Future Financial News

Winter 2013 Newsletter

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

Carl Eppstadt, CLU, CHFC, CFP, CHFS
Financial Planner

Julie Westall, CIM, CFP
Financial Planner

Kristin Eppstadt

Carl's Comments

Another interesting year has come and gone. With that, certain things are likely to continue in the financial world, the biggest of which I would argue is volatility. There is a lot of uncertainty and misconception among investors how to reduce volatility. Since the meltdown in 2008, a growing number of investors have parked their capital into fixed income investments. In fact, currently 60% of Canadian household net worth is held in investments outside of the equity market. This amounts to a whopping $1.1 trillion dollars and according to most analysts, is the highest on record.

Bonds have traditionally been a safe haven but with massive amounts of money pouring in, the bond market has become overinflated. There is no question that fixed income and bond funds have done well in the past few years and this came at the expense of equities and their devaluing stock prices. I was at a conference in November with the largest investment company in the world. Most often I leave these meetings with a lot of ideas but no general consensus. This time, things were different. Ten of their 600 analysts were present and the consensus is that equities are currently very cheap in relation to bonds.

In fact, equity prices are so low relative to their fair values that their total returns would be significantly above bond returns even if it took many, many years for both markets to return to their means. In the past, movement to any extreme has always been followed by a substantial drift in the opposite direction. The technical underpinnings of fixed income markets are mixed/negative, and consistent with a maturing bull.

Equity inflows, as measured by the Investment Company Institute, are at extreme lows. This is an indicator typically associated with stock market bottoms. In all major regions, we see price/earnings ratios ranging from reasonable to historically attractive and improving investor confidence holds the potential for compelling returns from equities.

What am I really trying to say?

Pouring money into overpriced asset classes because they have been good for the last several years is certainly no guarantee they will take you to the Promised Land in the future. One would always be advised to look for undervalued asset classes. At the moment, it would appear that we should stay away from overpriced fixed income assets and Toronto condo's too.

Happy Holidays and may you and yours be happy, healthy and prosperous in the New Year!

Hello Savings. Goodbye Taxes.
As of January 1st, you can contribute another $5500 into your Tax Free Savings Account.

Don't have a **TFSA**? Contact us today.

Give Thought To Your Legacy

Four ways insurance can be a useful tool to preserve one's legacy.

- Use a **Permanent life insurance policy (single or joint lives) to fund tax liabilities** upon the death of the insured. The life insurance proceeds may avoid having to liquidate other assets (ex. family cottage) to pay CRA the taxes resulting from a deemed disposition upon death.
- Name a **charity as your life insurance beneficiary** rather than naming one in your will. Proceeds are paid directly to the charity, avoiding your estate and probate fees. The death benefit proceeds will trigger a charitable tax receipt. Premiums will not trigger a tax credit unless the charity becomes the owner of the policy but in this instance, the death benefit does not receive any tax credit.
- By **insuring your children with their grandchildren as the beneficiary you can transfer wealth** efficiently on a tax-advantaged basis through generations. Choose premiums that are paid up after an age is reached or after a period of time (i.e. 10 years) so the children are not left paying premiums or buy a life annuity to cover the premiums.
- Upon retirement, **access the cash value** of permanent life insurance through a collateral assignment of the policy. The **loan is tax free** and can supplement retirement needs.

Source: AE Sept 2011. Four Ways to Tailor Life Insurance for Wealthy Clients.

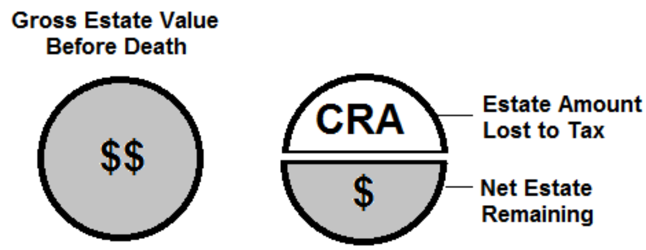
Protecting Your Estate Through Risk Management

Your estate or your spouse should not be left to bear all the financial risks if you pass away. It is important and prudent to explore options to manage and download risks to someone else, i.e. an insurance company.

Consider two scenarios;

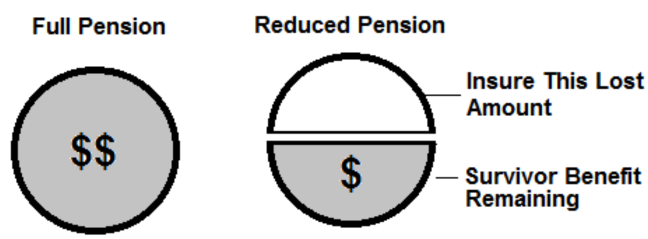
<u>#1 – RRIF Insurance</u>

Upon your death, your RRSP/RRIF will be fully taxable at 100% of your marginal tax rate. For some, this means 46% will be lost to tax! Why not protect this loss



<u>#2 – Pension Insurance</u>

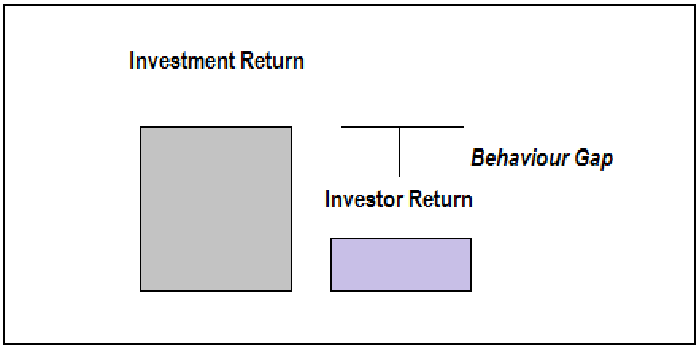
The present value of your government or other employer pension is HUGE. If your spouse survives you, you may lose up 40% of your pension or 65% of pre-retirement income. Can your surviving spouse continue to live at the same standard of living? Don't take the risk.



Contact us to explore these and other options that are available for your unique situation.

Emotional Investing

Volatility is here to stay and markets are irrational. No one can predict the future and the past is not indicative of what lies ahead. Emotions and cognitive biases are the main reasons investors make costly mistakes.



The right approaches to investing:

- Stay the course
- Be invested for some growth
- Diversify through asset classes and countries
- Maximize the benefits of compounded growth through tax deferred investments (RRSP, TFSA)
- Use tax efficient products (Corporate Class, T-SWP and Capital Yield funds) where possible in non-registered accounts
- Rebalance regularly to align with your risk objectives

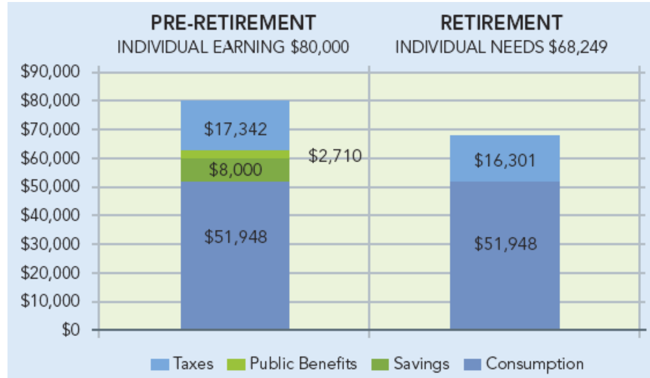
Source: AE Feb 2012, Emotional economics.

Fighting the Clawbacks

To reduce clawbacks, you need to reduce your income on line 234 of your tax return. In retirement, the usual means of reducing income such as RRSP and pension plan contributions, child care costs and union dues are no longer available. It now becomes even more crucial to carefully structure all non-registered income to be tax-advantaged.

How Much is Enough?

Conventional thinking has shown that a retiree needs 60-70% of pre-retirement income. This is contrary to Fidelity's research that shows in order to maintain your lifestyle in retirement, one would need 75-85%. Canadians are living longer and people are less likely to slow down and downsize in early retirement so spending tend to stay the same.



Source: Fidelity Investments Canada. The changing state of retirement in Canada. Page.

Farewell to our Penny

The Mint will stop circulating pennies as of February 4, 2013 (Kristin's birthday!) The cost to produce a new penny was 1.6 cents and eliminating its production will save roughly $11 million per year. The final price of products will be rounded to the nearest 5 cents if using cash. If using other forms of payment, there is no change.

RRSP Reminder

The last day to make an RRSP contribution for 2012 is March 1, 2013. If we have your bank information on file, we may be able to directly withdraw from your bank account.

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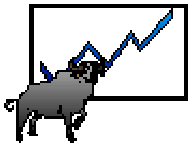
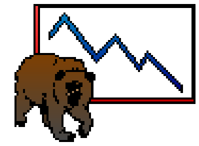


FUND REPORT

Compounded to November 30, 2012



Fund	RRSP Eligible	Volatility	1 yr %	3 yr %	5 yr %	10 yr %
CANADIAN EQUITY						
BMO Growth and Income	Y	M-H	8.22	11.44	5.14	10.82
Fidelity Canadian Growth	Y	M	9.00	6.19	-1.47	6.12
Dynamic Small Business	Y	M	5.61	12.38	9.43	17.39
Sentry Canadian Income	Y	M	10.62	13.18	7.59	13.67
Fidelity Dividend Plus	Y	M-H	10.65	12.32	8.91	n/a
Fidelity Canadian Large Cap	Y	M	2.87	10.98	5.43	10.96
Front Street Growth	Y	H	-23.07	-1.44	-0.49	13.59
IA Clarington Canadian Conservative Equity	Y	M-H	4.85	8.14	3.85	7.78
IA Clarington Strategic Equity Income	Y	L-M	8.60	4.99	-0.82	5.61
IA Clarington Canadian Small Cap	Y	H	17.72	10.20	2.77	10.66
Sprott Canadian Equity	Y	H	-20.40	-0.12	-4.45	10.27
INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	Y	H	2.10	1.75	-2.31	5.68
ROI Global Supercycle A	Y	H	3.31	1.58	n/a	n/a
Mackenzie Cundill Value C	Y	M	5.84	0.58	-3.40	3.91
Mackenzie Cundill Recovery C	Y	H	5.35	1.24	-5.64	9.23
BALANCED FUNDS						
AGF Monthly High Income	Y	L-M	5.32	9.35	4.58	n/a
CI Signature Canadian Balanced	Y	L-M	5.54	4.35	2.68	7.30
Dynamic Power Balanced	Y	M-H	1.79	1.05	0.65	7.85
Dynamic Value Balanced	Y	M	5.35	2.72	3.15	7.34
Fidelity Monthly Income	Y	L-M	6.74	8.42	5.17	n/a
Fidelity Canadian Asset Allocation	Y	M	1.00	2.54	1.48	6.30
Fidelity Canadian Balanced	Y	L-M	5.70	6.09	3.50	7.09
Fidelity Income Allocation	Y	M-H	6.29	9.25	6.51	n/a
Mackenzie Cundill Canadian Balanced	Y	M	10.32	6.70	3.62	5.23
OTHER FUNDS						
Vertex Fund	Y	H	11.26	9.06	5.97	14.96
Arrow High Yield	Y	L	4.90	6.00	6.50	n/a
Arrow Raven Rock	Y	L	6.90	n/a	n/a	n/a
Act ll Long/Short	Y	M	6.90	5.10	n/a	n/a
Curvature Market Neutral	Y	M	8.10	7.30	n/a	n/a

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

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201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. www.futurefinancial.com