Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2014 NEWSLETTER

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Carl's Comments

The combined ten year average for Canadian equity funds listed on page 4 is 9.9%. This steady growth includes the 2008 financial crisis, the largest pullback in the market since the Great Depression. I've often said that for me, the difference between buying at the right time or the wrong time is a lot like a bad haircut. Within two weeks the damage is corrected.

What do we learn from looking back? We know that market pullbacks are investment opportunities. However, it is not always easy to buy in during those moments. Warren Buffett sums it up quite nicely "Be fearful when others are greedy and greedy when others are fearful".

If you are more conservative, consider the return on balance funds rather than pure equities. The combined ten year average of the funds listed on page 4 is 7.23%. These returns were generated with 50-60% of the volatility of the S&P/TSX. These are of course <u>net</u> returns, after fees.

By way of comparison, buying a five year GIC ten years ago with zero volatility would have earned you 2.9% (after factoring for inflation) which is even lower today. My case remains unchanged. Even with the most market volatility experienced in 50 years, if you just hung on and rode out the cycle you would be well rewarded.

Most of us, with the exception of active portfolio managers, do not welcome volatility. With interest rates so low however, I believe some amount of volatility no matter your age is necessary to generate returns. These returns help to offset eventual retirement risks such as inflation and longevity. Unfortunately, one million dollars in a five-year fixed GIC today only generates $25,000. Those that invested over the past ten years in, for example, the balance funds listed on page 4, would have generated an average of $70,000 per year. As longevity risk increases, so does our purchasing power risk. All risks must be considered appropriately.

Carl's Comments Part 2- The Fee Discussion

I'm often asked about lower cost funds. Many of you have probably heard me say that evaluating low fee or EFT funds can be compared to low cost brain surgery. You would never want the services of the cheapest brain surgeon, so why is it any different when choosing a money manager?

A common issue with these funds is the exposure you get is not always the exposure you want. Assuming you bought a Canadian ETF fund or passive lower cost fund in the last 24 months, there's a good chance that it greatly underperformed US and International bench-marks. Had you instead invested with an opportunist manager, their asset allocation likely would have included exposure to both the US and International markets, and would have significantly increased your overall returns. As one Dynamic Codes states "Don't hug the index. Beat it into submission".

Not convinced? Let's look at the Fidelity Canadian Large-Cap fund managed by Dan Dupont. His average 5 year return was 21.94% vs. the S&P/TSX of 15.14%. Obviously he did something different than the index. In reality, he did a lot of things different. He had almost half of

his money in foreign equities which substantially outperformed Canadian equities. He also benefited from currency appreciation outside of Canada. He didn't stop with just geographical weighting; his sector weighting did not look anything like the index either. The three big drivers of the S&P/TSX are financials at 35%, energy at 25% and materials at 12%. Unlike the S&P/TSX at a 5% weighting for Consumer Staples and Information Technology, Dan had 50% of his sector weighting split almost evenly between the two. Now that's not index hugging, that's active management!

When I see ETF fund firms spending big marketing dollars to convince you how much more you could potentially have after 10, 15 or 20 years out, it bothers me. It bothers me because they don't tell you that your investments are merely index huggers. It's not advertised that there is zero active management. There is no rebalancing, no steps to reduce volatility or risk. Trading costs are not included nor is the cost of your time or someone else's.

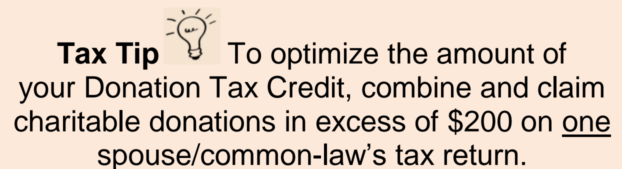
Our job is to invest your savings with the best managers. Managers that outperform the market and make the necessary adjustments as illustrated above. One final point, generally when a corporation becomes part of the index it's almost a curse, not a blessing. Just look at appreciation of Microsoft and Home Depot stock after those companies became part of the benchmark.

When to Take Retirement Income?

With new investment saving vehicles such as tax free savings accounts (TFSAs) and even more flexibility on when to take government benefits and employer pension plans, the question on when to start your income stream becomes more difficult. We can help you.
CPP and QPP can be taken at any time between age 60 and 70. OAS can be taken between 65 and 70. Although an RRSP must be converted to a RRIF before one turns 71, the conversion can be done long before.

If all income streams are deferred as long as possible, it can create a situation where income is kept artificially low in the early retirement years only to increase dramatically at age 71. A more tax effective approach to retirement planning makes use of all available tax credits, focuses on maintaining a steady stream of taxable income throughout retirement and minimizing exposure to clawbacks such as OAS and the age credit.

Each client's situation is unique. We will help determine whether you should take government benefits and RRSP/RRIF withdrawals sooner rather than later.
Source: Forum November/December 2013 pg. 32



Tax Tip To optimize the amount of your Donation Tax Credit, combine and claim charitable donations in excess of $200 on one spouse/common-law's tax return.

Are you claiming the Pension Tax Credit?

As you near retirement, it's important to take advantage of the various tax credits that are available. After all, what you net in your pocket after taxes is more important than what you earn.

The Pension Income Tax credit can be applied if you are 55 years of age or older. It allows you to deduct, from taxes payable, a tax credit equal to the lesser of your pension income or $2,000. Depending on which province you live in, this can equate to roughly $440-$720 in actual tax savings each year.

In order to claim the credit, the taxpayer must be in receipt of certain specified income. If you were **65 or older in the year, pension income includes**:

- Income from a Registered Retirement Income Fund (RRIF)
- Income from a superannuation or pension fund
- Annuity income from an RRSP or a Deferred Profit Sharing Plan (DPSP)
- Interest from a "prescribed" non-registered annuity
- Income from foreign pensions

- Interest from a non-registered GIC offered by a life insurance company

If you are not already receiving this credit, speak to us about converting some of your RRSP into a RRIF and withdrawing $2000 per year. The money withdrawn can be put back into a savings vehicle – preferably a TFSA if you have the room.

Note that if you are under 65 years of age, pension income sources may be different. Contact us for more information.

The **2014 maximum RRSP** contribution limit is **$24,270** (excludes carry-forwards and unused contributions).

Risks to Common Law Relationships

In Ontario, the common-law relationship will not generate property rights and will not revoke a prior will. When a marriage ends, the net family property which includes the family home (no matter whose home it was prior to marriage or who contributed more) is divided up and payments are "equalized". When a common-law couple splits, each person needs only to get back what they bought into the relationship. It sounds simple enough, however this can get complicated when funds, or even worse debts, are co-mingled and emotions and tensions are running high.

Although almost 20% of families are now common-law couples, the real growth is with older couples who are divorced or widowed and who are entering into a second relationship. They could be bringing significant financial assets into the relationship or may have only limited assets to live on should the relationship not succeed. Smart planning, early on is key. Having a discussion about a pre-nuptial or co-habitation agreement may be tough. The discussion should not plan for a separation but should be about decisions that will bring the least amount of inconvenience down the road. If you have the option of keeping finances separate, it can make things easier, provided you are aware of your partner's financial situation.*

As financial planners, we review all financial assets including, real estate, RRSP/LIRA, pensions, insurance, and non-registered assets. Should you have any questions, please contact our office.

A Common-law Partner Defined

A common-law partner is a person to whom you are not legally married, with whom you are living in a conjugal relationship, and to whom at least one of the following situations applies. He or she:

- has been living with you in such a relationship for at least 36 continuous months;
- is the parent of your child; or
- has custody and control of your child (or had custody and control immediately before the child turned 19 years of age) and your child is wholly dependent on that person for support.

Here, "36 continuous months" includes any period when you were separated for less than 90 days because of a breakdown in the relationship. Note that for CRA purposes, you are considered common-law spouses after just 12 months of co-habitation.

*Source: Morningstar.ca/ Common risks for common-law relationships/03/07/14 and Financial Post/Love and trust won't cut it: Couples need to clear up common-law confusion/03/09/13

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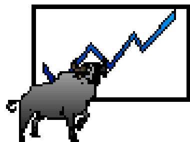
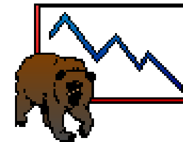


FFPG FUND REPORT

Compounded to February 28, 2014



Fund	Volatility	YTD % (Mar 19/14)	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
CANADIAN EQUITIES						
BMO Growth & Income Advisor	M	2.88	10.66	5.82	17.39	8.60
Fidelity Canadian Growth Sr. B	M	9.54	42.06	17.35	19.91	9.00
Dynamic Small Business Sr. A	M	3.39	10.21	6.12	17.94	13.00
Sentry Canadian Income Sr. A	M	4.22	17.12	12.15	19.45	11.38
Fidelity Dividend Plus Sr. B	M	2.40	6.71	6.60	3.68	n/a
Fidelity Canadian Large Cap Sr. B	M	2.53	27.14	16.87	21.94	12.25
Front Street Growth Sr. B (Resource Equity)	H	9.20	7.72	-15.00	13.83	7.76
IA Clarington Cdn. Conservative Equity Sr. A	M	3.63	8.63	5.75	12.54	6.86
IA Clarington Strategic Equity Income Sr. A	M	3.41	14.39	n/a	n/a	n/a
IA Clarington Canadian Small Cap Sr. A	M	5.30	33.37	17.63	22.21	10.31
IA Clarington Focused Cdn. Equity Cl. A	M	7.53	13.75	n/a	n/a	n/a
US/INTERNATIONAL/GLOBAL EQUITY						
Dynamic Global Discovery Sr. A	M	4.70	25.90	8.02	12.88	7.73
Fidelity Small Cap America Sr. B	M-H	4.80	39.59	28.52	28.28	8.28
Mackenzie Cundill Value Sr. C	M	2.14	22.55	8.64	13.90	4.68
Mackenzie Cundill Recovery Sr. C	M-H	7.96	9.02	0.47	17.24	5.04
BALANCED FUNDS						
AGF Monthly High Income MF Series	M	2.51	8.87	5.48	17.32	n/a
CI Signature Canadian Balanced Cl. A	L-M	3.50	11.43	5.71	10.19	7.07
Dynamic Power Balanced Sr. A	L-M	4.28	17.02	2.64	10.00	7.34
Dynamic Value Balanced Sr. A	L-M	4.35	15.43	4.64	12.85	7.83
Fidelity Monthly Income Sr. B	L-M	2.58	10.11	8.24	13.71	8.02
Fidelity Canadian Balanced Sr. B	L-M	5.03	15.11	6.81	11.27	7.10
Fidelity Income Allocation Sr. B	L-M	4.14	9.02	7.81	14.86	n/a
IA Clarington Focused Balanced Sr. A	L-M	4.81	12.80	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced Sr. C	L-M	2.48	13.42	7.61	14.74	5.99
ALTERNATIVE FUNDS *YTD for Arrow is Mar 14/14						
Vertex Fund Class B	M	5.24	18.98	5.1	20.26	10.53
Arrow High Yield Class A	L	2.2	5.4	3.0	8.0	n/a
Arrow Raven Rock (1) Class A	L	3.4	7.2	5.7	n/a	n/a
Arrow Act ll Long/Short Class A	M	-2.2	8.5	2.1	4.0	n/a
Arrow Curvature Mkt Neutral Cl A (capped)	L	1.8	8.4	6.8	n/a	n/a

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