Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

AUTUMN 2013 NEWSLETTER

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Carl's Comments

This year in particular, there certainly is a lot of discussion around fees. I believe that instead of talking about absolute fees, the focus should be on performance and value for those fees. I also subscribe to the Pareto principal (aka 80/20 rule of thumb) which, seems to apply to most things in life and across almost all industries from homebuilders to lawyers.

So, when individuals talk about passive management outperformance they are likely right when looking at 80% of the managers. But when we focus on the 20% of the extremely active managers there's absolutely no comparison between active and passive management.

When I say passive management, I am referring to ETF funds investing. Academic research by the University of Notre Dame and Yale has found that the more a fund differs from the benchmark, the more it outperforms the benchmark after fees. Said the other way, funds that are similar to the benchmark tend to underperform.

For instance, David Taylor at IA Clarington last year had over 40% of his Canadian equity portfolio in US equities and he surpassed both the index and his peers by over 10% last year. Over the last 10 years he has outperformed both his peers and the S&P/TSX by over 4% per year after fees. Another extremely active manager Daniel Dupont who manages Fidelity Canadian Large Cap had over 46% in foreign equities last year and beat the index by a whopping 15% after fees. Again, in the past 10 years that fund's performance exceeded 4% annually over and above the benchmark index after fees.

Of course there will continue to be more and more chatter about fees. My belief is that the best minds in the world ought to be paid and that their fees should be based on performance. The reason that index hugging is cheap is because it doesn't involve a lot of research and evidence shows it does not outperform the greatest minds in the world.

Keep in mind that if you were having brain surgery, you would not hire the cheapest brain surgeon but would want the most competent, regardless of price. It should be no different with money management. A good manager may cost you 1% more but could possibly earn you in excess of 4% annually over and above index performance.

The debate between active versus passive management will continue for years to come. We will continue to do our due diligence and hire the best managers which will serve you well.

Probate is Getting Uglier!

The revised process for Probate, properly termed **Estate Administration Tax**, entails new reporting, enforcement and penalties for those that provide misleading or false information. These changes are likely to result in decreased privacy and increased delays and expenses.

Estate administration tax is charged on your estate value when the probate application is filed. As your advisor, we can add value through appropriate Estate planning prior to one's death.

Methods to Exclude Assets from Probate:

- Joint Tenant with Rights of Survivorship (JTWROS)
- Beneficiaries on RSPs, RIFs and TFSAs
- Beneficiaries on insurance contracts including life insurance, critical illness, annuities and segregated funds
- Executing multiple wills, removing certain assets from being subject to probate
- Appropriately structured trusts
- Gifting assets during one's lifetime
- Estate freeze

You should carefully consider a number questions before transferring assets from your estate, including: 1) does this make financial sense? (i.e. do the benefits outweigh the costs); 2) is it worth the time and effort?; and 3) are you willing to give up some control?

Source: Advisor.CA New Estate Tax Rules in Ontario. Dec 7/12

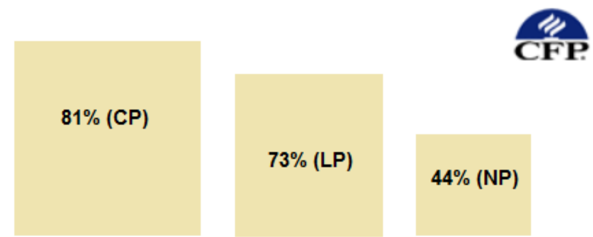
Tax Tip Designating your child as the beneficiary on your RRSP can help avoid probate but not taxes. Your child will receive the full value of your RRSP but your estate must pay the taxes owing and the estate may not have enough money.

Valuing Financial Planning

A recent three year study by the Financial Planning Standards Council (FPSC) found that *"Those Canadians who engaged in comprehensive financial planning with a CFP professional confirm significantly higher levels of financial and emotional well-being."*

Of those surveyed, 81% of those with a comprehensive financial plan (CP) feel on track with their financial affairs compared to 73% who have limited planning (LP) or 44% with no planning (NP).

Percent of Respondents that feel on track with Financial Affairs



Those that have a comprehensive plan through a CFP also feel more confident and on track to retire, have improved their ability to save and are better prepared to deal with unexpected life challenges. The report goes on to show that it's not all about saving, planning is also about living for today, being able to take annual vacations, live comfortably and still be able to indulge in the finer things in life. Those with plans are much more confident in achieving these goals.

Financial Planning IS NOT:

- The same as investing
- Primarily tax planning
- Only retirement planning
- A quick financial fix

Financial Planning IS:

- A big picture approach
- A long term strategy
- A dynamic process that changes over time
- All encompassing
- Dependent on realistic data

Source: The Value of Financial Planning. FPSC

Where there's a Will there's a Way

The majority of Canadian adults have not prepared a will. While most of us understand the importance of a will, this is something that all too often falls through the cracks. If you fail to prepare your own will and therefore die intestate, the government will do it for you. However, you may not like what it says.

The Ontario Succession Law Reform Act (SDA) sets out the following methods for distribution on one's assets without a will.

Spouse only - entire estate goes to spouse.

Spouse + 1 child - $200k to spouse and remainder split equally.

Spouse + children - *$200k to spouse, remainder split 1/3 to spouse and 2/3 equally to children.*

Children only – share equally

No spouse/children – estate goes to deceased's parents else, split equally between siblings (or their children). If only nieces and nephews, they share equally.

No lawful heirs – estate becomes property of the province.

There are many other factors that will also come into play and this is just the tip of the iceberg. The bottom line is that having an up-to-date will enables you to transfer your assets to loved ones and/or charities in the most cost, tax and time efficient way possible!

Source: Advisor.ca Sept 18, 2012. What Not to Do in Estate Planning

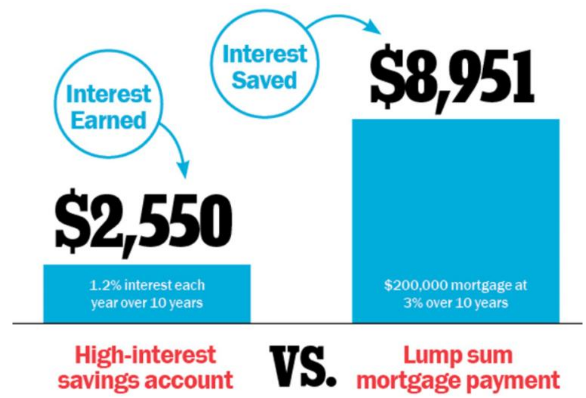
True or False – Test your Knowledge!

1) Common-law and legally married spouses are now treated equally for all purposes under the law.
2) A beneficiary may not act as an executor of a will.
3) A beneficiary may not witness a will.
4) As a general rule, Canadians are deemed to have disposed of their capital property immediately after death.
5) Where more than two executors are appointed, they must act unanimously.

Source: AE Report May 2013 Estate Planning Quiz p.9

Emergency Fund – Yes or No?

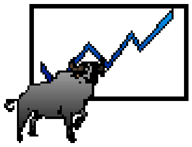
Certainly at one time or another whether by a parent, friend or financial advisor, it has been recommended to save $10,000 or perhaps six months of living expenses for "emergencies". The ability to save is essential to a healthy retirement plan and should not be discounted. However, those with stable incomes and expenses might consider the advantages of having a credit line as a source for emergency funds and instead apply savings to interest bearing loans and mortgages.



As shown in the above example, the cumulative payments towards your mortgage far outweigh the interest earned in the emergency fund. Furthermore, to compare correctly, the savings of $8,951 are *after tax* and would equate to almost $14,000 *before tax* at a 36% marginal tax rate.

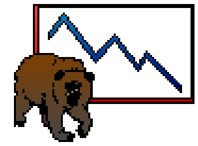
Source: Moneysense.ca September/October 2013 pg. 9

Answers: 1)False 2)False 3)False 4)False 5)True



FUND REPORT

Compounded to August 31, 2013



Fund	Volatility	YTD % (Oct 3/13)	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITY						
BMO Growth and Income	M	2.43	5.03	7.22	4.17	9.33
Fidelity Canadian Growth	M	31.06	36.24	15.15	4.46	8.12
Dynamic Small Business	L-M	3.08	0.72	7.28	9.80	14.15
Sentry Canadian Income	L-M	10.64	12.47	12.81	8.21	12.32
Fidelity Dividend Plus	M	3.09	3.98	8.02	7.32	n/a
Fidelity Canadian Large Cap	M	25.68	31.25	18.21	9.33	12.73
Front Street Growth	H	-6.94	-5.82	-6.71	-2.83	9.63
IA Clarington Canadian Conservative Equity	L-M	3.87	6.54	6.57	3.50	6.87
IA Clarington Strategic Equity Income	L-M	11.32	13.44	n/a	n/a	n/a
IA Clarington Canadian Small Cap	L-M	23.32	25.68	15.99	7.92	10.84
Sprott Canadian Equity	H	-32.89	-29.99	-13.81	-9.62	4.64
US/INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery	M	14.08	16.79	4.91	1.96	6.52
Fidelity Small Cap America	M-H	33.85	35.57	28.08	11.54	6.71
Mackenzie Cundill Value C	M	24.68	32.96	10.95	4.28	5.12
Mackenzie Cundill Recovery C	M-H	3.03	16.35	1.86	0.52	6.44
BALANCED FUNDS						
AGF Monthly High Income	M	4.28	5.61	6.34	6.13	n/a
CI Signature Canadian Balanced	L-M	6.45	8.27	6.02	3.95	7.27
Dynamic Power Balanced	M	6.13	7.27	1.38	0.98	7.60
Dynamic Value Balanced	L-M	11.21	14.36	4.74	3.53	7.80
Fidelity Monthly Income	L-M	7.19	9.07	8.35	6.65	n/a
Fidelity Canadian Balanced	L-M	6.79	7.69	5.95	4.04	6.76
Fidelity Income Allocation	L-M	4.39	5.93	6.65	6.22	n/a
IA Clarington Focused Balanced	L-M	9.98	15.59	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced	M	12.16	19.61	10.54	6.79	5.81
Vertex Fund	M	8.47	12.77	7.24	7.54	n/a
Arrow High Yield	L	1.40	3.40	3.60	6.40	n/a
Arrow Raven Rock (I)	L	2.20	2.90	6.30	n/a	n/a
Act ll Long/Short	M	7.90	7.20	5.00	4.60	n/a
Curvature Market Neutral	L	4.10	4.60	8.10	n/a	n/a

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

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