The Francis Forum Newsletter

Create Wealth, Achieve Freedom

New Year 2012

Manulife Securities

INCORPORATED
INSURANCE INC.

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A Firm Grip on Controlled Investing

It recently occurred to me that I've had the absolute privilege to be entrusted to provide sound financial advice for over 15 years. I've learned a lot in these years as a financial planner and investment advisor. I've learned that I have no control over the markets and that I have no control over a company's management. With this in mind, I have tried to implore investing strategies that cater to those principles that I do have a semblance of control over. I've never claimed to be a stock picker nor a market-timer so I make sure that capital is invested in quality companies with a long history of good cash flow, consistent earnings and sound management ideals. I seek value, I seek low fees and I seek tax advantages. With these principles in mind, what if we had invested $100, 15 years ago?

Ahh, yes. The roaring 90s. It was during the mid-to-late 90s that everyone was a stock trader. With the Internet becoming popular and the easy access to buying and selling stocks for the Average Joe, people were flooding into the market looking for the next company that was going to double or triple in the next three months. Think back to this time–how many people did you know that were afraid of the market or selling everything and moving to cash? Nobody.

No matter what we invested it in, our $100 would have gone through significant highs and lows. If we stayed the course, our investment would have been moving along quite nicely but the Russian Ruble Crisis of 1998 as well as the failure of long-term capital hedging would have certainly eroded it. Although it did rebound, it would have been struck yet again by the Tech Wreck of 2000 and again by the recession of 2001-2002. Even if after all that, if we continued to stay the course, nothing could mentally prepare us for the Great Financial Crisis of 2008-2009 – one of the worst market corrections in recent history. Our original $100 would have been on quite the ride. Again, the question: where would our $100 be today?

Assuming I am limited in that I cannot time the market, we would have invested in a mix of securities that was able to maximize our return while considerably lowering our risk. This mix would have been dependent on our risk tolerance and investment objectives. It would have been invested in products whose fees don't significantly erode the returns that it produces. And it would have been invested through vehicles that yielded a return that took prudent tax planning into consideration.

If we had invested in 1-year GIC's in 1997, fifteen years later, our $100 would be worth $139. If we had invested in 5-year GIC's it would be worth $164. If we invested it in the average Fixed-Income fund, it would be worth $203. Keep in mind that the interest gained on the above investments would be fully taxable. The average Canadian Growth fund would have brought us $227. If we invested in the S&P/TSX 60, our $100 would be worth $286 and if we invested in the Mackenzie Cundill Canadian Security fund, we would have $307.

When I look at these numbers, it becomes clear to me that if we stay the course (if we don't do anything to time the market) significant investment growth is likely over time. Trying to time the market can be an expensive option if fees, taxes and value are disregarded. This will seriously erode the amount of money you have at the end of you time horizon. Stay the course. It will pay off in the long run.

As always, I'm always available to discuss the topics in my newsletter, or any other financial inquiries you may have.

Sincerely,

Duane

TFSA Withdrawal Basics

Starting in 2009, Canadian residents who are 18 years of age or older are able to earn tax-free investment income within a Tax-Free Savings Account (TFSA) during their lifetime.
Contributions to a TFSA are not deductible for income tax purposes. Also, interest on money borrowed to invest in a TFSA is not tax deductible. However, the income generated in such an account (for example, investment income and capital gains) is tax-free, even when it is withdrawn.
The TFSA dollar limit was $5,000 from 2009 - 2012, and will be indexed to inflation and rounded to the nearest $500 in later years. Unused TFSA contribution room can be carried forward to later years. The total of TFSA withdrawals in a calendar year is added to the TFSA contribution room for the next calendar year.

The beauty of Tax Free Savings Accounts (TFSAs) lies not only in their tax sheltering function, but in their simplicity. The rules surrounding this relatively new Canadian savings vehicle are noticeably sparse in comparison to those surrounding RRSPs and the tax code itself.
At the request of many, here are the specifics of withdrawing money from TFSA's. Although the rules are pretty simple, things can get a bit confusing, especially if you're used to dealing with the rules of other financial products. Here are a few examples to help make things a little clearer.

TFSA Withdrawal Basics

You can withdraw any amount from your TFSA at any time without paying tax on the principal or any accumulated investment gains. It's your responsibility to track your contribution room limits, although the CRA does mention your limit on your Notice of Assessment. You don't have to set up a TFSA or file a tax return in order to start gathering TFSA contribution room. You just have to be at least 18.
The main thing to be aware of when you withdraw money from your TFSA is that you can't put the money back until the following calendar year. If you put it back in before the end of the same calendar year and that causes your total contributions for that year to exceed your contribution room limit for that year, you will have to pay 1% per month tax on the excess contribution amount.

Example

John opened a TFSA in 2009, the first year they were available. He contributed the maximum amount ($5000) in February. In 2010, he was eligible to contribute another $4000 and he did so in February of that year. In June of 2010, John withdrew $5000 from his TFSA. Note that the withdrawal has no effect on remaining contribution room until the following year. In July, John wanted to put $3000 back into his TFSA, but would only be able to contribute $1000 until his new contribution room opens up on January 1, 2011. If he was unaware of this rule and contributed the $3000 back anyway, he would be *subject to the 1% per month tax until the end of 2010 on the additional $2000.

Date	Contributions	Withdrawals	Room	Total Invested
Jan 2009			5000	0
Feb 2009	5000		0	5000
Jan 2010			5000	5000
Feb 2010	4000		1000	9000
Jun 2010		5000	1000	4000
Jul 2010	3000		*2000	7000
Jan 2011			3000	

To make things easiest, use the same advisor for all your TFSA accounts to avoid any over-contributions resulting from confusion in TFSA room and withdrawal amounts. It will be much easier to keep track of exact numbers.
Also, try to make your TFSA contributions early in the year to take advantage of compounding investment return. It is that investment return that is ultimately tax-free.

Source: http://balancejunkie.com/2010/05/25/tfsa-withdrawal-rules/

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Universal Life Insurance Explained

Universal life insurance policies were designed to provide an answer to the advice that you should "buy term insurance and invest the difference". In addition it provides an answer to some of the complaints about Whole Life Insurance's failure to disclose how the premium is allocated between the cost of insurance, administration costs, and investment portion and to provide investment options that you can choose.
The returns inside an insurance policy are generally slightly lower than mutual funds will generate but they have four significant advantages compared to mutual funds.
The funds grow tax-deferred - you do not pay any income tax on the growth. This is similar to an RRSP, however unlike RRSP's there are ways to use the money on a tax-favoured basis.

The funds are "creditor proofed" if the policy is set up properly. Creditors cannot get at the funds inside this policy, which is important for many business owners and others who are concerned about lawsuits.

If the policy is set up properly, the entire investment account plus the face value of the insurance policy goes to the beneficiary tax-free on death of the insured. The same applies to a whole life policy but the cash value may or may not be in addition to the face value depending on the type of Whole Life Policy.

Universal Life Insurance Policies are traditionally used for estate planning as much as they are for meeting traditional insurance needs. There are numerous tax saving and estate planning strategies that utilize this type of insurance. The face value of the policy can cover anticipated estate taxes and a savings component grows tax-free and will pass on to your beneficiaries without the probate fees and a potential 50% tax hit that the RRSP funds experience. You can still get at the money in the savings portion if it becomes necessary but in a significantly tax-favoured manor, compared to withdrawing money from an RRSP.

http://www.lifeinsurancequote.com/articles/universal_compared_to_whole_life_web_article.asp

Mortgage Insurance or Life Insurance?

Insurance is an important part of your financial plan; it is there to protect you and your family should the unexpected happen. However, many families, unfortunately, have found out that it does not always work that way with Mortgage Insurance sold by banks and mortgage brokers.

Insurance is a complicated topic and the mortgage professionals who sell these products are usually not trained or licensed to sell life insurance. Contrary to what is implied, mortgage insurance is not mandatory. Make sure that you do your homework before discussing any insurance offered by your mortgage lender.

The biggest issue with insurance from the bank is that they have post claim underwriting, which basically means that the underwriting will be done *after* a claim has been submitted. You could be declared uninsurable and have your claim denied. If you had purchased life insurance from your insurance broker, the underwriting had been done *before* the policy was issued, so you know your claim will be paid out when needed, according to the terms of your contract.

Other issues with Mortgage Insurance:

1. Your beneficiary is the lender. With life insurance, you select your beneficiary.
2. The insurance amount decreases with your mortgage, but the premiums stay the same. With life insurance, your coverage and premiums remain the same.
3. Mortgage insurance is not transferable to a new lender.
4. Payouts can only be used to pay the mortgage.
5. You cannot change or modify the policy if your situation changes.

If you need insurance to protect your family, make sure to speak to a qualified insurance advisor to determine the appropriate coverage. Mortgage Insurance may have lower premiums but this doesn't come without risk. A few extra dollars today could save your family significant financial duress in the future.

Source: http://www.canadiancapitalist.com/mortgage-insurance-versus-life-insurance/

Bonding With Bonds: Strip Bonds

A strip bond is a fixed- income product that pays no interest throughout its term, and entitles the holder to the full face value at maturity. Strip bonds are purchased at a discount and mature at par, similar to a T-Bill. The interest earned is the difference between the discount purchase price and the maturity value. Strip bonds are created from conventional Federal, Provincial, Municipal and Corporate bonds. Each interest payment and the remaining principal amount are physically separated, and sold as individual securities (referred to as "coupons" and "residual" respectively). Each coupon and residual is individually priced at a discount to maturity value. For example, an eight-year strip yielding 5% would have a price of $67.68, and mature at $100. Generally speaking, the longer the term, the lower the price and the greater the yield.

Due to the magic of compound interest, the increase in the value of a strip can be substantial over time. A strip that yields 7% will double in value in just over 10 years. In a registered account, a strip can compound on a tax-deferred basis. Because the maturity value is known, they can be matched to a future known expense, such as a withdrawal from a child's RESP, or to provide a predictable income stream within RIF accounts.

For example, assume an investor wants to have $50,000 available in 15 years for education or your retirement needs. At a yield of 7%, an investment of only $18,122.30 would be required today.

Bond and strips held outside registered plans are subject to annual taxation as if interest had been received, even though no income is actually paid until maturity. You may want to consult a tax specialist before purchasing in a non-registered plan, as the taxation of this security is complex.

Attractive Yields: Strip bonds typically offer higher yields over conventional bonds of the same issuer, term and credit rating. Strips generally offer better yields over GICs and T-Bills as well.

Quality: Most coupons and residuals are stripped from Government of Canada or Provincial bonds, and represent a direct government obligation. High-quality Corporate Strips are also available.

Guaranteed Yield: Strips offer true yields, unlike conventional bonds. Strips are purchased at a discount and mature at par, so there are no interest payments to re-invest, at unknown yields. If held to maturity, your investment will compound at the stated yield to maturity.

Liquidity: Strips are traded in an active secondary market, are highly marketable, and can be sold at any time at prevailing market rates.

Convenience: Strips are extremely low maintenance. Once you have purchased them, you can virtually forget about them until they mature and there is no need to worry about re-investing interest payments every six months.

$1 Multiples: Unlike conventional bonds that trade in $1000 increments, strip bonds allow you to get every available dollar working for you (above the minimum investment). Strips can be purchased in $1 Multiples (above the minimum investment), meaning you can purchase $5437 face value if you wish.

No Accrued Interest: Since there are no interest payments with strips, you do not have to pay the seller any accrued interest when you purchase.

Flexibility: Terms can range anywhere from one month to 50 years. This can allow you to ladder your strips (i.e. staggered maturities) to minimize your reinvestment risk or strategically time your cash flows.
Strips are more volatile in price than conventional bonds of the same term and credit rating since no interest is paid throughout the life of the product. Also, changes in the general level of interest rates or issuer credit quality will affect strip prices more than interest-bearing bonds - in both directions. For investors who plan to hold the asset until maturity, this should be of little concern, as the strip will mature at par

http://www.theglobeandmail.com/globe-investor/investor-education/how-do-strip-bonds-index-bonds-and-real-return-bonds-work/article731566/

http://www.investopedia.com/ask/answers/127.asp#axzz1izrtDUyy

http://stripbonds.info/public/basics.htm

Technology: Information Overload

If you GOOGLE "information overload" you are immediately inundated with information: more than 7 million hits in 0.05 seconds. Some of this information is interesting: for example, that the phrase "information overload" was popularized by Alvin Toffler in 1970. Some of it is mere noise: obscure companies promoting their services and even more obscure bloggers sounding off. The overall impression is at once overwhelming and confusing.

"Information overload" is one of the biggest irritations in modern life. There are e-mails to answer, virtual friends to pester, YouTube videos to watch and, back in the physical world, meetings to attend, papers to shuffle and spouses to appease. A survey by Reuters once found that in the corporate world, two-thirds of managers believe that the data deluge has made their jobs less satisfying or hurt their personal relationships. One-third thinks that it has damaged their health. Another survey suggests that most managers think most of the information they receive is useless.

What can be done about information overload? One answer is technological: rely on the people who created the fog to invent filters that will clean it up. Google is trying to improve its online searches by taking into account more personal information.
A second answer involves willpower. Ration your intake. Turn off your mobile phone and internet from time to time.

But such ruses are not enough. Smarter filters cannot stop people from obsessively checking their BlackBerrys.

Some people preserve "thinking time" in their schedules; times when they cannot be disturbed. This might sound like common sense, but most people nowadays have trouble dealing with silence.

Source: http://www.economist.com/node/18895468

Health and Wellness

6 Ways Giving Makes You Healthy

It's The Thought That Counts

Simply contemplating generosity boosts your immunity. When Harvard students watched a film about Mother Teresa tending to orphans, the number of protective antibodies in their saliva surged; when the students were asked to focus on times when they'd been loved by or loving to others, their antibody levels stayed elevated for an hour. In another study, the brain's pleasure centers lit up when people made check marks next to a list of organizations to which they wanted to donate.

Lend an Ear, Help Your Heart

Being generous with your attention can reduce your risk of heart attack. Cardiac arrest is highly correlated with the amount of self-reference ("I," "me," "my") in a person's speech. The best advice? Listen to and connect with others—social ties lower your risk of complications from heart disease.

Lend a Hand, Lower Your Pain

People suffering from chronic pain report decreased intensity, and less disability and depression, when they reach out to others in similar pain. In one study, pain was reduced by 13 percent. Scientists believe the release of endorphins explains the phenomenon.

Goodness Nose

In a study conducted at Carnegie Mellon University, people who were socially connected reported catching fewer colds. Volunteering is, of course, one of the simplest ways to connect.

Source: http://www.oprah.com/oprahs-lifeclass/Scientific-Proof-That-Charitable-Giving-Improves-Your-Health_1

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Winter Activities

The Home Renovations Show
January 20th- 22nd
www.madddashottawa.com

The NHL All-Star Game Weekend
January 26th- 29th
http://senators.nhl.com/club/page.htm?id=60070

Winterlude
February 3rd – 20th
http://www.ottawa-information-guide.com/winterlude.html

More Than Just Desserts
March 23rd
http://arthritis.akaraisin.com/Common/Event/Home.aspx?seid=4478&mid=8

Fulton's Sugar Bush and Pancake House
Fulton's Sugar Bush and Pancake House is 400 tranquil acres nestled in the heart of Lanark County, on the fringe of Ottawa's National Capital Region. The Fulton family has been a steward of the forest for over 150 yrs. producing pure Canadian maple syrup and sharing their trade with those fortunate enough to come out for a visit. Their legendary pancakes are made right in the kitchen of their restaurant, which is convenient located next to their main maple syrup processing. The restaurant opens on February 18, 2012.

Upcoming Events

Changes to the Canada Pension Plan
Laurier Guimond – Senior Consultant for Canada Pension Plan's Specialized Mobile Outreach Program

Wednesday January 25th at 6:30pm
1525 Carling Avenue – Lower Boardroom

Insured Annuities
TBD
1525 Carling Avenue – Lower Boardroom

Landscaping and Gardening
TBD
1525 Carling Avenue – Lower Boardroom