

# Future Financial News

Certified Financial Planners, Chartered Financial Consultants, Chartered Life Underwriters

SPRING 2015 NEWSLETTER

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

*Julie Westall, Financial Planner, CFP, CIM, FDS*

*Kristin Eppstadt*

## Carl's Comments

### Are we rewarded for investment volatility?

I believe the answer is yes and our fund report on the back page supports this. Over 5 years, the best-performing fund returned 26.33% and the worst-performing fund returned 5.14%. The average 5 year return of all our shown funds is 10.42 and over 10 years is 8.11%. Keep in mind the ten-year average includes 2008, which was the worst market pullback in 50 years.

I often compare volatility to turbulence when flying. Nobody likes turbulence but flying is still the quickest way to get from Ottawa to California. If we glance at the passengers during periods of turbulence it is easy to spot seasoned flyers from those who are not. The seasoned flyer continues to read the newspaper and is confident the plane will not crash. The unseasoned flyer on the other hand has their fingernails jammed into the arm of the chair, convinced it's over. I exaggerate somewhat but I hope you can see my point.

We are constantly looking for funds that perform with below average volatility. This is not to say there is no volatility, just below average. While it would be nice to eliminate all volatility, this can only really be achieved by buying a GIC type product presently paying 2.5% (at most) locked-in for five years. Unfortunately, these dismal returns in our low interest environment are not likely to beat inflation. This is why it's clear that we are well rewarded for a little volatility.

Increasing your risk marginally can significantly enhance your return. There is a fine line when choosing investments and there is a point when

you are no longer rewarded for the excess risk. If you take on too much risk looking to hit the ball out of the park, you may just strike out.

I have observed that volatility can appear more exaggerated when dealing with larger investment portfolios. Assuming the value of your investment is \$5000 and the market falls 10%, you are off \$500 from your high watermark. This does not seem too bad and most of us can bear this. If instead your portfolio was \$500,000, a 10% drop is now \$50,000. Does this hurt more? In both scenarios, the decrease is 10% but, psychologically losing \$50,000 is more upsetting than \$500.

One advantage about volatility is that it gives us opportunities and choices. Don't forget we are rewarded for volatility and volatility can be our friend but only if we embrace it.

### Spending your Tax Refund

Reinvesting your refund annually supercharges your savings, thanks to the power of compounding investment returns.

It starts with saving by investing through an RRSP and deferring taxes to your retirement when you will be taxed in a lower tax bracket. There are a number of options to consider for the deferred taxes i.e., your tax refund, and we can help you work through these. For example, in addition to the initial RRSP investment, set yourself up even further for retirement by using your tax refunds to pay down debt or re-investing the funds in an RRSP, TFSA, or RESP.

### 6 Retirement Points to Consider

- Plan what you want your retirement to look like.
- Put your retirement plan in writing.

- Is working in retirement part of your plan?
- Get good advice from a financial planner.
- Pre and post-retirement living expenses may be similar (at least initially).
- Your home is an asset however should not be relied upon to fund retirement.

Source: Fidelity Leadership Series Page 8

### Investing Tip

“Each individual’s portfolio must be designed with risks in mind. Most investors will need to put at least some of their portfolio into equities. Not to do so would be a risky strategy in itself.”

- Peter Drake, VP  
Retirement & Economics Research, Fidelity Canada

## Not Too Old for Life Insurance

If you are in your 60’s or 70’s you may still benefit from new life insurance coverage, and more retirees and seniors are purchasing life insurance than ever before. For some, taking advantage of a new life policy can be a lucrative, tax efficient, estate planning tool. Not only can insurance be used to cover funeral costs, it can offset taxes payable on death or can leave a legacy.

### Uses for Life Insurance in Retirement:

- 1) **Pension Protection** - The present value of your pension is a HUGE amount. If you were to pass on soon after retirement, your spouse could experience a 50% loss from your pension income. If you had been receiving the income for 20 years, this would mean less. In the early years, it can allow your spouse to enjoy the same standard of living as when you were alive.
- 2) **RRSP/RRIF Tax Offset** - Up to 50% of your RRSP/RRIF will be payable as income tax upon your death. Life insurance with a charity as the beneficiary can offset the taxes and at the same time help a worthy cause.
- 3) **Equalization** - Leaving assets of “equal value” to multiple beneficiaries can be tricky especially when cottages, businesses and other less liquid assets are involved. A life insurance policy can help to equalize payments. In addition, payments received from life insurance policies are tax free.
- 4) **Estate Maximization** - When RRIF income is not needed, buying a RRIF annuity paired with life insurance will increase the value of your estate. Annuity income pays the insurance premiums for

the life of the policy. On death, annuity payments cease but insurance proceeds are 100% tax free. On the other hand, an RRSP/RRIF on death is fully taxable immediately or on the death of one’s spouse.

Source: Investment Executive. Mid Feb 2015. B14

## Are Costs Justified?

Performance is a factor that can help determine whether costs are justifiable, and the net investment returns in your pocket are what should be most important.

As financial planners, we aim to add value to your investment strategy, including by scrutinizing investment management costs. However, focusing on reducing MERs could negatively impact your portfolio. A fund with a high MER may be warranted if the manager is shooting the lights out and is consistently in the first quartile. On the other hand, we watch for warning signs, for example, underperforming funds with higher than average MERs.

For example, the cost to own the Vertex Fund is much higher than other funds, in part due to its active management. Annually, this actively managed fund charges a 2% management fee, plus a 20% performance fee on excess returns above the high water mark. Since its inception 17 years ago, the net performance after fees (returns in your pocket) has averaged a very impressive 15.57% annually. Comparatively, the S&P500 and S&P/TSX returned 5.54% and 6.49% (CAD) respectively (gross of fees).

As one’s net worth grows, protecting it is even more crucial. Costs should be associated with expertise and trading fees aimed at lessening losses in market downturns. Active managers tend to have higher fees as they trade more frequently, as opposed to buy and hold passive managers who may not protect you as well during bear markets. Global fund managers tend to have higher MERs as it simply costs more to trade in stocks, across multiple countries and on different exchanges. The number of securities a fund holds also affects costs if it requires more trading.

Source: Advisor.ca March 2015 p. 27-28,  
<http://www.vertexone.com/funds/vertex-fund.html>

## Common Mutual Fund Terms

**MER:** Management Expense Ratio  
(Management fee + Operating Expenses + Taxes)

**TER:** Trading Expense Ratio  
(Total portfolio trading costs)

**PTR:** Portfolio Turnover Rate

**DSC:** Deferred Sales Charge

**FEL:** Front End Load (sales charge)

**LL:** Low Load (sales charge)

**NL:** No Load (sales charge)

### Estate Planning Tips

- ✓ Consider a family conference early on (when & who should attend?)
- ✓ Assumptions can be dangerous
- ✓ Transparency helps to manage disagreements
- ✓ Buy-ins assures agreement, where surprises create hard feelings

### What Income is OAS Clawback based on?

The clawback (OAS recovery tax) is “normally” based on your net income from the previous year. However, there is a provision in the Income Tax Act that allows the clawback to be based upon income for the current calendar year if your income will be substantially lower than it was in the previous year. If this applies to you, you can choose to complete CRA form T1213(OAS). If you are receiving OAS payments and in 2014, your income was between \$71,592 and \$116,103, some of your OAS will be clawed back.

Source: Retire Happy. Understanding the OAS Clawback. Doug Runchey

### New Probate Rules

Effective January 1<sup>st</sup> of this year, estate trustees in Ontario must now file an “Estate

Information Return”. This new form must be filed within 90 days of the estate trustee being issued a certificate of appointment of estate trustee (aka probate certificate). Executors who fail to file this return or who make false statements may be liable to fines or penalties.

Prior to this year, estate trustees were not required to provide supporting documentation as to the value of the estate. In some cases asset values were being conservatively estimated and sometimes significantly underestimated.

Ontario probate taxes are \$250 for the first \$50,000 and 1.5% of the estate thereafter.

Source: IE: New legislation will require more detailed information about assets. Jan 12/15

### Capital Gains Reporting

If you sell or switch a mutual fund in a non-registered account (excludes RRSP, TFSA, RESP etc.), you must report the gain or loss in the year it occurred on your income tax return. As companies are not required to issue T5008 ‘Statement of Securities Transactions’ slips (we wish they were), the information can usually be found in the December 31<sup>st</sup> year-end statement from the respective fund company. Should you have questions about capital gain or loss reporting, please contact us.



#### Disclaimers

The information contained in this communication is for general information purposes only and is based on the perspectives and opinions of the owners and writers. This information is not intended to provide specific personalized advice including, without limitation, investment, financial, legal, accounting or tax advice. However, please call 613-728-0589 to discuss your particular circumstances.

Commissions and trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the simplified prospectus before investing. Mutual funds are not guaranteed and are not covered by the CDIC or any other government deposit insurer. There can be no assurances that the fund will be able to maintain its net asset value per security at a constant amount or that the full amount of your investment in the fund will be returned to you. Fund values change frequently and past performance may not be repeated. Mutual Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other Products and Services are offered through Future Financial Planning Group and term/mart Insurance Agency Inc.



# FFPG FUND REPORT

Compounded to March 23, 2015



Fund	YTD	1 yr %	3 yr avg %	5 yr avg %	10 yr avg %
<b>CANADIAN EQUITY FUNDS</b>					
BMO Growth & Income Advisor	-0.69	1.48	6.67	8.55	6.47
Fidelity Canadian Growth Sr. B	14.33	20.39	24.90	18.84	9.17
Dynamic Small Business Sr. A	5.43	10.69	7.84	9.82	11.85
Sentry Canadian Income Sr. A	3.82	15.29	14.44	14.08	10.37
Fidelity Dividend Plus Sr. B	4.40	15.26	11.32	10.14	n/a
Fidelity Canadian Large Cap Sr. B	4.53	12.54	16.97	16.60	12.06
IA Clarington Cdn. Conservative Equity Sr. A	-2.34	-1.14	4.86	6.18	5.52
IA Clarington Strategic Equity Income Sr. A	1.23	7.94	11.13	n/a	n/a
IA Clarington Canadian Small Cap Sr. A	-1.39	-1.16	15.85	13.08	8.68
IA Clarington Focused Cdn. Equity Cl. A	2.19	-7.74	n/a	n/a	n/a
<b>US/INTERNATIONAL/GLOBAL EQUITY</b>					
Dynamic Global Discovery Sr. A	20.29	20.79	18.07	10.15	8.52
Fidelity Small Cap America Sr. B	18.72	33.04	33.74	26.33	11.49
Mackenzie Cundill Value Sr. C	3.26	2.68	10.19	8.08	4.02
Sentry U.S Growth & Income Sr. A	8.82	22.33	23.29	n/a	n/a
<b>BALANCED FUNDS</b>					
AGF Monthly High Income MF Series	2.43	1.04	5.34	6.71	7.06
CI Signature Canadian Balanced Cl. A	5.07	12.10	10.12	7.74	7.10
Dynamic Power Balanced Sr. A	6.97	10.29	9.30	5.14	6.63
Dynamic Value Balanced Sr. A	6.01	8.17	11.29	6.89	6.78
Fidelity Monthly Income Sr. B	3.66	9.32	9.41	8.99	8.15
Fidelity Canadian Balanced Sr. B	7.79	13.87	11.91	9.45	7.64
Fidelity Income Allocation Sr. B	5.76	11.40	9.58	8.50	n/a
IA Clarington Focused Balanced Sr. A	2.45	-2.55	n/a	n/a	n/a
Mackenzie Cundill Canadian Balanced Sr. C	0.77	4.57	9.58	8.57	5.81
<b>ALTERNATIVE FUNDS *YTD for Arrow as of Feb 28/15</b>					
Vertex Fund Class B	9.30	-0.93	9.03	6.32	8.84
Vertex Managed Value Sr B	4.24	8.25	22.33	12.10	7.96
Arrow Raven Rock (1) Class A	3.6	-6.1	1.8	n/a	n/a
Arrow Curvature Mkt Neutral Cl A (capped)	2.9	6.7	8.0	6.9	n/a

### All Mutual Funds Sold by Prospectus Only & Alternative Funds Sold by Offering Memorandum

Future Financial Newsletter is an information service. It does not render accounting, legal or other professional advice. It is recommended that the reader consult professional advisors with regard to any matter in this publication. Future Financial Planning Group (FFPG) is an independent financial, estate and tax planning firm dealing with many financial instruments offered through trust companies, insurance companies and mutual fund companies. Mutual Funds and Segregated Funds provided by the Fund Companies are offered through Worldsource Financial Management Inc. Other Products and Services are offered through Future Financial Planning Group and term/mart Insurance Agency Ltd. The indicated rates of return are the historical annual compounded total returns including changes in share or unit value and reinvestment of all dividends or distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any security holder that would have reduced returns. Rate of returns provided in the chart above obtained from morningstar.ca and arrow-capital.com (Arrow Funds). Although we believe the sources used to be reliable, we cannot guarantee its accuracy.

**FINANCIAL, ESTATE, TAX AND RETIREMENT PLANNERS SINCE 1978**

201-370 Churchill Avenue, Ottawa, Ontario K1Z 5C2 613.728.0589. [www.futurefinancial.com](http://www.futurefinancial.com)