The Francis Forum Newsletter

Create Wealth, Achieve Freedom Spring 2012

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INSIDE THIS ISSUE

The life of an investor is an ever-changing thing. Assuming you get income from sources other than your investments - like employment or your own business - this income will change as you age. Generally speaking, your income increases as you get older. This means that, as an investor, you will have the most income when you have the least amount of time to invest. There are various "seasons" of your life as an investor and what relevant actions you should take at each stage.

It is important to note that, although the seasons of your investing life are more or less set like the seasons in a year, you must start as early as possible. If you start investing late in life, you will have a very compressed spring, summer and fall, followed by a very long winter. If you start early, you can enjoy each season to its fullest.

Spring
You are young and just starting to invest, you probably don't have enough disposable income to devote $3,000 a month to investments. You may have only $100 dollars to spare. The important thing is to invest this small amount regularly. Spring is a time of discovery and learning. You should avoid any investments with high commission costs because your goal is not only to gain experience, but also to get a return on your investment as you learn.

Summer
You're starting to move up in the world, and while your disposable income may not put you on the Forbes list, you do have a significant amount to devote to investments if your cell phone bill comes in cheap. If you're like most people, summer is a time when you can be aggressive with your investments, because your disposable income is fairly high compared to your expenses. Summer can't last forever, but if you start planning for retirement now, the winter will be much milder.

Fall
You're in your earning prime however, this season may also be the most expensive time in your life if you are providing financial support to your children. In the fall, you will also be making a series of shifts as far as your investing strategy goes. Hopefully, some of the higher-risk investing you did in the summer will pay off now, and you will be able to put that money into more stable investments. Your tolerance for risk isn't what it used to be, but the experience you've gained and the capital you control allow you to profit from lower risk investments. If you have prepared well in spring and summer, fall will be the most profitable season as far as investments and income - think of it as bringing in the harvest.

Winter
Your earning days are now over and, from your perspective, this winter seems far better than that busy summer long ago. You may be looking for an estate plan to help you transfer your unneeded wealth to your children and grandchildren, thus sparing your family the burden of estate taxes.

As you sit back in your armchair, basking in the warmth of financial security, you think back to those first steps you took way back in the spring and realize that planning for the seasons of your investing life wasn't so hard to do. In fact, it was almost natural.

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

Sincerely,

Duane

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Taxes: Need to Knows

Canadians pay more taxes than Americans, but we get more services. Some income is taxed less than other income, or not at all.

Here are 10 things you need to know about taxes:

1. Where we stand
A third of all income in Canada goes to pay taxes. Before you consider moving, the burden is less than in 19 other developed nations, and higher than only 10, including only three where English is spoken — Ireland, Australia and the United States.

2. Canada vs. U.S.
If you are jealous that only 28 per cent of Americans' income goes to pay taxes, remember that U.S. taxes could change. Public debt and liability for civil servants' pensions has risen rapidly. Also, higher contributions will be needed to avoid cuts to social security benefits, the equivalent of our Canada Pension Plan. In Canada, proposals to pay extra to CPP would increase pension benefits, perhaps at a lower cost than by saving on your own.

3. Where the money goes
We get services and benefits for the taxes we pay. About 62 per cent of government revenues go to paying for health care, education and social assistance, including unemployment benefits. Note that taxes in Canada pay 70 per cent of our healthcare expenses at less cost than U.S. government health plans paid in 2008 to provide 46 per cent of Americans' healthcare needs. The remaining portion of healthcare costs was paid by private insurance policies, or from personal income at a cost of about $4,000 (U.S.) per person, nearly quadruple what Canadians paid.

4. Big earners pay more
The top 10 per cent of Canadian earners pay half of all personal income taxes, while the half of earners with the lowest income pay less than a tenth of the total. But high and middle-income earners do have some choice in how much to save and spend. By spending less, they can govern how much they pay in sales, excise, property, gasoline, premium, airport and other taxes.

5. Ten things with no tax consequences
There is no tax on winning Lottery tickets, scholarships, inheritances, gifts, the Guaranteed Income Supplement (GIS) to the taxable Old Age Security (OAS) pension, Canada Child Tax Benefits or child support payments after a divorce.
You pay no tax on at least the first $9,000 of wage earnings (if you don't count CPP and employment insurance), or $40,000 of income per year if you receive only eligible corporate dividends and $18,000 if you receive only capital gains. A gain in the value of any principal residence isn't taxed either, nor is a personal possession worth less than $1,000, and any interest, dividends and capital gains earned inside a tax free savings account.

6. Ten high tax items
A single mother in Ontario supporting three young children with $36,000 of taxable income year would lose about two-thirds of the first $1,000 of a raise due to a combination of taxes and the loss of child benefits. A senior taxpayer earning more than $82,000 would lose 58.4 per cent of each $1,000 of OAS to taxes and a clawback of benefits.
The income tax rate on income beyond $127,021 a year in 2010 was 46.4 per cent income. Taxes on cigarettes in Ontario was 63.5 per cent; alcohol, 52.7 per cent; and regular gasoline, about 36 per cent.

7. The HST effect
The combined 13 per cent federal and Ontario sales tax, the HST (Harmonized Sales Tax), has boosted the incentive to conserve energy because provincial sales tax did not apply to energy before July 1, 2011. So you will save more if you choose a compact, well-insulated home close to your job and buy fuel-efficient vehicles, appliances, lighting and furnaces

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Taxes: Need to Knows, Continued…

close to your job and buy fuel-efficient vehicles, appliances, lighting and furnaces.

8. Tax relief opportunities
Numerous tax breaks and benefits aim to encourage you to better yourself or the economy, such as seek higher education, earn high grades, raise children, move closer to a job, belong to a union or a professional group, take public transit, make charitable and political donations, invest in companies, start a small business, earn some extra income while on social assistance, buy life, disability or medical insurance and save for retirement.

9. You can defer taxes
When you save for retirement inside a registered retirement savings plan, you defer payment of income taxes until later in life. Your tax rates on RRSP withdrawals are likely to be lower than if you currently have an above-average income. But, if your income is below average, you may be better off to pay taxes now and save in a tax-free savings account. If you save within a registered education savings plan or a registered disability savings plan, there will be a deferral of taxes on investment returns and government grants. The annuitant will likely pay little or no taxes on those savings upon withdrawal from the plan. It's also possible for senior homeowners to apply to their municipality to defer part of their property taxes.

10. Always file a tax return
You must file a tax return and accurately report taxable income. That's the law, and it's backed by interest, penalty and criminal charges. But it's also a good idea to file a return even if you would have no taxes to pay. Governments require you to file a tax return to qualify for benefits and grants to help you raise children, live in retirement and to offset the cost of sales taxes and rent.

http://www.moneyville.ca/article/844153--taxes-10-things-you-need-to-know

Giving Your Inheritance Now

High income earners are fortunate – they don't have to make a choice. They contribute to both their RRSPs and TFSAs to the maximum extent possible. And they do so as soon as possible every year to maximize tax-deferred and tax-free growth.

However, a few of the wealthy take it one step further and turn the annual ritual of RRSP and TFSA contributions into a family affair by gifting money to their adult children and even adult grandchildren so they can contribute to their own TFSAs and RRSPs.
Most wealthy families continually face hefty tax bills. With the bulk of their assets held outside registered plans, their investment income is typically taxed at the highest marginal rate.

Taxes are also a hurdle in inter-generational wealth transfer. Although Canada does not have an estate tax per se, there is generally a deemed disposition of capital property on death that gives rise to capital gain taxes. Transfers to a spouse or spousal testamentary trust can defer this tax but ultimately, in the typical wealthy family, the death of the second spouse triggers an avalanche of taxes. Probate taxes can take another nasty nip.

By gifting money to their adult children or grandchildren which is then used to fund TFSA and RRSP contributions, affluent parents can address both tax issues. By increasing the amount of the family's capital held in non-taxable and tax deferred environments, they reduce the family's overall income tax bill. By moving assets into the next generation's hands now, they are planning for the inevitable.

There is also a hidden benefit. Young adults often struggle to save as they face the costs of finishing their educations, launching their careers and starting their own families. If they lack the ready cash with which to make either an RRSP or TSFA contribution, their unused contribution room can simply pile up year after year. By making RRSPs and TFSAs a family affair where contributions are made earlier rather than later, the power of compounding is extended over longer time horizons. This alone can add several hundred thousand dollars to a family's wealth.

http://business.financialpost.com/2012/02/11/make-your-rrsps-a-family-affair/

Bonding With Bonds: Bond Laddering

When portfolio managers talk about strategies for success, they will often refer to risk diversification and money management. These strategies separate those investors who are successful because of knowledge and skill from those who are merely lucky. Now, don't be mistaken, luck isn't a bad thing to have, but possessing foundational skills will ultimately lead to success. Bond laddering is a bond investing strategy that is based on a relatively simple concept that many investors (and professionals) fail to use or even understand.

A bond ladder is a strategy that attempts to minimize risks associated with fixed-income securities while managing cash flows for the individual investor. Specifically, a bond ladder, which attempts to match cash flows with the demand for cash, is a multi-maturity investment strategy that diversifies bond holdings within a portfolio. It reduces the reinvestment risk associated with rolling over maturing bonds into similar fixed-income products all at once. It also helps manage the flow of money, ensuring a steady stream of cash flows throughout the year.

In simpler terms, a bond ladder is the name given to a portfolio of bonds with different maturities. Suppose you had $50,000 to invest in bonds. By using the bond ladder approach, you could buy five different bonds each with a face value of $10,000 or even 10 different bonds each a with face value of $5,000. Each bond, however, would have a different maturity date. One bond might mature in one year, another in three years and the remaining bonds might mature in five-plus years - each bond would represent a different rung on the ladder.

Why Use A Bond Ladder?

There are two main reasons to use the ladder approach. First, by staggering the maturity dates, you won't be locked into one particular bond for a long duration. A big problem with locking yourself into a bond for a long period of time is that you can't protect yourself from bull and bear bond markets. If you invested the full $50,000 into one single bond with a yield of 5% for a term of 10 years, you wouldn't be able to capitalize on increasing or decreasing interest rates.

For example, if interest rates hit a bottom five years (at maturity) after purchasing the bond, then your $50,000 would be stuck with a low interest rate if you wanted to buy another bond. By using a bond ladder, you smooth out the fluctuations in the market because you have a bond maturing every year (or thereabouts).

The second reason for using a bond ladder is that it provides investors with the ability to adjust cash flows according to their financial situation. For instance, going back to the $50,000 investment, you can guarantee a monthly income based upon the coupon payments from the laddered bonds by picking ones with different coupon dates. This is more important for retired individuals because they depend on the cash flows from investments as a source of income. If you are not dependent on the income, by having steadily maturing bonds, you will have access to relatively liquid money. If you suddenly lose your job or unexpected expenses arise, then you will have a steady source of funds to use as required.

http://www.investopedia.com/articles/02/120202.asp#axzz1oSMztGC

Technology: The Dangers of Walking and Texting

Talking on a cell phone or texting while walking may seem natural and easy, but it could be dangerous and result in walking errors and interfere with memory recall. Researchers at Stony Brook University found this to be the case in a study of young people walking and using their cell phones.

The study is reported in the online edition of ***Gait & Posture***.

Thirty-three men and women in their 20's, all of whom reported owning and using a cell phone and familiar with texting, participated in the study. To assess walking abilities, participants completed a baseline test. Each participant was shown a target on the floor eight meters away. Then, by obstructing vision of the target and floor, participants were instructed to walk at a comfortable pace to the target and stop. They repeated the same walk three times. After each walk, the amount of time it took and the position where each participant stopped was measured. Participants returned one week later. With vision occluded except for the ability to see a cell phone, one-third completed the exact same task; one-third completed the task while talking on a cell phone; and one-third completed the task while texting.

"We were surprised to find that talking and texting on a cell phone were so disruptive to one's gait and memory recall of the target location," says Eric M. Lamberg, PT, EdD, co-author of the study and Clinical Associate Professor, Department of Physical Therapy, School of Health Technology and Management, Stony Brook University.

Dr. Lamberg summarized that the changes from the baseline blindfolded walk to testing indicated that participants who were using a cell phone to text while walking and those who used a cell phone to talk while walking were significantly slower, with 33 and 16 percent reductions in speed, respectively. Moreover, participants who were texting while walking veered off course demonstrating a 61 percent increase in lateral deviation and 13 percent increase in distance traveled.

Although walking seems automatic, areas in the brain controlling executive function and attention are necessary for walking. Dr. Lamberg says that the significant reductions in velocity and difficulty maintaining course indicates cell phone use and texting impacts working memory of these tasks.

"We are using the findings to help physical therapy patients improve true functional walking while making them aware that some tasks may affect their gait and/or certain aspects of memory recall," said Dr. Lamberg. He emphasizes that using a cell phone while walking reflects a "real world" activity, one that recovering patients are likely to engage in sooner rather than later during their recovery process.

Lisa M. Muratori, PT, EdD, study co-author and Clinical Associate Professor in Stony Brook's Department of Physical Therapy, points out that the study is also being used to help them further understand the underlying mechanism causing the difficulty in performing the dual-task of walking while using a cell phone.

Drs. Muratori and Lamberg believe that these results bring new and important insight into the effects of multi-tasking with mobile devices. Elucidating the cause of this disruption may allow for new physical therapy treatment interventions and modifications in technology -- such as voice-activated texts -- that may lessen the potential dangers of walking while using hand-held devices.

http://www.sciencedaily.com/releases/2012/01/120118173246.htm

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Spring Activities

The Ottawa Tulip Festival
May 6th – May 23rd
http://www.tulipfestival.ca/

The Ottawa Children's Festival
May 30th – June 3rd
http://ottawachildrensfestival.ca/

Ottawa Jazz Festival
June 21st – July 1st
http://ottawajazzfestival.com/

Ottawa Dragonboat Race
June 22nd – June 24th
http://www.dragonboat.net/

Upcoming Events

Family Movie Day

You and your family are invited to join us for **Madagascar 3: Europe's Most Wanted** on Saturday, June 16th, 2011 at the Cineplex Coliseum at 3090 Carling Ave in Ottawa

The Ottawa Fat Cats Baseball Team have officially released their 2012 season schedule. The Fat Cats open up their 2012 campaign on the road in Guelph on Saturday, May 5th and return home on Saturday, May 19th at 7:05pm for their home opener against the Kitchener Panthers!

The Fat Cats also announced that their annual School Day will take place on Monday, June 4th at 11:05am against the Hamilton Cardinals!