Depending on your situation, you may be able to elect to provide your survivor with a benefit by taking a reduction in your own pension (contact your HR department).

Tax Free Savings Accounts (TFSAs)

CRA has issued 76,000 notices to Canadians that over-contributed to their TFSAs in 2011. In most cases, the individual was unaware that they had more than one TFSA or the over-contribution was the result of funds being withdrawn earlier in the year and then re-contributed in the same year. At 1% per month, the penalties are high for over contributions to both TFSAs and RRSPs. Just as you would before making your RRSP contribution, double check that you have the room before making your TFSA contribution.

Current TFSA contribution room =
This year's $5K limit + last year's withdrawals + any unused room - this year's contributions

Choosing the Right Beneficiary

Selecting your beneficiary correctly is very important and can save time, money and probate fees. Upon your death, the value of your RRSP will be taxed as earned income and taxed at your marginal tax rate, unless you name a qualified beneficiary. By naming a qualified beneficiary such as your spouse, common-law partner, financially dependent children or grandchildren taxes can be deferred.

There are no tax deferral options if your children are adults or if you leave your RRSP to a relative or friend. The entire value of the RRSP will go to the beneficiary and your estate will end up paying the taxes. This might not be at all what you had intended and as such, careful consideration is required.

You can name a charity as the beneficiary. A donation credit will be applied on your final tax return for the value which will offset the taxes owing.

If you select your Estate, taxes are paid on the final value of your RRSP and the assets will also be subject to probate fees (roughly 1.5% in Ontario) as are all assets that pass through your estate.

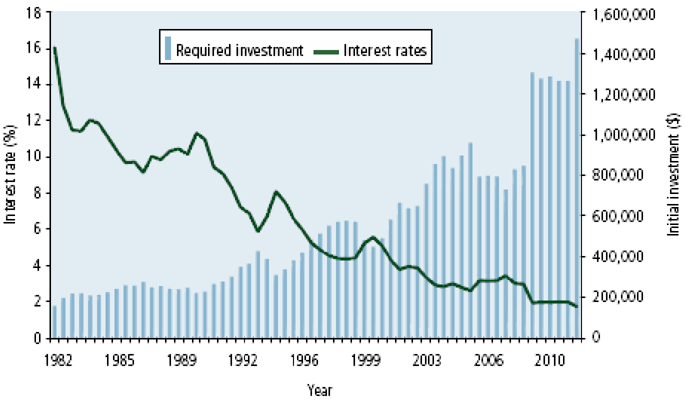
PROVINCIAL PROBATE/VERIFICATION FEES AND TAX CHART

Province	Value of estates	Fees/tax
British Columbia	Up to $25,000	$0
	$25,001 to $50,000	$208 + $6 per $1,000 in excess of $25,000
	$50,001 or more	$358 + $14 per $1,000 in excess of $50,000
Ontario[1]	Up to $50,000	$5 per $1,000
	$50,001 or more	$250 + $15 per $1,000 or portion thereof in excess of $50,000
Quebec	Non-notarial will	n/a – (court verification fee only)
	Notarial will	No fee

Source: Probate chart. Manulife 2012 Advisor Quick guide, page 50

GIC Income - Not What It Once Was

How things have changed in 30 years. As you can see from the graph below, in 1982 when interest rates were just over 16%, it took only $155,000 to generate an income of $25,000. Today, with 5 year rates around 2.5%, it would cost over $1,000,000.



Source: Morningstar Direct as at October 31, 2011. For illustration purposes only.
The chart displays a six-month rolling average of historical Canadian five-year GIC rates.

Some Canadians that retire with a healthy amount of savings may end up receiving less income during their retirement years where the dependency is solely based on GIC portfolios. Although bonds and GICs can be a valuable part of your overall portfolio, they may not be the best way to generate consistent annual income. Instead, we must be smarter and look for other low-risk income options.

Mortgage Insurance

We have written about this in the past but feel it is important enough to repeat. Mortgage insurance is offered by your bank when you get or refinance a mortgage. It is simply an insurance policy that pays off the balance of your mortgage if you pass away. As your mortgage decreases, so does the payout. The cost is built into your payments and is based on the mortgage amount and your age at the time of the application. Premiums do not reduce as your mortgage decreases but the coverage does. There is no automatic renewal, you must reapply at the end of the mortgage term and be insurable.

Term insurance on the other hand is a superior solution, is usually cheaper and is far more flexible. You choose the amount of coverage and coverage does not decrease. Premiums stay the same for the term, insurance and premiums are guaranteed, you can choose to keep the policy for life, you choose the beneficiary and death benefit proceeds can be used in any way.

Bottom line: Mortgage insurance is better for the lender, term insurance is better for you.

Debt-to-Income Too High

According to Statistics Canada, the household debt-to-income of Canadians rose again in the first quarter of 2012 to 152% from 150.6%. This figure is of great concern to the Bank of Canada as it exceeds that of the US and Britain. The good news is nearly half of Canadians with debt, have made some efforts, such as early lump sum payments, to pay off their obligations in advance.

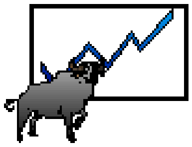
Source: The Canadian Press 5/28/12. Study by CIBC.

Tax Tip:

Don't include property tax payments with your mortgage payment as most banks will charge you interest for this service. Instead, pay them monthly. 10 monthly payments are withdrawn from your bank account from January to October, giving you a break for November and December!

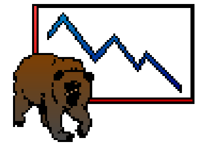
You must apply before December 15th.

Visit the City of Ottawa site below to learn more.
http://tinyurl.com/proptax10



FUND REPORT

Compounded to May 31, 2012



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %
CANADIAN EQUITY						
BMO Growth and Income	Y	M-H	-7.16	14.66	2.32	10.0
Fidelity Canadian Growth	Y	M	-4.74	7.88	-1.89	4.38
Dynamic Small Business	Y	M	3.20	19.84	9.24	14.19
Fidelity Canadian Disciplined Equity A	Y	M-H	-16.21	5.45	-1.55	6.05
Fidelity Dividend Plus	Y	M-H	-3.69	18.45	6.45	n/a
Fidelity Canadian Large Cap	Y	M	4.44	15.44	5.74	8.65
Front Street Growth	Y	H	-39.23	12.26	-2.55	13.01
IA Clarington Canadian Conservative Equity	Y	M-H	-5.94	10.26	1.83	6.68
IA Clarington Strategic Equity Income	Y	L-M	-5.86	7.67	-3.0	4.84
IA Clarington Canadian Small Cap	Y	H	1.93	14.08	0.54	8.91
Sprott Canadian Equity	Y	H	-37.58	3.29	-6.31	7.81
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	Y	H	-15.09	6.83	-3.89	4.76
ROI Global Supercycle A	Y	H	-17.29	2.58	n/a	n/a
Mackenzie Cundill Value C	Y	M	-19.55	2.19	-6.21	1.06
Mackenzie Cundill Recovery C	Y	H	-22.53	4.25	-5.62	6.18
BALANCED FUNDS						
AGF Monthly High Income	Y	L-M	-4.79	14.24	2.68	n/a
CI Signature Canadian Balanced	Y	L-M	-5.47	6.42	1.31	5.93
Dynamic Power Balanced	Y	M-H	-12.11	4.06	0.65	6.66
Dynamic Value Balanced	Y	M	-12.49	4.63	0.15	5.91
Fidelity Monthly Income	Y	L-M	1.45	12.26	4.08	n/a
Fidelity Canadian Asset Allocation	Y	M	-7.62	3.82	0.55	5.13
Fidelity Canadian Balanced	Y	L-M	-2.82	7.43	2.89	6.20
Fidelity Income Allocation	Y	M-H	4.36	14.79	4.92	n/a
Mackenzie Cundill Canadian Balanced	Y	M	-8.70	8.93	0.26	3.95
OTHER FUNDS						
Vertex Fund	Y	H	-11.48	16.66	4.29	12.33
Arrow High Yield	Y	L	-3.2	8.4	4.6	n/a
Arrow Raven Rock	Y	H	2.4	n/a	n/a	n/a
Act ll Long/Short	Y	H	-8.9	2.8	n/a	n/a
Sprott Opportunities Hedge Fund LP	Y	M	-15.44	-1.32	1.79	n/a

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

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