



**PLATINUM**  
FINANCIAL

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One of the messages you'll read consistently in this newsletter is how important it is to keep your long-term investment objectives in focus.

If you have any concerns, let's get together to review how continuing to contribute to your savings and sticking to your optimal asset mix can be your best defence against market volatility.



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## FOCUS ON INVESTING



## New tax-free account could fill the savings gap

**T**he federal government has proposed a new tool that could be available by next year: the tax-free savings account.

The TFSA would allow Canadians aged 18 or older to save \$5,000 a year in an account in which earnings and withdrawals are completely tax-free (read more in *Financial Classroom*, inside). For example, any interest earned from Guaranteed Investment Certificates (GICs) would not be taxed if held inside a TFSA.

### Benefits for retirement

This new vehicle adds another element to consider in retirement and tax planning. For instance, the TFSA would give married couples another way to split income for tax purposes because one spouse will be able to contribute to the other's account.

The TFSA would potentially offer immediate benefits to seniors forced to withdraw more money from their Regis-

tered Retirement Income Funds (RRIFs) than they need. While RRIF withdrawals would still be taxed, the funds could be reinvested to grow tax-free in a TFSA.

### Where to save your money

The issue for many working Canadians will be whether to save in an RRSP or a TFSA, or both.

Both offer tax-sheltered growth. The RRSP offers an upfront deduction, deferring taxes until withdrawal. A TFSA contribution doesn't offer a deduction, but withdrawals are tax-free.

For those who have maxed out annual RRSP contributions, the TFSA could offer an additional tax-effective way to invest. It could also be used to accumulate an emergency fund.

Professional advice can help you project any benefits of holding investments in a TFSA as part of your savings plan. ■

# The MONEY file

TIPS AND TACTICS TO HELP YOU GET AHEAD

## REAL ESTATE

### Save receipts from cottage fix-ups to offset capital gains tax

Are you making any major repairs or improvements to a vacation property this summer? Make sure to keep receipts for all materials and labour. Those outlays increase the "adjusted cost base" (ACB) that will determine the taxable capital gain or loss when the property is sold or transferred to a family member. Increasing the ACB reduces the tax due if the property is sold at a profit, and increases the capital loss tax break if the property is sold at a loss. Also remember to report major additions or upgrades to your home insurer to make sure you're properly covered. ■



## RETIREMENT SAVINGS

### More Canadians can tap in to locked-in pension money

Ottawa recently announced that former members of federally regulated pension plans can unlock part of their pension money. Besides government employees, this affects those who worked in banking, transportation, broadcasting, and telecommunications. According to the new regulations, those aged 55 or older now have a one-time opportunity to unlock half of a Life Income Fund (LIF) and transfer that money into a regular RRSP or RRIF. This is in line with similar rules in five provinces, allowing access to a percentage of locked-in assets. ■

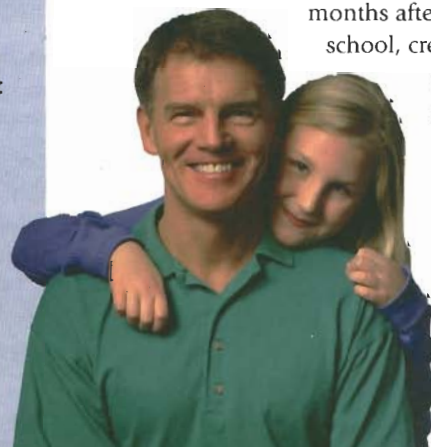


## EDUCATION SAVINGS

### RESP extension means 10 more years to save

Recent changes proposed for Registered Education Savings Plans would give you longer to save for a child's education, and extend the time students could take advantage of these funds. In last February's budget, the federal government proposed to substantially increase the period over which an RESP can be funded, as well as how long it can be used to support university, college, and trade school students. An extra decade would be added to both the period of allowable contribution and the length of time a fund could maintain its tax-deferred growth — to 31 years and 35 years, respectively. One aim is to better accommodate post-graduate studies. Also, beneficiaries will be able to make withdrawals for up to six months after leaving school, creating

a grace period to take a break from their studies. ■



## FINANCIAL CLASSROOM

*your guide to the basics and how to benefit*

### Tax-Free Savings Account

*Starting in 2009, this new investment tool could be available to most Canadians, as proposed in the federal budget last February.*

**What**  
it is

A specially designated savings or investment account whose earnings and withdrawals are tax-free.

**How**  
it works

Each Canadian aged 18 or older would be allowed to deposit up to \$5,000 a year. That amount would be inflation-indexed and unused entitlements would be carried forward. Eligible investments are the same as for RRSPs. Withdrawals can be made for any purpose. Notably, any money taken out can later be returned to the plan without affecting the contribution limit. At death, the account balance can be paid to your estate tax-free, or transferred to your spouse as an intact account or a rollover to his or her own TFSA.

**Why**  
it matters

Because interest won't be taxed, TFSAs will make it easier to accumulate savings for short- and mid-term goals. TFSAs may also let couples with unequal incomes save tax by allowing them to split investment income. Most importantly, this tax-free account may provide a potentially generous way to supplement income from pensions and RRSPs. Even without inflation indexing, \$5,000 invested at the beginning of every year would grow to \$419,000 after 30 years of compounding at 6%.

# Fund managers express their style

**M**uch of an equity fund manager's success depends on style. And that's not about taste in fashion or music, but something more enduring: investment style.

Over long-term market cycles, it's not unusual to see a respected fund appear mediocre for several years. In many cases, performance slips simply because the market no longer favours that fund manager's style.

Just because a fund's style falls out of favour in the short term does not hold it back from being a solid long-term performer once market conditions change. Investment professionals recognize that various styles perform better or worse under various market conditions.

## Value and growth

The dominant style categories are value and growth, terms that you'll often see in a particular fund's name or description.

Value investors are bargain hunters searching for fundamentally sound companies that are cheap to buy because they are out of favour. These could include cyclical stocks entering the low end of a business cycle, for example. This style requires patience and discipline. While it tends to produce superior returns over time, it can languish during market booms when stock prices soar. This style usually provides more downturn protection than growth investing, although this is not always the case.

Growth managers focus less on fundamentals and more on a company's future prospects. They're willing to pay what may appear to be a high price in expectation that a company's near-term earnings will rise to justify that valuation.

There's also an in-between style called "growth at a reasonable price," or GARP. These managers do not require the same margin of safety as value managers, but won't pay as much for stocks as growth managers based on projected earnings.

## Top-down and bottom-up

Top-down and bottom-up are terms that refer to how managers identify stocks for further study.

Value managers use a bottom-up approach. They first analyze a company's financial statements and delve into the

quality of its management and product line. Only then do they view the stock in terms of the overall economic outlook.

Some value managers almost totally ignore overall economic forecasts, reasoning that any company with intrinsic value can provide ample rewards over time if bought at a low enough price.

Top-down managers start with an outlook for the economy and identify the sectors most likely to benefit in the near term. They'll look for companies in those sectors, based on value or growth criteria.

## Large-cap and small-cap

This is the short form of "capitalization" — a company's value based on its share price and the number of shares outstanding. Some funds invest only in large



MUTUAL FUNDS

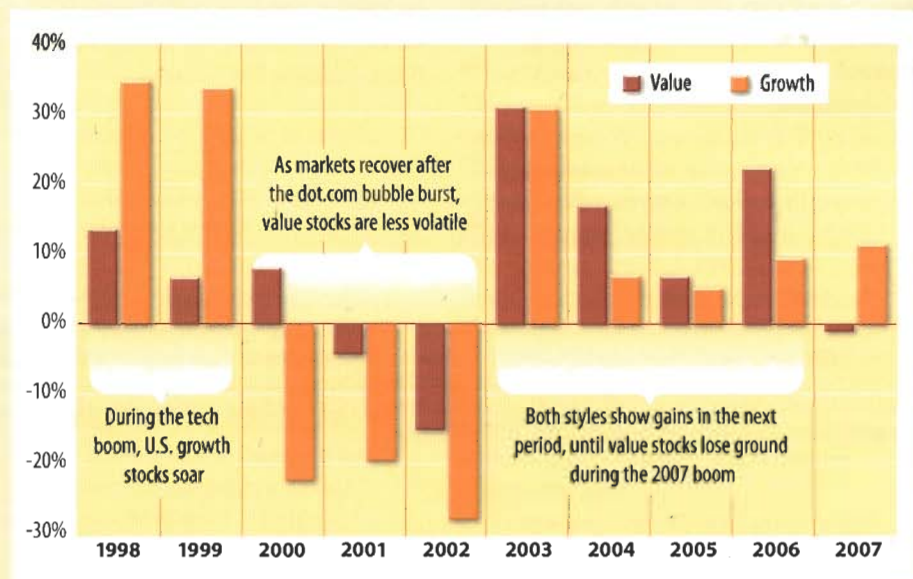
companies. Some invest only in small ones. And some are size-neutral. Historically, small-cap stocks have produced higher returns, but with greater volatility.

## Mix and match

To reduce portfolio volatility and enhance long-term performance, two or more equity funds with complementary styles may be used within a single portfolio. A fund may also be run by two or more managers who have complementary styles. Professional advice can ensure your portfolio is adequately diversified by investment style as well as by asset class, to produce optimum results through market cycles. ■

## Who's leading the market? Sometimes growth, sometimes value

**VALUE AND GROWTH** investing tend to alternate in terms of which style performs better in the stock markets — often for a few years at a time. Compare performance in this example, tracking U.S. growth and value stocks on the Russell 3000 Index.



Source: Russell Investment Group, 2008.

# Four essential pillars to build your estate plan

**Y**ou don't need to have a fortune to establish a formal estate plan. In fact, estate planning is part of fundamental financial planning for everyone.

Your estate plan ensures that the right people are designated to make important decisions when you can't, and that your property can be efficiently passed on to those you want to receive it.

A solid estate plan rests on four cornerstones: a power of attorney for property, a power of attorney for medical care (both known as "mandates" in the province of Quebec), a will, and life insurance.

## 1. Power of attorney for property

This document names one or more trusted people to make decisions about your assets and liabilities if you should become incapacitated.

You might assume that your spouse can simply take over if you become incapable of making decisions. That's immediately true only if your spouse is named in a power of attorney. Otherwise, your affairs may be tied up until a court or a provincial public trustee decides that your spouse is fit for the job.

## 2. Power of attorney for medical care

This document is also known as a medical directive or living will. It too is often prepared at the same time as your will. It indicates who should make decisions about medical care and how far doctors should go to prolong your life. The goal is to clearly indicate your wishes and avoid arguments that could tear apart the family.

## 3. Your will

Your will sets out how your assets are to be distributed after death, and names one or more executors (estate trustees, in Ontario; liquidators, in Quebec) to wind up your affairs. If you die without a will, provincial law dictates the distribution of your wealth among your relatives without regard to need and with no provision for friends and relatives beyond your immediate family. In this context, it's easy to see why a will is so useful.

It's best to have your will drawn up professionally to make sure that all "what-ifs" are covered and that your wishes conform to the law.

## 4. Life insurance

Life insurance protects your family's lifestyle if you die prematurely. That need may end or diminish once children are grown, but you might still want coverage for debts, as well as taxes due at death. Life insurance can also fund a significant bequest to one or more favoured charities.

## Protect your interests

Professional advice can help gauge your insurance needs and guide you in the intricacies of drafting a will and assigning powers of attorney. Remember, the goal of estate planning is to protect your interests, as well as those of your family, setting things right for the future. ■

## Moving province? Keep documents up-to-date

**IF YOU'RE MOVING** from one province to another, you may need to adjust elements of your estate plan to comply with the laws of your new home.

Provincial legislation varies on technical requirements for wills, powers of attorney, and medical directives or living wills. A qualified review of these critical documents is essential to ensure they remain acceptable.

### Different legal systems

Professional advice is particularly important if you move to or from Quebec, where the Civil Code legal system differs considerably from the rest of Canada's.

Provinces also vary widely on the extent to which probate might be an issue. For example, it is a non-issue in Quebec, where there is no probate fee for wills prepared by a notary, and a minor issue in Alberta, where it is capped at \$400. It's much more of a consideration in Ontario and British Columbia, with the other provinces in between.

### Where's your executor?

Also review your choice of executor for your will. Since your executor will be responsible for settling your affairs and disposing of your property, it may be preferable to choose someone who lives nearby. At least consider the complexity and cost to your estate if you've been living in Victoria, for example, while your executors reside in Halifax. ■

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